

# **Japan Securities Summit 2016**

## **Tokyo as a Global Financial Center**

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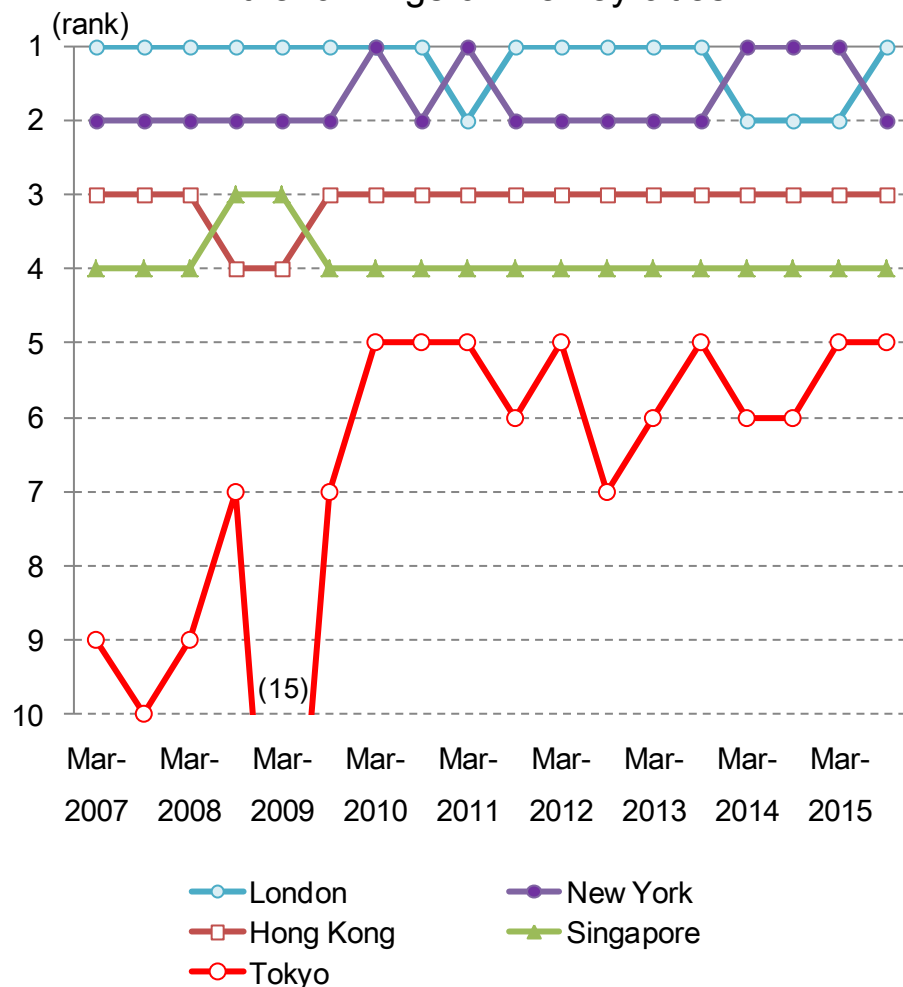
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# Tokyo's Ranking as a Global Financial Center

Global Financial Centers—Changes in the rankings of five key cities



Source: Z/Yen Group "The Global Financial Centres Index"

"The Global Financial Centres Index" - Industry Sector Sub-Indices Ranking

Rank	Investment Management	Banking	Government & regulatory	Insurance	Professional services
1	London	London	London	New York	London
2	New York	New York	New York	London	New York
3	Hong Kong	Hong Kong	Hong Kong	Singapore	Singapore
4	Singapore	Singapore	Singapore	Busan	Hong Kong
5	Toronto	Tokyo	Tokyo	Hong Kong	Washington DC
6	Tokyo	Chicago	Seoul	Chicago	San Francisco
7	Chicago	Zurich	Chicago	Seoul	Chicago
8	San Francisco	Shanghai	Sydney	Washington DC	Boston
9	Boston	Seoul	Toronto	San Francisco	Tokyo
10	Zurich	San Francisco	Zurich	Tokyo	Zurich

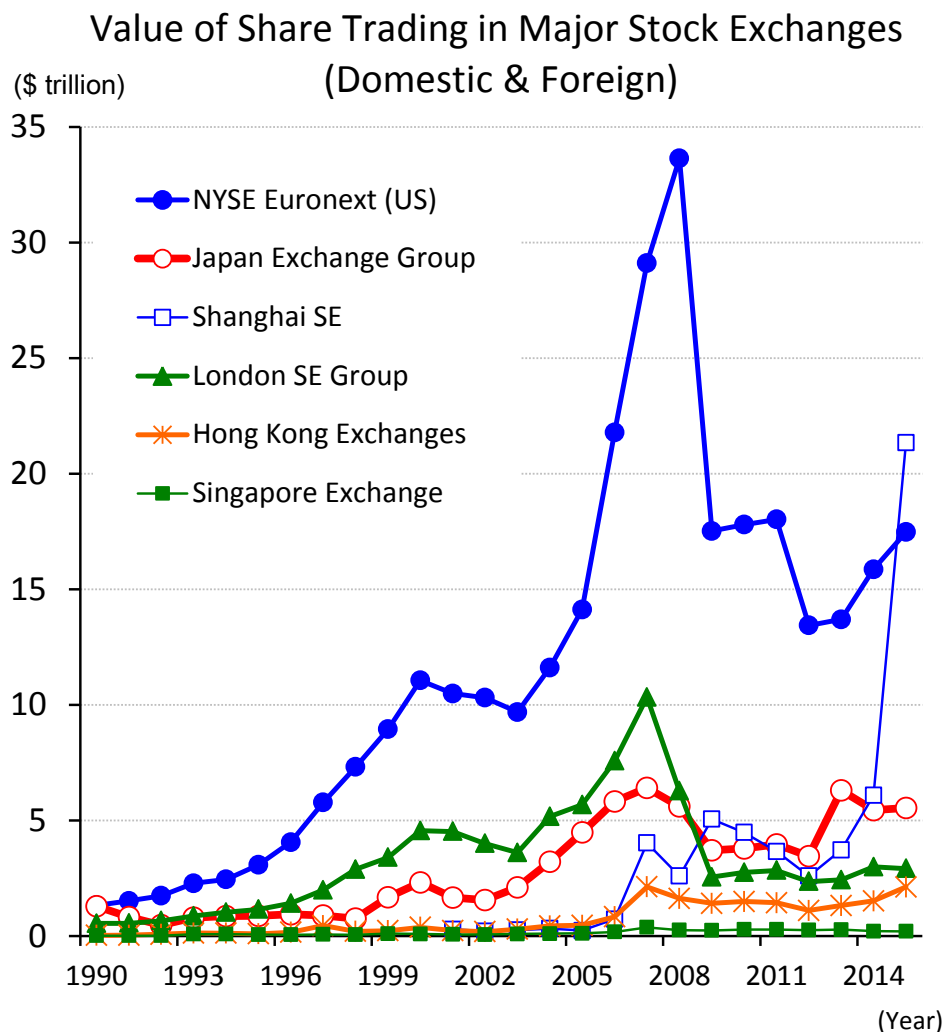
Source: Z/Yen Group "The Global Financial Centres Index 18", September 2015

"Global Power City Index" - Function-Specific Ranking

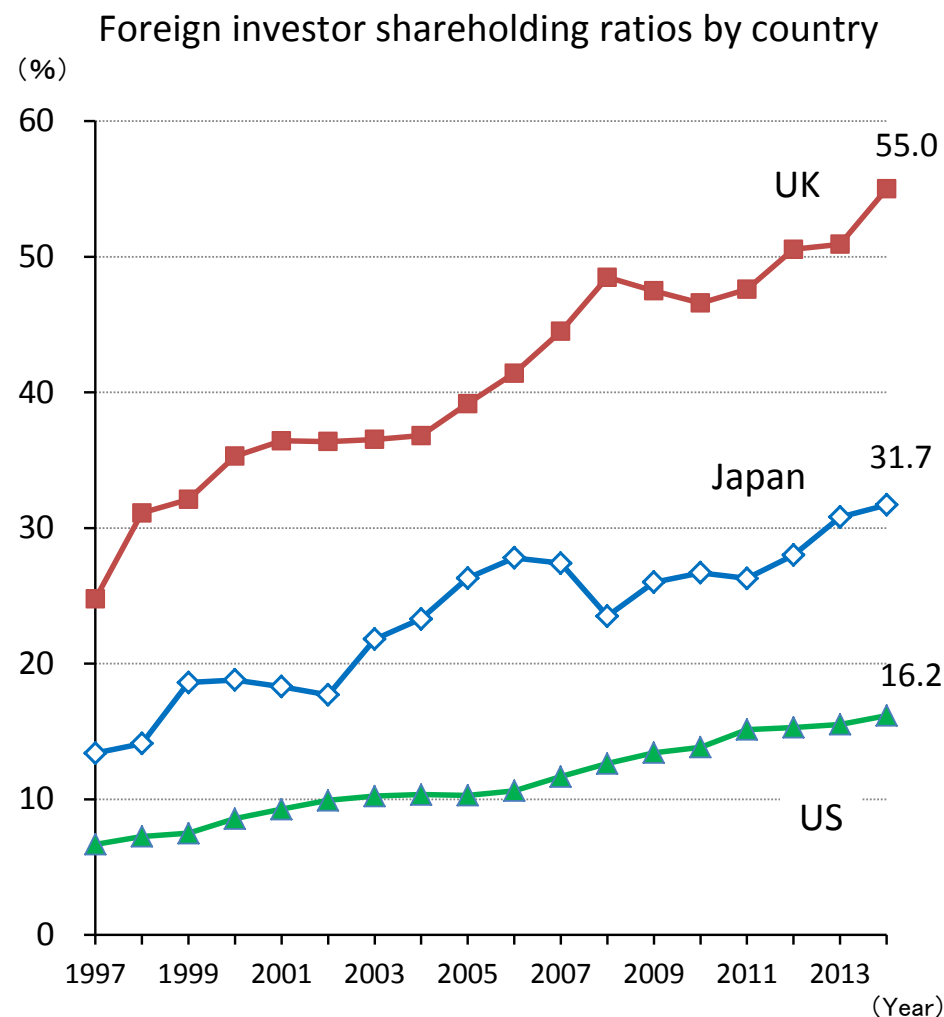
Rank	Economy	R&D	Cultural Interaction	Livability	Environment	Accessibility
1	Tokyo	New York	London	Paris	Geneva	Paris
2	London	Tokyo	New York	Berlin	Frankfurt	London
3	New York	London	Paris	Vancouver	Stockholm	Amsterdam
4	Beijing	Los Angeles	Singapore	Vienna	Zurich	Singapore
5	Hong Kong	Paris	Tokyo	Barcelona	Vienna	Hong Kong
6	Singapore	Seoul	Beijing	Geneva	Singapore	Frankfurt
7	Zurich	Boston	Berlin	Toronto	Vancouver	Shanghai
8	Seoul	Singapore	Sydney	Zurich	London	New York
9	Shanghai	San Francisco	Vienna	Amsterdam	Berlin	Seoul
10	Stockholm	Chicago	Los Angeles	Madrid	Copenhagen	Istanbul
11	Geneva	Hong Kong	Istanbul	Copenhagen	Amsterdam	Tokyo
12	Copenhagen	Osaka	Brussels	Milan	Washington, D.C.	Kuala Lumpur
13	Paris	Berlin	Barcelona	Stockholm	Tokyo	Brussels
14	Sydney	Sydney	Seoul	Frankfurt	Madrid	Barcelona
15	Washington, D.C.	Washington, D.C.	Amsterdam	Tokyo	Sydney	Milan

Source: The Mori Memorial Foundation's Institute for Urban Strategies "Global Power City Index 2015"

# Equity Markets: Major Presence in Domestic Markets



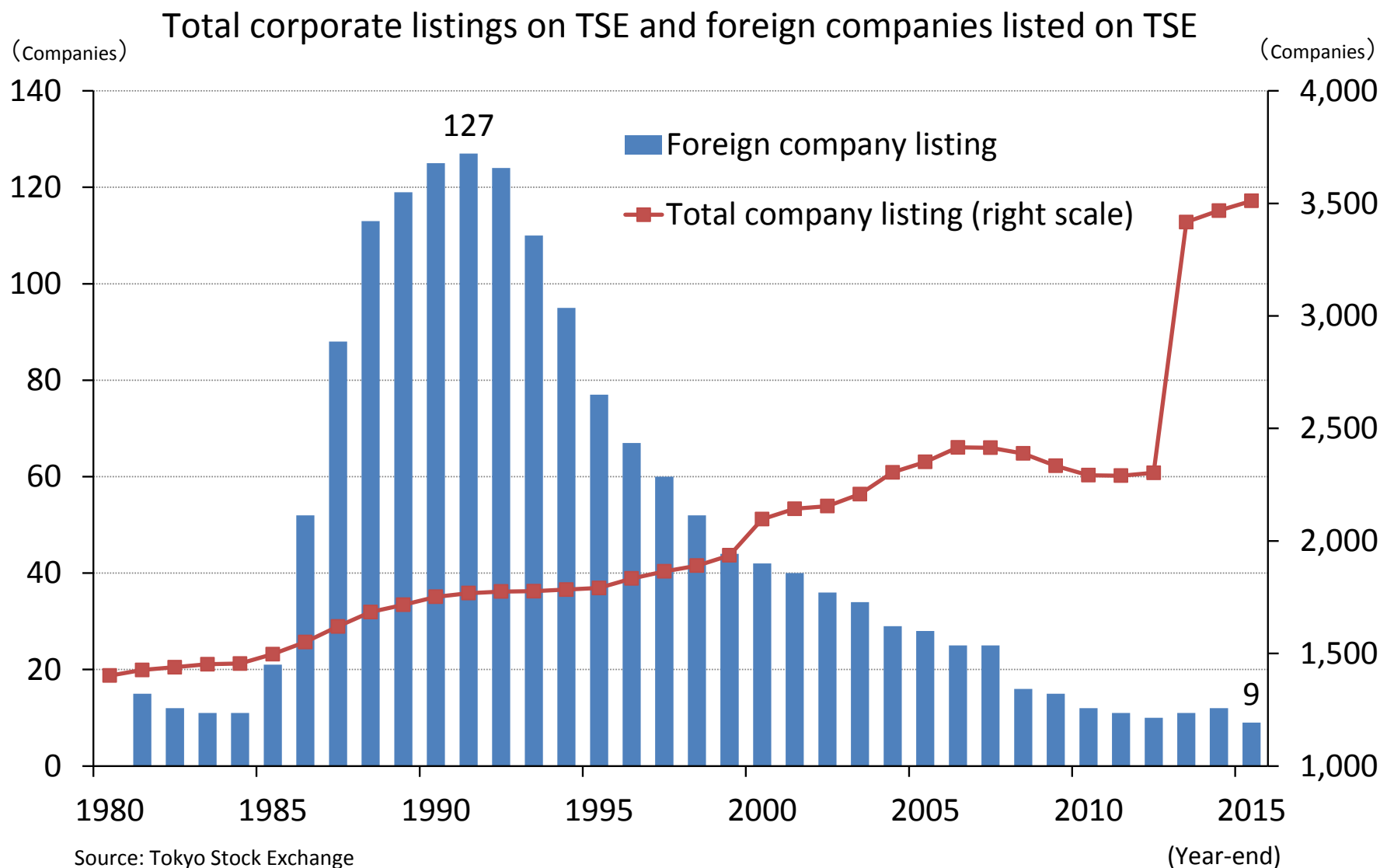
Source: World Federation of Exchanges, London Stock Exchange Group



Sources: Tokyo Stock Exchange (Japan), Federal Reserve Board (US), Office for National Statistics (UK)

Note: Japanese ratio relates to listed companies; US and UK ratios include unlisted companies.

# Equity Markets: Steep Decline in Foreign Company Listings



Source: Tokyo Stock Exchange

Note: Osaka Stock Exchange included as of 2013.

# Bond Markets: Problems with Diversification

Debt securities outstanding by sector of issuer (as of end-June 2015, in billions of US dollars)



Source: Bank for International Settlements

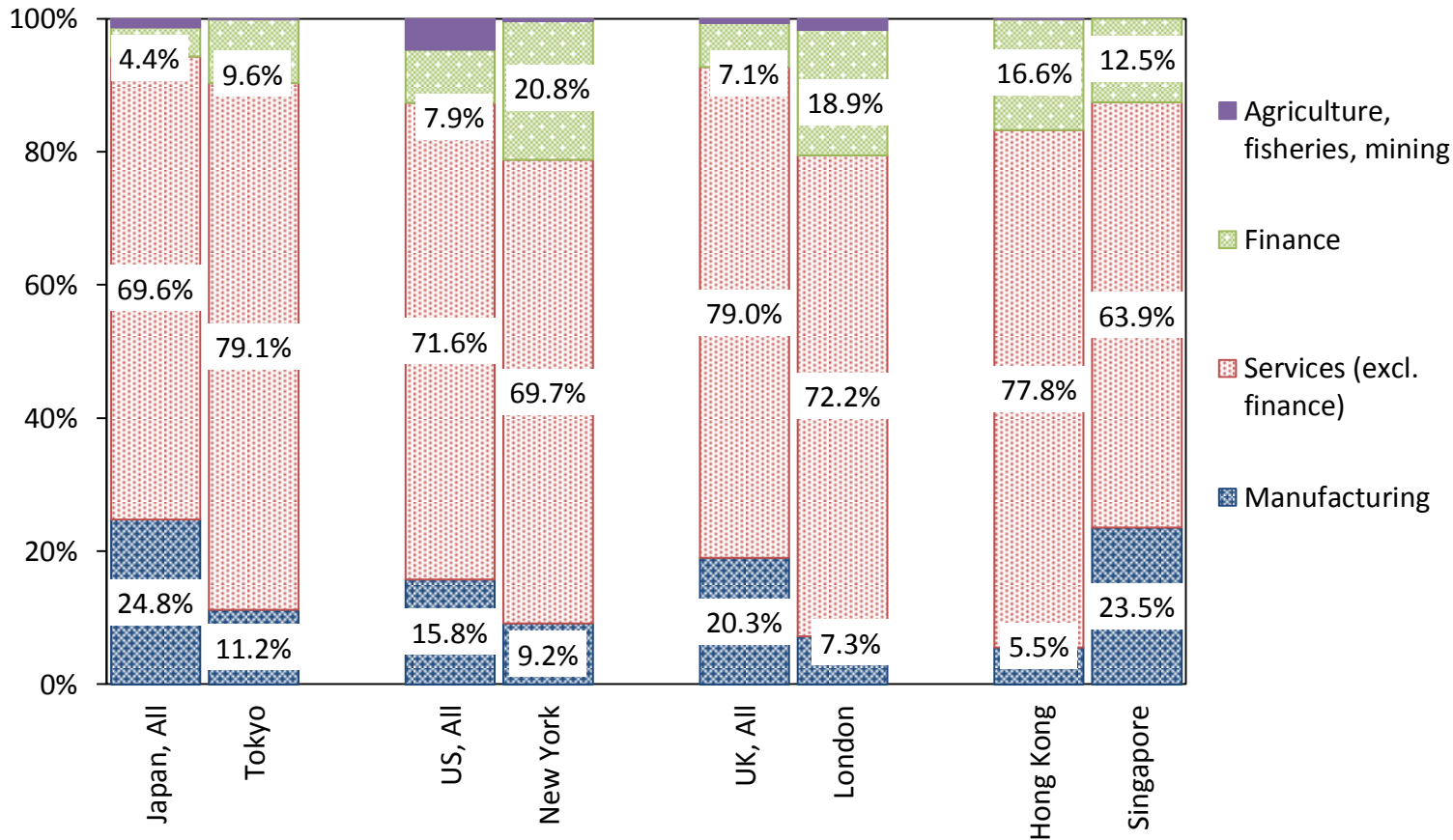
# Comparison between Tokyo, New York, London, Hong Kong and Singapore as Global Financial Centers ①

	Tokyo	New York	London	Hong Kong	Singapore
<b>Tax system</b>	<ul style="list-style-type: none"> <li>• Corporation tax: 23.9%</li> <li>• Individual income tax: 45.95% (top rate)</li> <li>• VAT: 8% (consumption tax)</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate tax: 39% (top rate)</li> <li>• Individual income tax: 39.6%(top rate)</li> <li>• VAT: 8.875%</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate tax: 20%</li> <li>• Individual income tax: 45%(top rate)</li> <li>• VAT: 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Corporation tax: 16.5%</li> <li>• Individual income tax: 17% (top rate)</li> <li>• VAT: 0%</li> </ul>	<ul style="list-style-type: none"> <li>• Corporation tax: 17%</li> <li>• Individual income tax: 20% (top rate)</li> <li>• VAT: 7%</li> </ul>
<b>Approach to establishment as global financial center</b>	<ul style="list-style-type: none"> <li>• The aim of plans to establish Tokyo as a global financial center is to make fund raising easier for both domestic and overseas investors and companies.</li> <li>• Company start-ups: One-stop administration service as of April 2015. Six consultation languages available.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of the financial market in light of economic growth &amp; status of USD mother market</li> <li>• Deregulation of the financial sector and connection of finance using IT</li> <li>• Company start-ups: partly introduced Internet based company registration service</li> </ul>	<ul style="list-style-type: none"> <li>• Deregulation of the financial market as a result of The Big bang in the 1980s. (Abolishment of restriction on non-member investment in stock exchange members)</li> <li>• Company start-ups: partly introduced Internet based company registration service</li> </ul>	<ul style="list-style-type: none"> <li>• Offshore RMB business promotion in light of internationalization of RMB. Securing position as world's biggest offshore RMB market.</li> <li>• Company start-ups: Internet-based one-stop company/business registration service available from 2011 (English / Chinese)</li> </ul>	<ul style="list-style-type: none"> <li>• Income and other financial sector tax incentives introduced to attract overseas financial institutions.</li> <li>• Company start-ups: Internet-based one-stop administration service available since 1990s. (English)</li> </ul>
<b>Equity market capitalization (end-2014)</b>	\$4.4 trillion (% of GDP: 95%)	\$19.4 trillion (% of GDP: 112%)	\$4.0 trillion (% of GDP: 134%)	\$3.2 trillion (% of GDP: 111%)	\$0.8 trillion (% of GDP: 245%)
<b>bonds outstanding (end-2014)</b>	\$11.0 trillion (% of GDP: 240%)	\$35.8 trillion (% of GDP: 206%)	\$6.2 trillion (% of GDP: 206%)	\$0.4 trillion (% of GDP: 122%)	\$0.3 trillion (% of GDP: 114%)
<b>Banks' assets (end-2014)</b>	\$15.2 trillion (% of GDP: 330%)	\$21.2 trillion (% of GDP: 122%)	\$16.8 trillion (% of GDP: 561%)	\$2.4 trillion (% of GDP: 817%)	\$1.8 trillion (% of GDP: 582%)

Source: DIR (based on World Federation of Exchanges, Bank for international Settlements, JETRO, and Haver Analytics data)

# Comparison between Tokyo, New York, London, Hong Kong and Singapore as Global Financial Centers ②

## GDP of Countries by Sector (2014)



Source: DIR (based on Tokyo Metropolitan Government, U.S. Bureau of Economic Analysis, The Office for National Statics, Haver Analytics data)

# Features and Problems of Tokyo's Markets as a Financial Center

## Equity market

- High liquidity a strength; highly visible foreign investor presence a key feature.
- Very few foreign company listings compared with overseas markets.
- PTS trading in doldrums; domestic inter-market competition limited.
- HFT and algorithmic trading provide high levels of liquidity.

## Bond market

- Huge government bond issuance, 95% held by domestic Japanese investors.
- Corporate bond issuance limited compared with US; issues for the most part by companies thought particularly creditworthy.
- Corporate bonds held mostly by Japanese banks rather than foreign investors, thereby effectively limiting secondary market liquidity.

## Derivative market

- Listed derivative trading small-scale by comparison with equity market.
- Around 70% of investors foreign; domestic investors play only a very minor role.
- Tendency for actively traded products to be equity index-oriented.
- Commodity-related and finance-related markets separate.

## Asset management business

- Japan the main center for Japanese share trading; Asian shares traded primarily in Hong Kong and Singapore. Following the financial crisis, however, Japanese share trading has also started to gravitate overseas.
- There are also investment companies that the Japan office is positioned as a sales office.
- Top-flight fund managers trading Japanese and/or Asian shares tend to move out of Japan.

## Business, living environment, other considerations

- Corporation and income tax high compared with other cities (Hong Kong, Singapore).
- English language business environment less favorable than other cities.
- Foreigner-friendly life-style infrastructure (schools, maids, nannies, English-language medical services) lacking compared with other cities
- Tokyo's systems and infrastructure are domestic market-oriented and settlement infrastructure and the like are not in conformity with global specifications.

Source: Compiled by DIR (based on publications such as the Japan Securities Dealers' Association "Report of the Council for Tokyo Global Financial Center Promotional Activities")



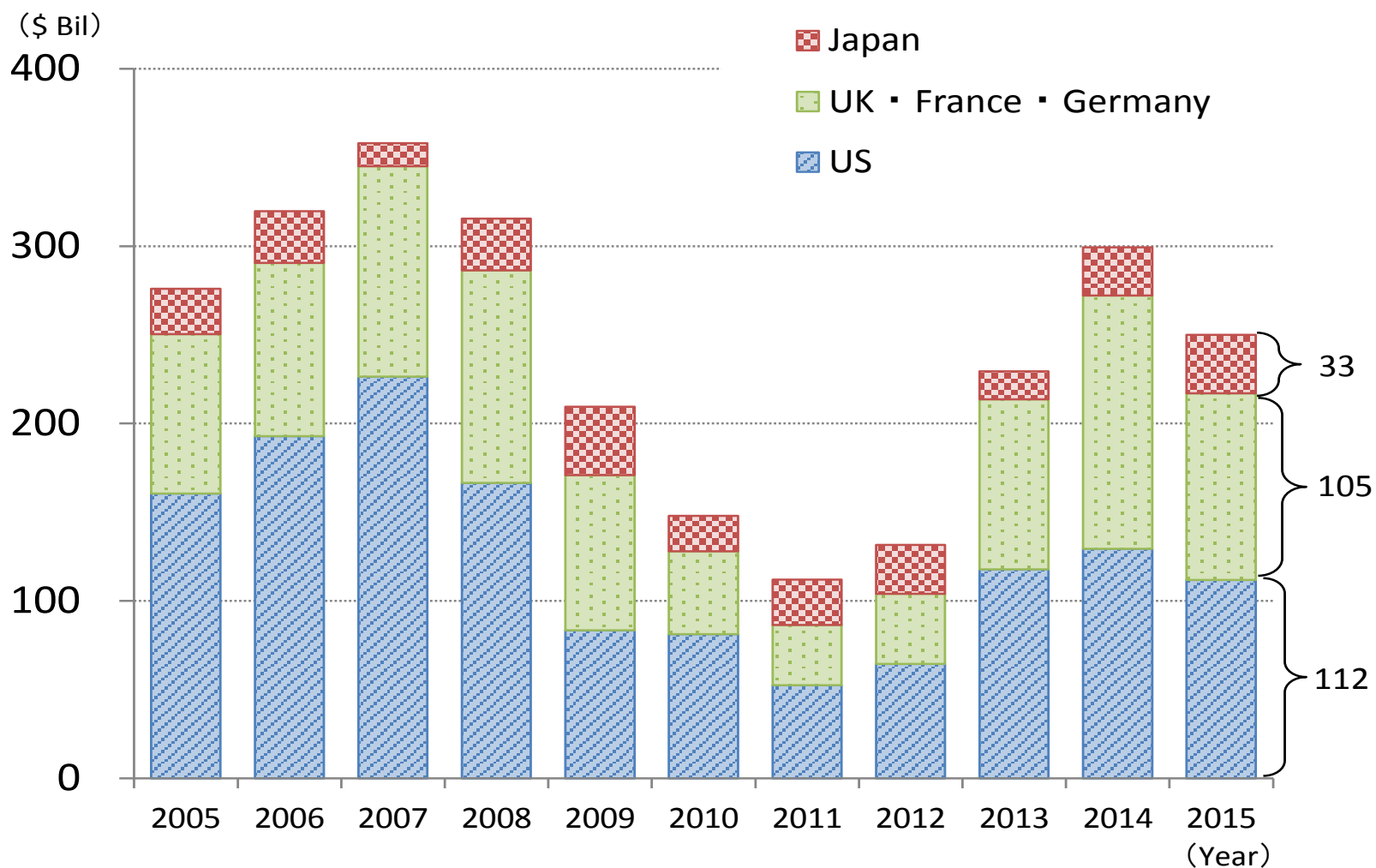
# Derivative Markets – Largest Exchanges

**Largest Derivatives Exchange** Futures and options volume traded and/or cleared.

Rank	Exchange	Country	Number of contracts (2014) in millions
1	CME Group	United States	3,443
2	Intercontinental Exchange	United States	2,276
3	Eurex	Germany	2,098
4	National Stock Exchange of India	India	1,880
5	BM&F Bovespa	Brazil	1,418
6	Moscow Exchange	Russia	1,413
7	CBOE Holdings	United States	1,325
8	Nasdaq OMX	United States	1,127
9	Shanghai Futures Exchange	China	842
10	Dalian Commodity Exchange	China	770
11	BSE	India	726
12	Korea Exchange	Korea	678
13	Zhengzhou Commodity Exchange	China	676
14	Hong Kong Exchanges & Clearing	Hong Kong	320
15	Japan Exchange	Japan	310
Tokyo total	Japan Exchange + Tokyo Financial Exchange + Tokyo Commodity Exchange	Japan	372

Source: Futures Industry Association

# Mezzanine Finance – International Comparisons: Issuance Trends

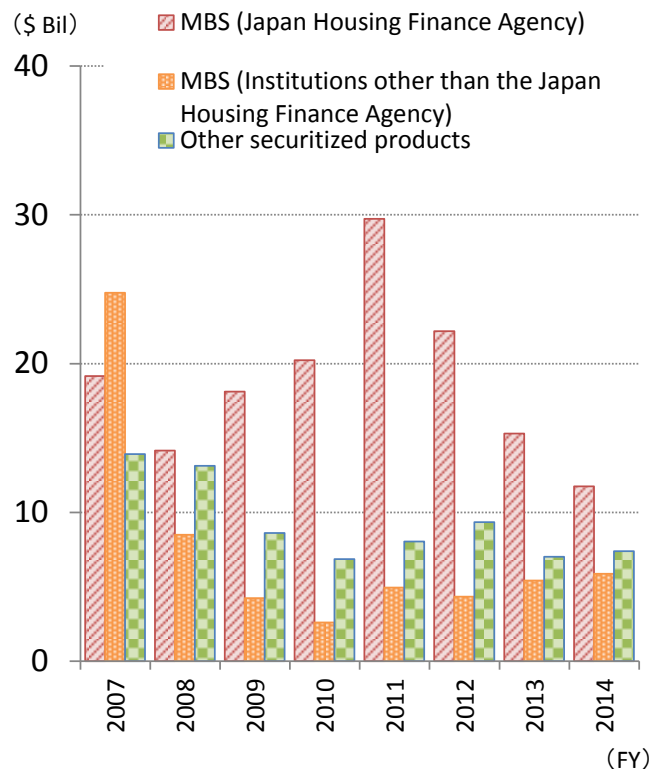


Source: DIR (based on Bloomberg and Haver Analytics data)

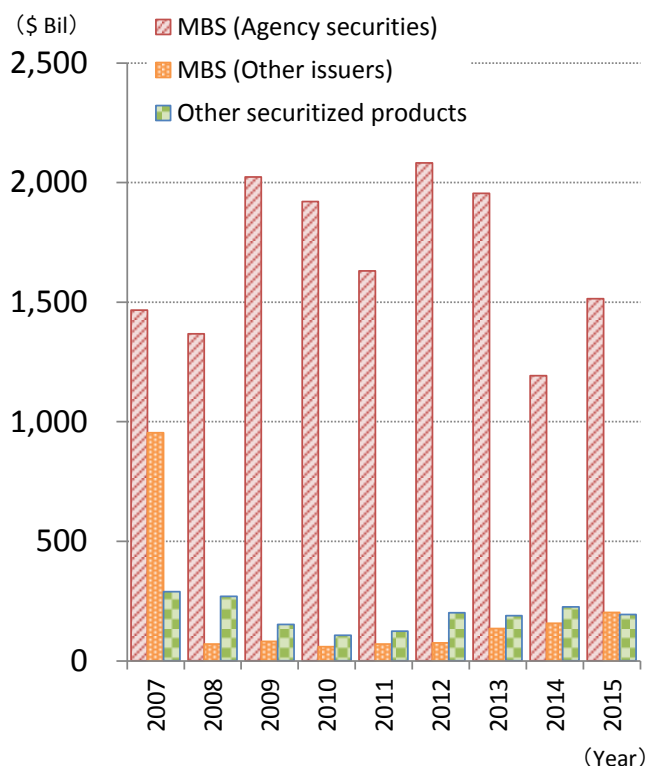
Note: SUM of CB and Subordinated Debt Issuance by country of issuance.

# ABS Markets – International Comparisons: Issuance Trends

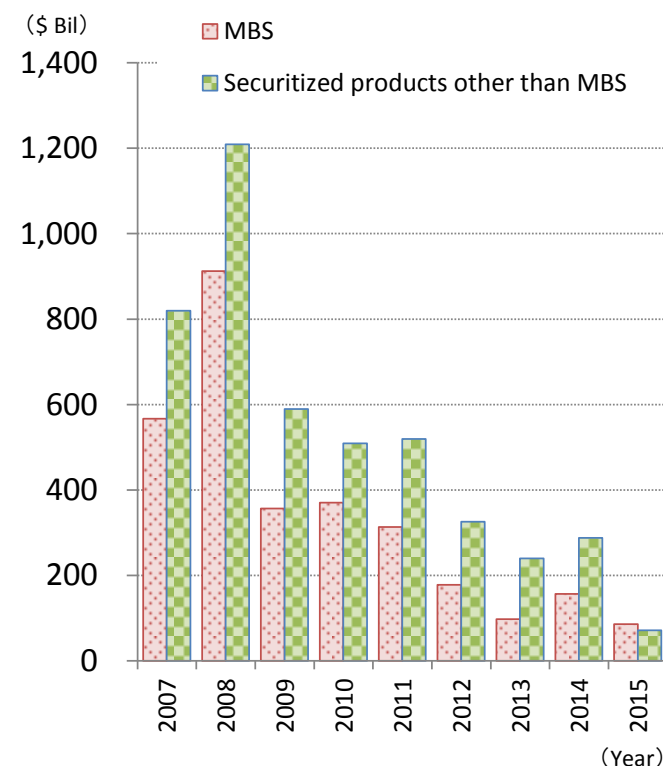
## Japan



## US



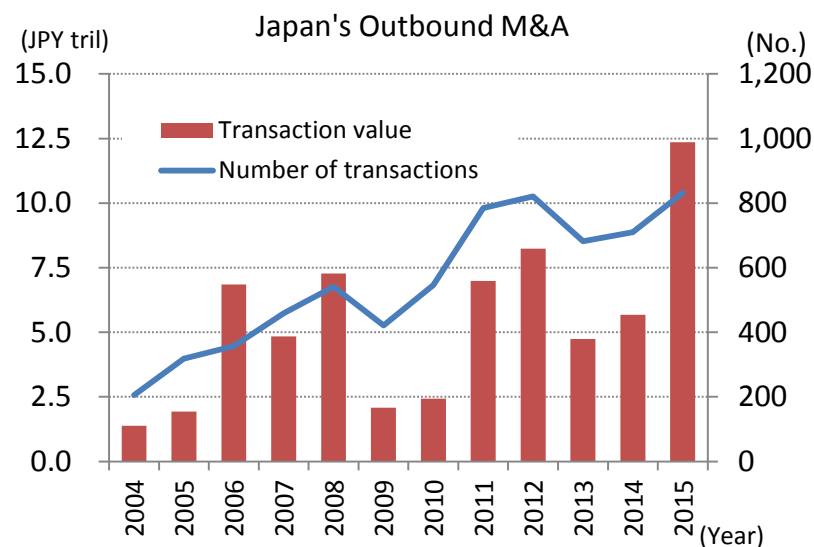
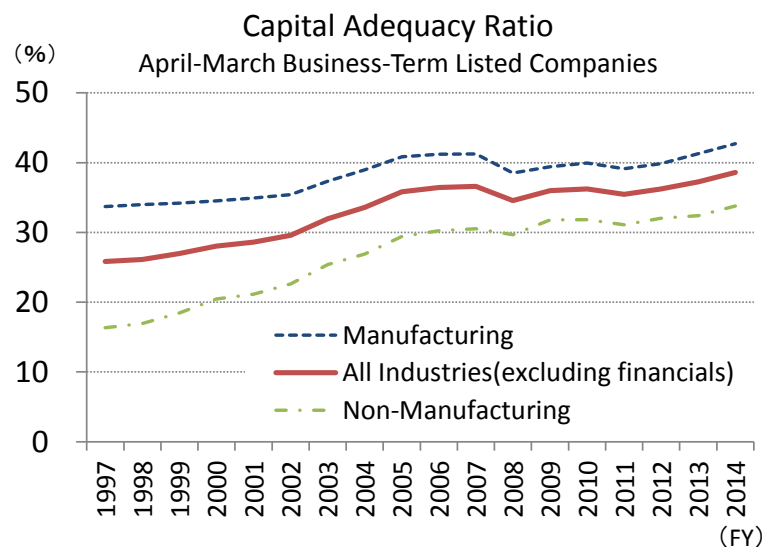
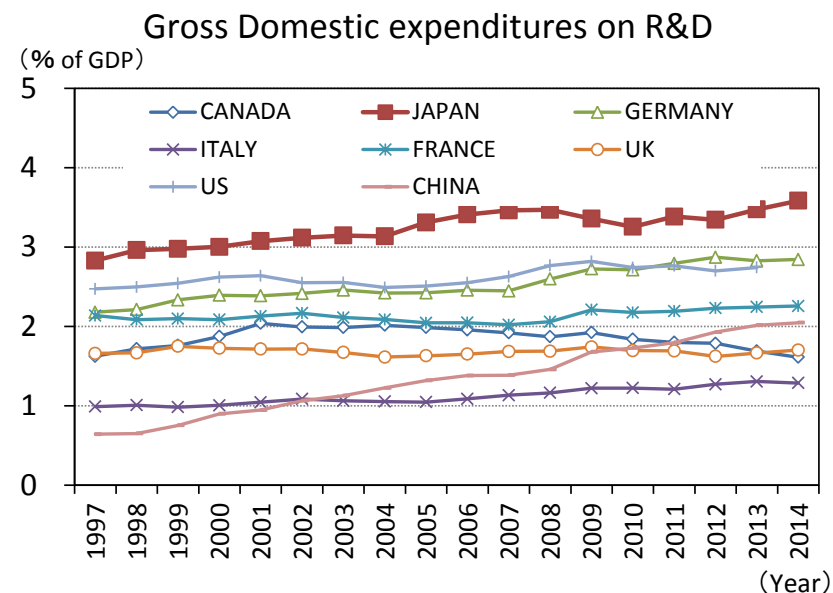
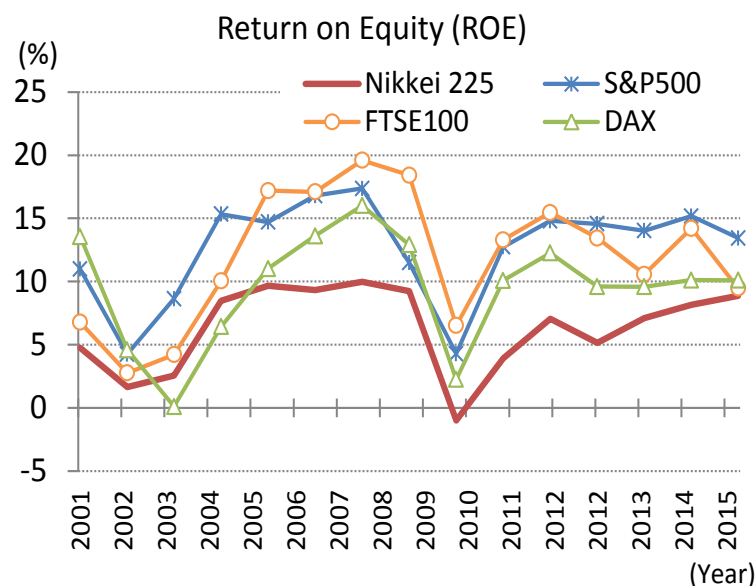
## Europe



Source: DIR (based on JBA, SIFMA, and Haver Analytics data)

Note: US agency bonds include CMO (collateralized mortgage obligations).

# Japan's Corporate Competitiveness



Source: DIR (based on Japan Exchange Group, IMF, Bloomberg)

Note: Listed companies are composed of TSE 1<sup>st</sup> & 2<sup>nd</sup> sections, Mothers and JASDAQ (FY2014 only) markets.

# Japan Revitalization Strategy (Growth Strategy) 2015 Principal measures

## Revolution in productivity by investment in the future

### Encouraging corporate behavior to improve “earning power”

- Further enhancement of growth-oriented corporate governance
- Promotion of innovation and venture business
- International expansion to growing markets including Asia

### Accelerating proactive actions to challenge a new era

- “4th Industrial Revolution” caused by the development of IoT, Big data, A.I.
- Full utilization of ITC, with reinforcement of cyber security measures

### Developing personal capabilities and knowledge

- Improvement of labor quality through addressing long-working hours practices, further promotion of women, elderly persons etc.
- Development of capabilities of human resources in the era of great transformation of the society

## Promotion of Local Abenomics

Enhance “earning power” of mid-ranking companies, SMEs and micro enterprises

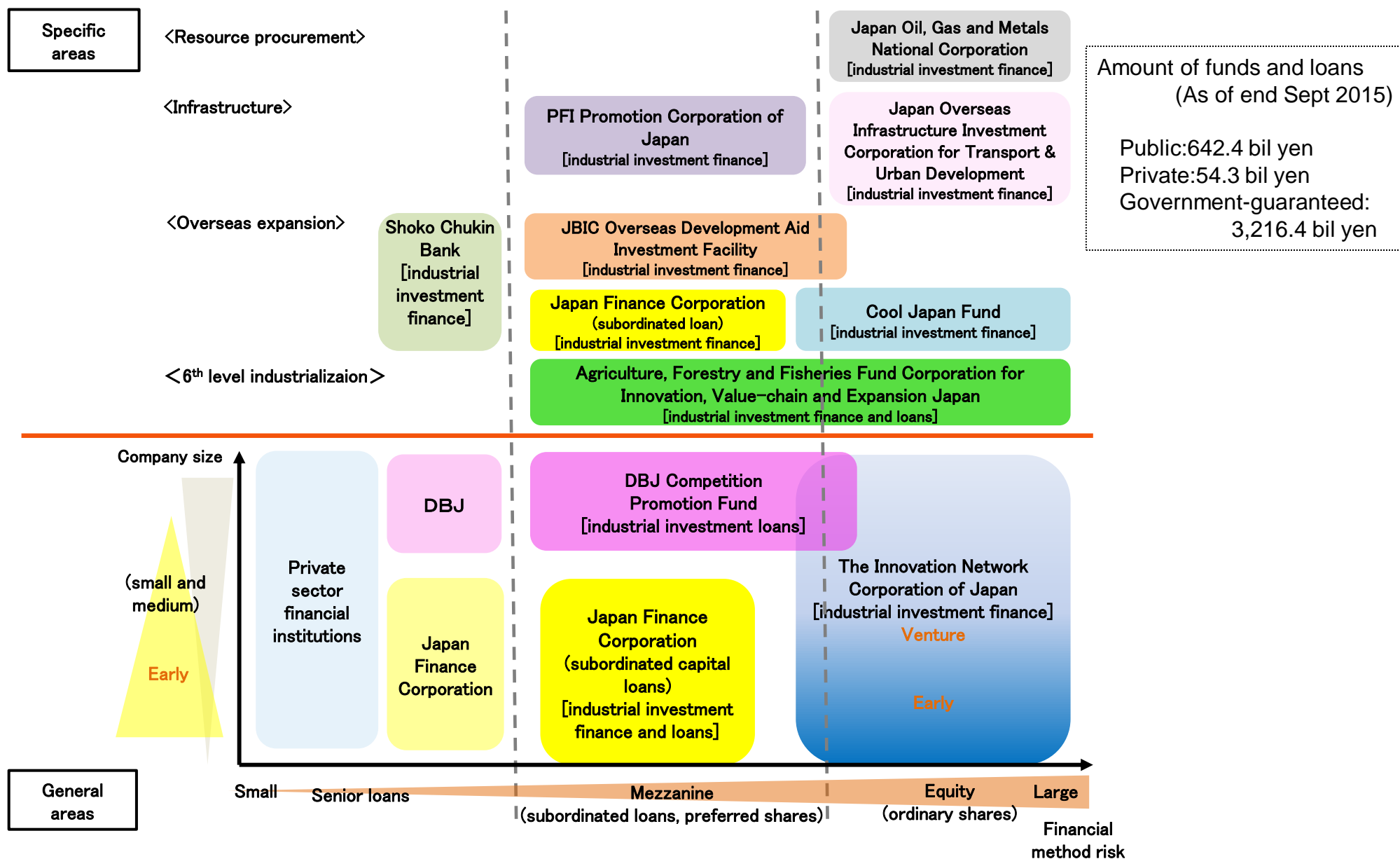
Vitalize services industry and enhance its productivity Transform primary industry/ health care industry/ tourism into key industries

## Implementation of leading projects for 2020

Automatic travelling vehicles, hydrogen society, advanced robots, tourism, FDI etc.

Source: DIR (based on Cabinet secretariat)

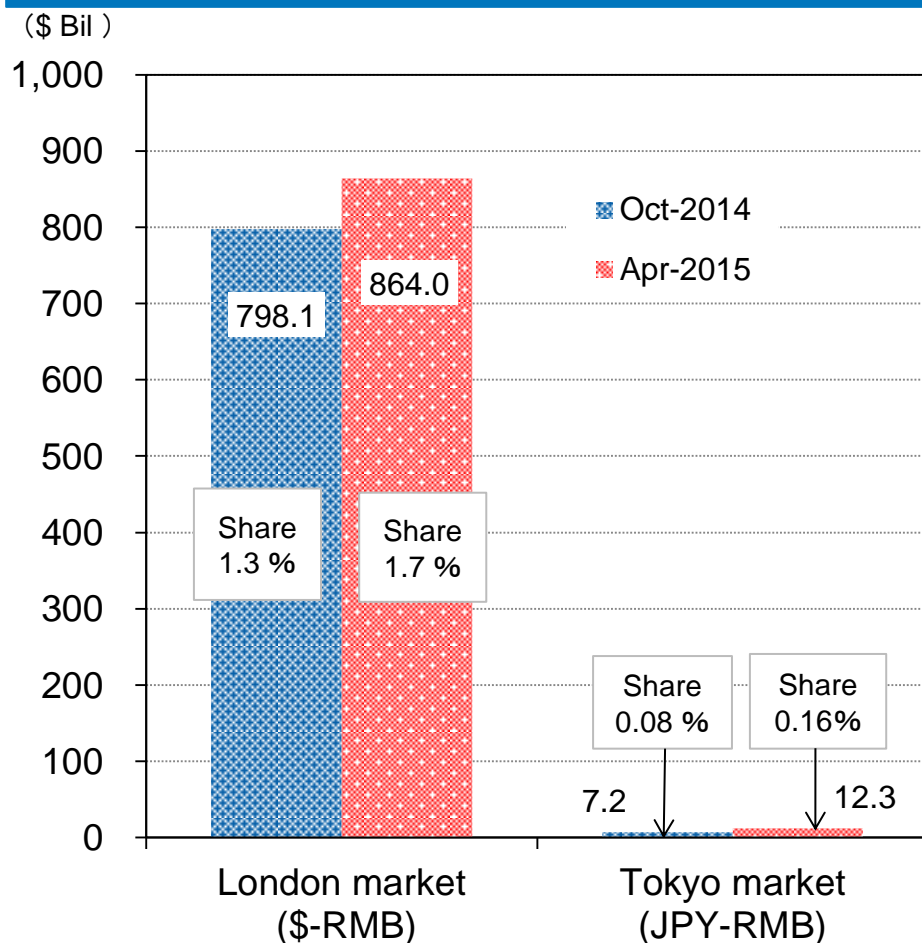
# Mezzanine Investor Presence of Public-Private Investment Funds



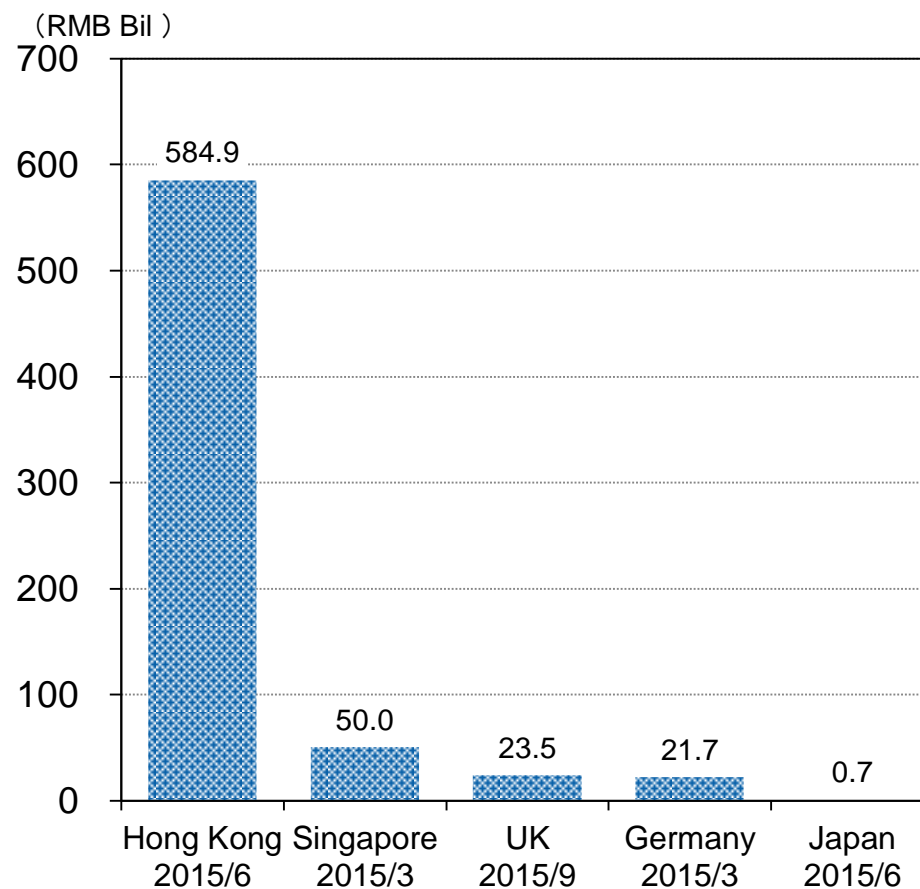
Source: Ministry of Finance Japan

# Current Situation for RMB Business and Offshore Bonds

## Monthly RMB turnover in the Tokyo and London Forex markets



## Offshore RMB debt security outstanding by country



Source: DIR (based on Tokyo Foreign Exchange Market Committee, Hong Kong Monetary Authority, Foreign Exchange Joint Standing Committee, Monetary Authority of Singapore, London Stock Exchange, Deutsche Bundesbank data)

Note: "Share" is the percentage of each market's forex business accounted for by the RMB.

# What is the “Japan Global Asset Management Center”?

**Tokyo's Kabuto-cho will be redefined as a global asset management center boasting state of the art connectivity and infrastructure, necessary in today's modern markets**

## Location

- Situated between the Tokyo Stock Exchange, the Japan Securities Clearing Corporation and the Japan Securities Dealers Association
- Walking distance to Tokyo metropolitan railway terminal the central business district

## Community

- Finance professionals and IT service providers
- The historical heart of the financial district

## Milestones

- **2016~** : Satellite office space for funds & start-ups established
- **2016~** : Incentive programs initiated (tbc)
- **2017~** : Introductory office & business suite services offered
- **2018~** : Special incentive scheme, first phase executed (tbc)
- **2020~** : JGAM center launched

**Photos courtesy of Japan Exchange Group,**



Source: Heiwa Real Estate mid-term plan and PwC Analysis

Japan Global Asset Management Center (JGAM) - a special economic zone in Kabuto-cho, Tokyo





Daiwa Securities



Merrill Lynch



Japan Securities  
Depository Center



Japan Securities  
Dealers Association



Tokyo Stock Exchange



Bank of Japan



Nomura Securities

Tokyo Financial Street

Otemachi Area

Nihombashi Area

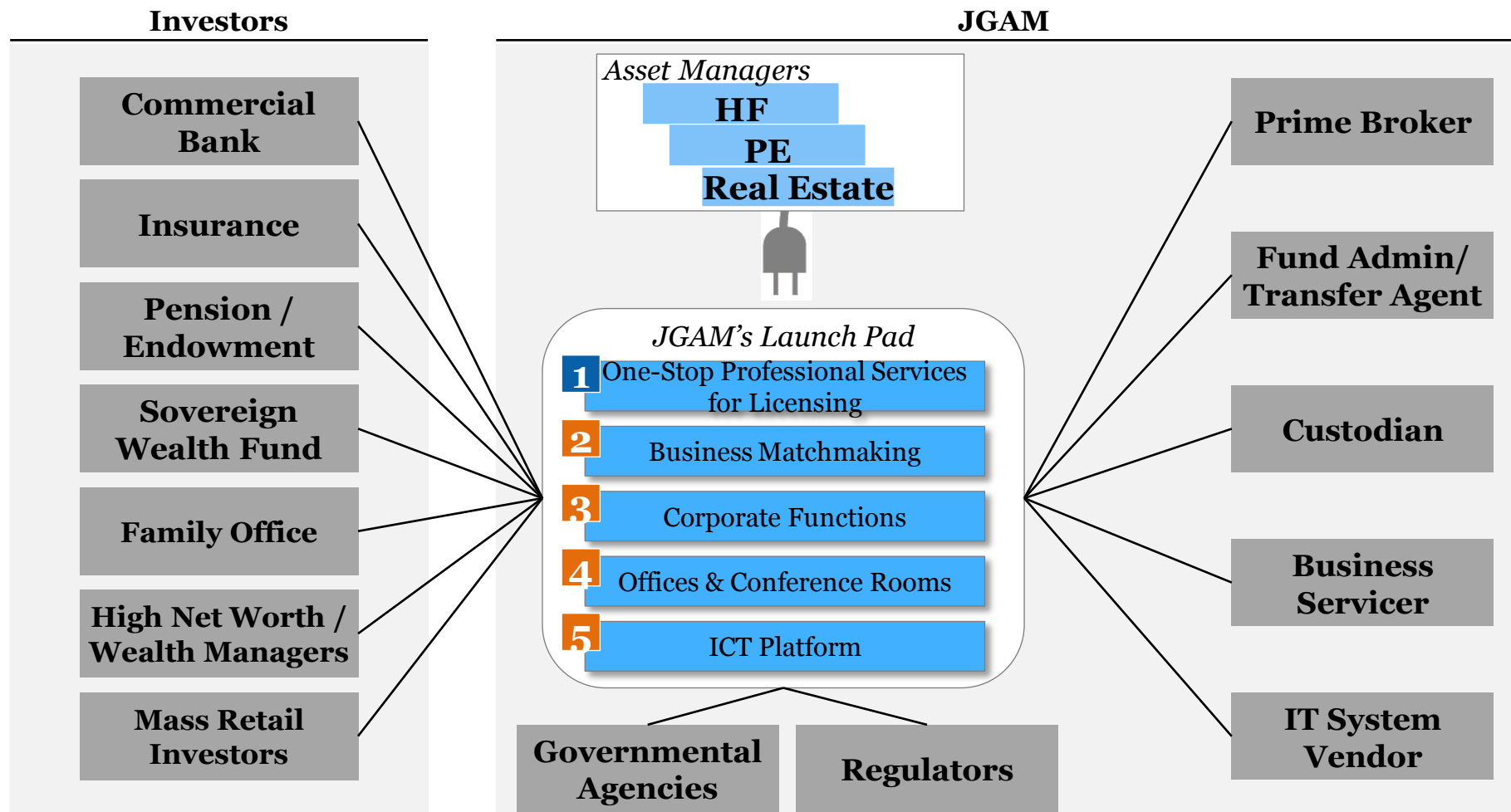
Kabutcho Area



# Overview of the JGAM

**Illustrative**

Services aligned to your business allow you to focus on what matters; implementation of key components of your value chain are our top priority



Japan Global Asset Management Center (JGAM) - a special economic zone in Kabuto-cho, Tokyo

# Market Entry- Challenge and Response

**Not Exhaustive**

**Challenges to entering the Japanese market exist. Government agencies and private sector service providers provide solutions to these challenges**

	Perceived Challenge	Reality	1 One-Stop Professional Services for Licensing
<b>Cost of Doing Business and Living in Japan</b>	<ul style="list-style-type: none"> <li>• Expensive professional services (e.g., legal, tax, translation)</li> <li>• Monopoly of back office systems and custody service providers</li> <li>• High rent (office and residential)</li> <li>• High labor cost</li> <li>• High tax rate</li> </ul>	<ul style="list-style-type: none"> <li>• Rent cost cheaper compared to other financial centers</li> <li>• Contenders exist at varying degrees of coverage for back office systems and custodian services</li> </ul>	<ul style="list-style-type: none"> <li>• Concierge service (e.g., housing, visa, office setup)</li> <li>• Reasonable office rent (c. \$50 per sqm per month)</li> <li>• Subsidies for business operations</li> </ul>
<b>Language</b>	<ul style="list-style-type: none"> <li>• Insufficient English language environment</li> <li>• Most regulatory documentation in Japanese</li> </ul>	<ul style="list-style-type: none"> <li>• Most understand English (English education starts at age of 7)</li> <li>• English largely accepted by government agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Professional interpreters and translators (available 24/7)</li> </ul>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>• Registration and licensing</li> <li>• Stringent regulatory inspection process</li> <li>• Complex regulatory and reporting obligations</li> </ul>	<ul style="list-style-type: none"> <li>• Straight-forward registration process</li> <li>• Clear interpretations of Japanese regulations available</li> <li>• Global standardization of regulations promoted</li> </ul>	<ul style="list-style-type: none"> <li>• Advice on regulatory compliance               <ul style="list-style-type: none"> <li>➢ Registration support</li> <li>➢ Regulatory advisory</li> <li>➢ Regulatory reporting automation engine</li> </ul> </li> </ul>

Source: Interviews with Japan based foreign asset managers, Japan Financial Services Agency and PwC Analysis

Japan Global Asset Management Center (JGAM) - a special economic zone in Kabuto-cho, Tokyo

# Business Implementation- Benefits of being in the JGAM

**Not Exhaustive**

JGAM will provide promising growth opportunities and risk control

		Type of Benefit		
		Business Growth	Cost Productivity	Risk Control
<b>2 Business Matchmaking</b>	Examples of JGAM's benefits			
	– Business matchmaking & networking			
	✓ Physical site (conference rooms)			
	✓ Sponsored events			
<b>3 Corporate Functions</b>	– Outsourcing of operations and/or compliance and other corporate functions to service providers			
	– Sharing of insights & tools for legal, compliance, regulatory matters (e.g., templates / guidelines)			
	– Complimentary use of temporary office & conference rooms			
	– Organization & coordination of meetings and events by dedicated staff			
<b>4 Offices &amp; Conference Rooms</b>	– Low cost media broadcast facilities for investors relation			
	– State-of-the-art front office systems (e.g., OMS / EMS) and secured dealing			
	– Analytical tools & reports for decision making			
	– Compliant low cost middle / back office systems			
<b>5 ICT Platform</b>	– Co-location and connectivity with major system and market data vendors			
	– Regulatory compliant data center			
	– Back-up center for business continuity			

Japan Global Asset Management Center (JGAM) - a special economic zone in Kabuto-cho, Tokyo





**THANK YOU VERY MUCH FOR YOUR ATTENTION**