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# *Guidance to the Asset Management Industry in Japan*

Practical guidance for global asset  
managers to successfully enter the market



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Financial Services Agency





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Under the Japan Revitalization Strategy of the Abe Cabinet, the Japanese economy has shown signs of growth. The asset management industry is expected to lead in economic growth as a key financial intermediary in the Japanese economy.

Considering the enormous demographic transitions occurring in Japan, it is at the top of the agenda to shift massive household bank savings to investments for the long-term wealth of the Japanese nation. It is also essential to keep a supply of money to industry to sustain economic growth. The asset management industry is expected to play a key role in transforming the flow of funds in the Japanese financial markets.

Institutional investors have also started diversifying investments from JGB concentration to global assets in search of higher return. The trends of these investor's preferences continue to result in high demand for unique and innovative investment capabilities around the world.

This report was commissioned by the Tokyo Metropolitan Government, with the cooperation of the Financial Services Agency, to provide a useful source of information for foreign asset managers interested in expanding their business into Japan. The Report highlights the significant opportunities in the Japanese asset management industry as well as the rules and administrative procedures for foreign asset managers to successfully enter the market. Foreign asset managers are well-positioned to draw advantages from these opportunities by leveraging their skills and expertise in Japan. It is clear from the economic fundamentals of Japan that foreign asset managers will be the future growth engine of the asset management industry.



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# Executive Summary

## Japanese household assets

The Japanese asset management market is poised for significant growth. Financial assets held by Japanese households are worth over JPY 1,752 trillion (USD 15.4 trillion <sup>(\*1)</sup>) <sup>(\*2)</sup>. Demographic transition and a need for high-yield investments to fund future pension requirements are likely to result in a shift away from conservative asset classes, such as bank deposits, towards higher-yielding investments such as investment trust funds – creating growth opportunities for asset managers.

Nearly 70% <sup>(\*3)</sup> of household financial assets are held by people over the age of 60. Most of these assets are held in cash deposits and other low risk products. The next generation, with improving financial literacy, will begin to take control of these assets and more actively manage their allocation. Even a small percentage shift to higher-yielding investments, such as investment trusts, will result in significant increases in assets under management.

## Capturing the growth

Japanese households are progressively increasing their investments in investment trust funds, “Toshin”. The retail investors are further encouraged to gain sophistication over their retirement planning through various renewed investment opportunities. Institutional investors have increased their allocation towards foreign and alternative investments. It is likely that more investment management activities will be outsourced to managers with specialized investment capabilities.

## Understanding the market

Securities companies, banks and investment consultants control the distribution channels and, as a result, are the major gatekeepers for entering the Japanese market. Nine of the top ten retail asset managers are domestic players and household names (Fidelity has recently been ranked as number 6) <sup>(\*4)</sup>. Collectively, they manage 85% of retail funds’ assets. In recent years, many have introduced more foreign and specialized investment options. Given the required skills are not necessarily available in the domestic market, there has been increased outsourcing to foreign

asset managers. The picture is quite different in relation to institutional asset managers, where foreign firms have been very successful in capturing market share and dominate the market.

## Strategies for success

Foreign asset managers are increasingly gaining market share and thus proving that there are ways to successfully access the Japanese market. A number of organizations have entered the market by way of sub-advisory services. Others find that an effective strategy is to distribute funds domiciled in other countries through fund-of-fund type structures. And finally, those with more capital to invest are choosing to launch full-scale asset management operations in Japan.

## Foreign asset managers are well-positioned

There are significant opportunities in the Japanese market and foreign fund managers are well-positioned to benefit. Key to success will be not only understanding the market characteristics but also understanding the Japanese business culture.

<sup>(\*1)</sup> U.S. dollar amounts in this document are mostly based on statistics in Japanese yen converted at the approximate average exchange rate during the 1st quarter of 2017 of JPY 114 per USD.

<sup>(\*2)</sup> Source: Bank of Japan, Flow of Funds, End of December 2016

<sup>(\*3)</sup> The percentage was estimated by analyzing the Family Income and Expenditure Survey 2015 (Statistics Bureau, Ministry of Internal Affairs and Communications)

<sup>(\*4)</sup> Source: The Investment Trust Association, Japan, as of December 2016

# I. Overview of the Japanese Asset Management Industry

## Japanese investors - Who has the assets in Japan?

### Retail investors

According to the Bank of Japan, household financial assets exceed a staggering JPY 1,752 trillion (USD 15.4 trillion) as of December 2016 (\*1). While the majority of these assets are held in cash, bank deposits or other risk-free financial instruments, the portfolio has gradually been shifting towards investment products.

For the past few years, under the “Japan Revitalization Strategy”, the growth strategy of the Abe Cabinet, Japan’s regulators and government bodies have significantly improved their investment systems. The reforms for NISA and DC have reasonably succeeded in moving household assets from savings to investments. There is a broadening of the investment universe and more investment capabilities are needed to accelerate this movement in Japan.

The benefits of the Japanese economic miracle in the 20th century can be seen in the bank savings of elderly Japanese people. Nearly 70 % (\*2) of Japanese household financial assets are held by individuals over the age of 60. The advanced age of these investors with experience of the bubble economy collapse in early 1990s has given rise to conservative investment allocations such as bank deposits and insurance/pension products. Meanwhile, investments in riskier assets are steadily increasing.

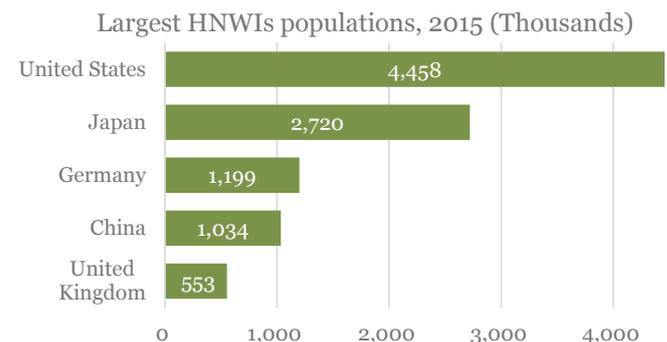
(\*1) All statistics in this Chapter are the latest figures available as of 31 March 2017, unless otherwise stated.

(\*2) The percentage was estimated by analyzing the Family Income and Expenditure Survey 2015 (Statistics Bureau, Ministry of Internal Affairs and Communications)

### High net-worth individuals

According to Capgemini consulting firm, in 2015, there were over 2.7 million high net-worth individuals (“HNWIs”) in Japan. A HNWI is defined as an individual with investable assets of approximately USD 1 million (JPY 114 million) or more. This is the second largest HNWI population in the world, following the United States. Japanese

HNWIs hold approximately USD 6,571 trillion (JPY 749 trillion) in assets and account for a massive 38 % of the total wealth in the Asia-Pacific region despite the rapid expansion of China and other fast growing countries in the region.



(Source: Capgemini, WORLD WEALTH REPORT 2016, Capgemini Financial Services Analysis, 2016)

### Household investments

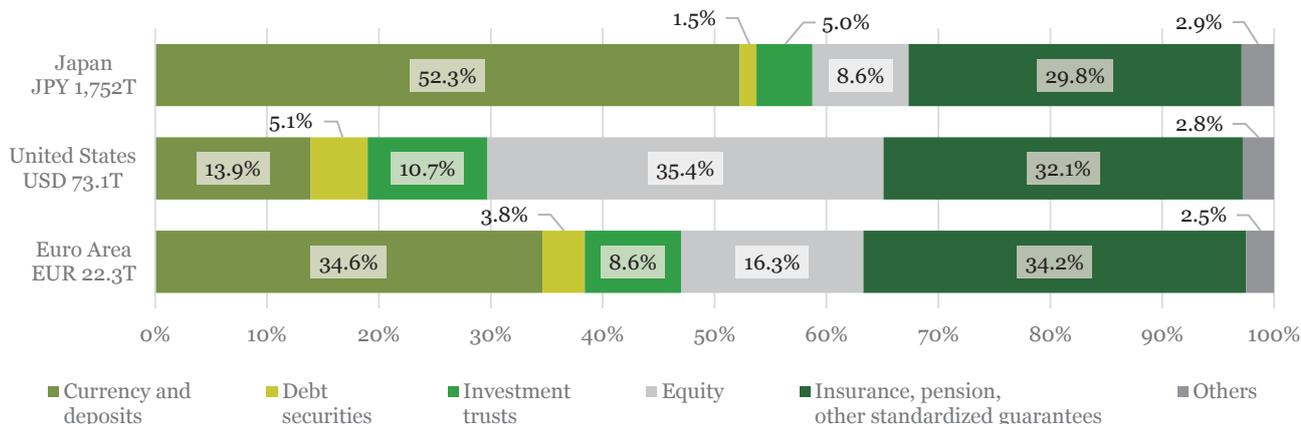
When households make an investment, it is often through domestic registered investment vehicles such as investment trust funds (“Toshin”). Overcoming the financial crisis of 2007-2008, there has been a steady increase in the amount of investments in Toshin, reaching JPY 96 trillion (USD 0.8 trillion) in December 2016, about 5% of total household financial assets.

However, the allocation to investment funds in Japan is relatively low compared to the United States and Euro area, which are 10.7% and 8.6% respectively. Together with the equity investments, the allocation to riskier assets is considerably low in Japan.

### Institutional investors

Institutional investors in Japan are represented by two main groups, pension funds and financial institutions. Pension funds typically make investments through their trust accounts. Trust accounts are the separately managed accounts whereby a registered asset manager is appointed to carry out the investment management of the separate trust’s assets. Financial institutions often make investments through purchasing private investment trust funds.

Comparison of financial assets held by households  
(Breakdown by asset class)



Data for Japan and the United States are as of September 2016; those for the Euro area are as of June 2016  
(Source: Bank of Japan, Flow of Funds - Overview of Japan, the United States, and the Euro area - December 22, 2016)

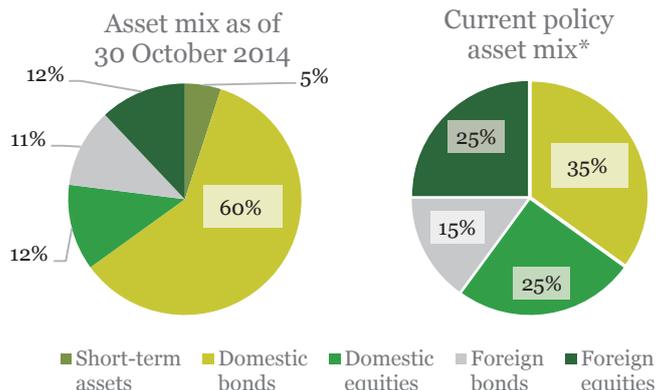
### Public pension funds

Pension funds can be classified into two groups; public and private. Total pension assets in Japan are estimated to be about JPY 305 trillion (USD 2.7 trillion) as of March 2016. JPY 194 trillion (USD 1.7 trillion), approximately two-thirds of these assets are represented by the public pension funds, the “National Pension” and the “Employees’ Pension Insurance”.

A significant portion of these public pension assets are invested through the “Government Pension Investment Fund (GPIF)”, one of the largest investment funds in the world with approximately JPY 135 trillion (USD 1.2 trillion) of assets. The other JPY 52 trillion (USD 0.4 trillion) is invested through the pension associations for national or local public-sector employees and private school employees. External asset managers are appointed to manage majority of these public pension assets.

GPIF conducted a major review of its model portfolio in 2014. As part of this review, GPIF significantly increased its allocation to equity investments from 25% to 50%, and domestic bonds were reduced from 60% to 35%. Alternative investments, such as infrastructure, private equity and real estate, were also added into the model portfolio at maximum of 5% of total assets. In addition, GPIF adopted the Asset Manager Registration System in 2016, which enabled GPIF to have more flexibility on manager selection by accessing to various managers with new investment strategies and expertise. GPIF currently appoints 37 external managers, including the 24 foreign asset managers.

Changes in GPIF targeted asset allocation in 2014  
(Breakdown by asset class)



\* Alternative investment is included in each asset class in 5% of total asset.

(Source: Government Pension Investment Fund)

### Private pension funds – DB plan

Approximately JPY 110 trillion (USD 1.0 trillion), or one-third of total pension assets are held by the private pension plans, such as corporate sponsored defined benefit plans, corporate or individual based defined contribution plans, etc.

According to the Pension Fund Association (PFA), corporate-sponsored defined benefit plans, such as the “Employee’s Pension Fund” or “Corporate Based Defined Benefit (DB) Pension,” amounted to JPY 82 trillion (USD 0.7 trillion) in March 2016.

I. Overview of the Japanese Asset Management Industry

Pension Assets as of March 2016\*

Pension Type		Pension Systems		
Total Pension Assets JPY 304.8T	Public JPY 194.8T	National Pension JPY 8.8T		
		Employees' Pension Insurance for Private Sector Employees JPY 134.0T		
		Employees' Pension Insurance for Public Sector Employees* JPY 52.0T		
	Private JPY 109.8T	Corporate	Corporate-type DB Pension JPY 82.0T	Employees' Pension Fund JPY 24.0T
				Corporate Based DB Pension JPY 58.0T
			Corporate-type DC Pension JPY 9.6T	
		Individual	Individual-type DC Pension (iDeCo) JPY 1.2T	
		Other	Smaller Enterprise Retirement Allowance Mutual Aid (Chutaikyo), JPY 8.8T	
			Small Enterprise Mutual Aid JPY 4.6T	
			National Pension fund JPY 3.6T	

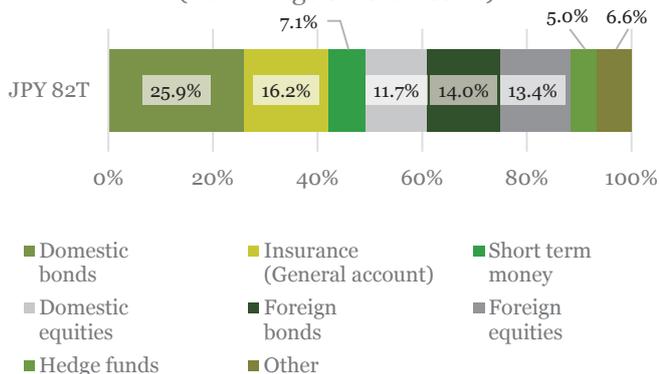
\*: The total amount of mutual funds for national or local public-sector employees and private school employees are included. (Source: Ministry of Health Labor and Welfare; Federation of National Public Service Personnel Mutual Aid Associations (KKR); Pension Fund Association for Local Government Officials; The Promotion and Mutual Aid Corporation for Private Schools of Japan; Pension Fund Association, Organization for Workers' Retirement Allowance Mutual Aid; Organization for Small & Medium Enterprises and Regional Innovation, JAPAN; National Pension Fund Association)

Approximately half of these assets are allocated to low-risk products such as domestic bonds and insurance products, while one quarter of the assets are allocated to foreign equities and bonds. Alternative investments are steadily increasing, as 64% of DB pension funds invest in alternative assets, such as hedge funds, account for 5% of total assets.

### DC plan

The Corporate Based Defined Contribution (DC) Pension, introduced in 2001 in Japan, reached JPY 9.6 trillion (USD 83 billion) in 2016. Many Japanese corporations welcomed the DC scheme and shifted from DB plans to avoid the burden of future pension payments, which would be otherwise booked as liabilities on their balance sheets.

DB Plan Asset Allocation as of March 2016 (Percentage of total assets)

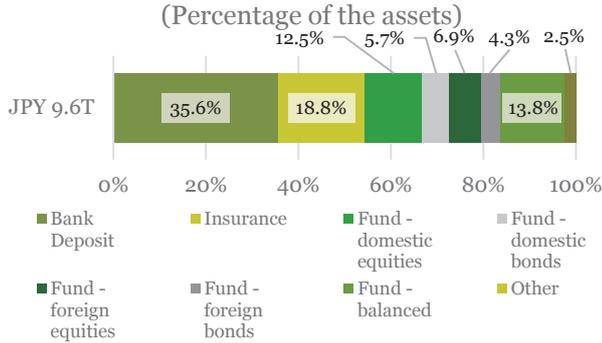


(Source: Pension Fund Association)

Currently JPY 4.3 trillion (USD 38 billion), approximately 45%, of the DC assets are actively invested through Toshin funds or other investment vehicles. However, more than half of the assets are held as bank savings and insurance products, and those par values are protected. This is due to the fact that the majority of DC plans set these risk-free products as default funds. The system is under revision so that the funds suitable for long term investment, such as life-cycle funds, can be set as defaults. The opportunity for asset managers will further expand if such reform is accomplished.

## I. Overview of the Japanese Asset Management Industry

Corporate DC Plan Asset Allocation as of March 2016  
(Percentage of the assets)



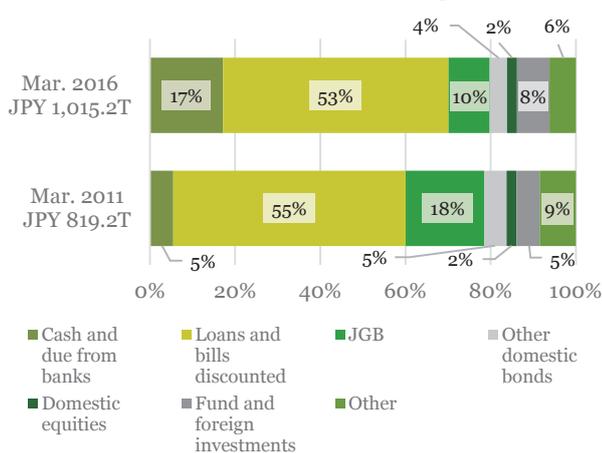
(Source: Pension Fund Association)

### Banks

Banks and insurance companies are the main institutional investors in Japan.

According to the Japanese Bankers Association, total liquid assets of banks (excluding Japan Post Bank) reached JPY 1,015 trillion (USD 9.0 trillion) in March 2016, and more than half of the assets are held in loans and domestic fixed income bonds such as Japanese government bonds (JGBs). Meanwhile, JPY 77 trillion (USD 0.7 trillion), 8% of the assets, are invested in either private Toshin funds and/or foreign investments, and this allocation is increasing.

Banks Asset Allocation as of March 2016 and March 2011 (Breakdown by liquid asset)



(Source: Japanese Bankers Association, Financial Statements)

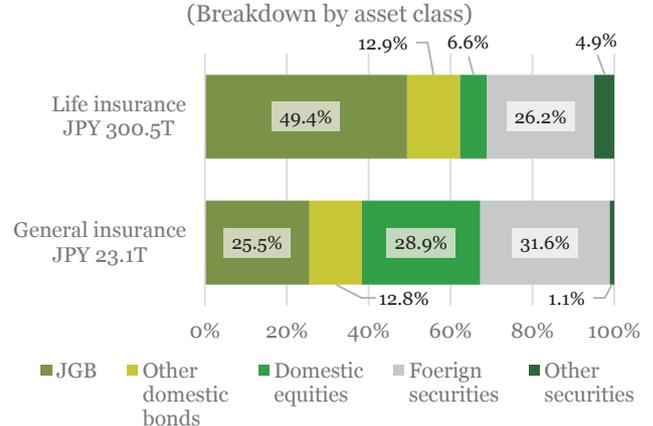
Particularly, regional banks have been increasing their allocation to foreign assets through private Toshin. Their diversified portfolio in private Toshin includes foreign bonds, equities, derivatives and real estates.

The Japan Post Bank (JPB), Japan's largest financial institution, reached an astonishing JPY 205 trillion (USD 1.8 trillion) in total AuM by itself in March 2016. Originally 100% owned by the government, JPB listed on the Tokyo Stock Exchange in November 2015. It also plans to increase its asset allocation to global investments, particularly alternatives, which would be relatively a new investment field to JPB.

### Insurance companies

The total AuM of Japan's insurance industry is JPY 395 trillion (USD 3.5 trillion) as of March 2016. JPY 323 trillion (USD 2.8 trillion), or 80% of total assets, is invested in securities, and approximately half of these investments are allocated to JGBs. These insurance companies would also be expected to increase global asset allocation in the coming years.

Insurance Companies Investments Allocation as of March 2016  
(Breakdown by asset class)



(Source: The Life Insurance Association of Japan; The General Insurance Association of Japan)

### Where do the opportunities lie?

The retirement of the baby boomers has already begun. At the same time, the government continues to encourage people to move money from savings to investments, renovating various investment systems (e.g. NISA, Jr. NISA, installment investing NISA, and iDeCo). It is projected that the public pension funds would pay out over JPY 50 trillion (USD 0.4 trillion) every year to Japanese retirees for the next couple of years, while maintaining the asset levels through premium inflows. Even a small percentage of investment made by these pension payments or retirement payments would lead to a significant growth in the investment markets.

Fiscal outlook for public pension funds\* in 2014  
(In JPY trillion)

Year	Total inflow	Total outflow	Pension reserve at year-end (Converted to FY 2014 basis)
2016	51.3	53.3	173.1
2017	53.9	54.2	169.3
2018	56.5	55.1	167.4
2019	59.1	56.1	167.7
2020	61.7	57.1	168.0
2025	74.2	63.0	173.3
2030	86.2	69.3	192.2
2040	111.5	93.6	221.1
2050	141.3	123.7	216.0

\* Public pension funds comprise of National Pension funds and Employees' Pension Insurance funds.  
(Source: Ministry of Health, Labor and Welfare)

## Collective investment scheme (Alternative investment funds)

According to the FSA's fund monitoring survey in November 2016, the sales of collective investment schemes for the year ending March 2016 amounted to JPY 2.3 trillion. Total investment assets reached JPY 11.6 trillion in March 2016. While real estate fund assets accounted for 70% in March 2016, the sales remained at 45% for the year. The wider variety of alternative assets increased sales such as infrastructure funds (12%), private equity funds investing in real assets, buyouts, business revitalization (19% in total) and venture capital funds (4%).

## Real estate funds (REITs)

There are 58 real estate funds (J-REIT) listed with market capitalization of JPY 11.9 trillion yen (March 2017) and other private placement REITs with fund assets of JPY 15.6 trillion (December 2016). Traditionally, business and housing properties were mainly the targeted investments, while properties further diversified to commercial facilities, warehouse, hotels, etc. As real estate prices continue to rise in Tokyo, investment is expanding into regional cities.

## Infrastructure funds

The Japan Revitalization Strategy in 2016 of the Abe Cabinet aims to increase the public-private partnership (PPP) and private finance initiative (PFI) businesses to JPY 21 trillion by 2022. The infrastructure fund market opened on the Tokyo Stock Exchange (TSE) in April 2015 to encourage the private sector to access the public infrastructure projects. Currently, there are 3 infrastructure funds

listed as of March 2017 investing in solar power plants. The infrastructure fund market including private placement is expected to continue to grow.

## Private equity (PE) and venture capital (VC) funds

As of August 2016, there are 174 private equity firms operating in Japan, which is overwhelmingly fewer than in the United States (3,223 companies) and the UK (844 companies). The majority of the funds accounted for less than JPY 100 billion in scale. Most of the large carve-outs in Japan have been carried out by foreign-owned global firms. PE investments in Japan are efficiently carried out in the middle market, which typically invests in small and medium sized companies. The payback period is usually shorter than in the United States and UK. According to the Japan Venture Capital Association in January 2016, new VC funds organized in 2015 had approximately JPY 204 billion in AuM, which was a significant increase from JPY 108 billion in 2014. The number of initial public offerings (IPOs) has also been on an increasing trend since 2010. 92 IPOs succeeded in 2015.

## Going forward

Retail investors are encouraged to consider their own asset building through various new investment opportunities. The Financial Services Agency (FSA), the Japanese regulator, introduces another NISA program (similar to UK ISA, Investment Saving Account) in FY 2017 through tax reforms to attract younger generations, called installment investing NISA. While the original NISA program will be over by 2023 with limited 5 years' tax exempt-period, the new system provides a longer investment period and a longer tax exempt-period of 20 years. The tax reform for retail investors and increasing appetite of institutional investors for investment have provided great opportunities for asset management companies. In particular, foreign asset managers with unique investment capabilities would find further business opportunities.

## How to access the investors?

### Retail distribution

The main channels for retail Toshin funds in Japan are through one-on-one sales at securities companies and banks. People have easy access to major securities companies and city banks through the network branches across Japan. It is also important to appreciate that elderly investors often reside in some of the most rural parts of the country, where access to financial services is limited to small, regional banks or the Japan Post

limited to small, regional banks or the Japan Post Bank. Both city and rural citizens often demand a high touch sales delivery whereby individual sales are made through lengthy one-on-one discussions with the potential investors. Online brokers are also a growing channel for retail sales.

### Securities companies

The brokerage channel is known for its creation and distribution of rather innovative financial products in rapid succession. The 3 large securities companies in Japan include Nomura, Daiwa and SMBC Nikko. These companies have a wide branch network throughout Japan and experience and skills in offering highly personal one-on-one sales meetings with retail investors, often by visiting the investor’s house, makes them a formidable sales power.

### Banks

Banks are one of the key distributors in Japan. A total of JPY 859 trillion (USD 7.5 trillion) of investable money is resting in bank deposits as the potential source of investments. The main players in the bank distribution channel have traditionally been the three megabanks; Mitsubishi UFJ, Mizuho and Sumitomo Mitsui. The Japan Post Bank (JPB) also entered the retail distribution market in 2005. Given the enormous household deposits placed with JPB; JPY 178 trillion (USD 1.6 trillion), 21% of total deposit in March 2016, it has quickly become a major participant in the distribution market. Regional banks are also a key access point to the large savings held in rural regions.

### The future retail market

Securities companies were historically the main distribution channel in the retail market. However, banks entered the market in 1998 and JPB in 2005, following wide ranging financial deregulations. Banks already had relationships with customers through their retail banking services and have been successful at leveraging those relationships.

Although the main channels of securities companies and banks are the key as they impact the success of accessing a large customer base, there are various other players looking for new opportunities in the fund distribution markets.

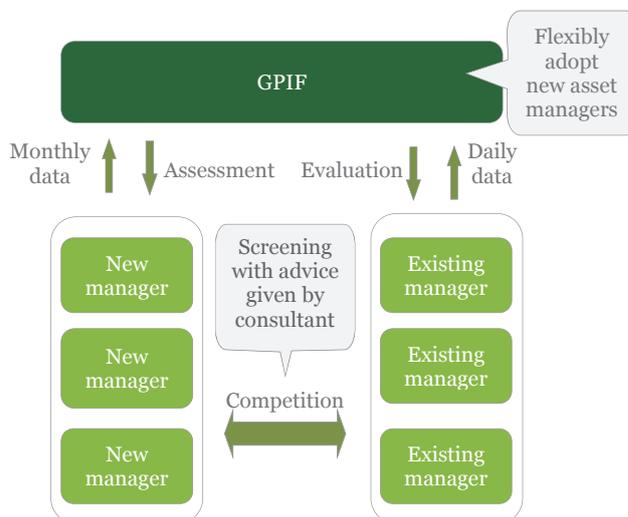
Internet sales are at the forefront of attention and increasing their presence in the distribution markets with a wider range of fund products for various asset managers at relatively low sales commissions. Some asset managers have succeeded

in direct distributions, managing sizable assets due to their unique and consistent investment approach. The use of robo-advisors is a new attempt by the internet brokers and/or the technology start-ups in the market to offer automated asset allocation and investment advice.

### Institutional investors Public pensions

As mentioned earlier, GPIF adopted the Asset Manager Registration System in 2016. Asset managers are now given an equal opportunity to access the enormous public pension assets. Once appointed as one of the GPIF managers, the manager will gain a strong reputation, which will give a boost to the new mandate wins of private institutional investors.

Outline of the Asset Manager Registration System



\* The chart reprinted from GPIF ANNUAL REPORT FISCAL YEAR 2015

\*\* Certain conditions are required for the new manager applicants such as; registration under the Financial Instruments and Exchange Act, minimum amount of assets under amount, track record of fund management, etc. (Source: GPIF)

### Private pensions

A new asset manager entering the market needs to first gain a positive rating from consultants before it can start managing assets for corporate pension funds. Once the relationship has been established, many pension fund representatives reportedly often maintain direct contacts with asset managers. Their influence in the manager selection process can accordingly be high.

## DC plans

The selection and evaluation of asset managers is performed by registered pension management institutions on behalf of the companies that offer DC plans to their employees. It is the same for iDeCo; managers are selected by these institutions on behalf of the National Pension Fund Association. Around 200 of these institutions, comprised of megabanks, regional banks, investment consultants and insurance companies, currently exist in Japan. Four of the registered institutions provide record keeping services, while the other ones fully focus on manager selection.

## What is the competition like?

Japanese asset managers of large financial groups continue to dominate the market. Some of foreign asset managers are also visible, particularly in the institutional business.

## Changes in the retail business

FIL (Fidelity) manages the 6th highest AuM in the retail market – all of the other managers in the top 10 list are domestic firms. The assets of top 10 managers reach 85% of the retail fund's assets. Much of the strong market position of the Japanese managers stems from the fact that they have large distribution networks through affiliated securities companies or banks. Many of these companies are well recognized household names.

When the scope is expanded to the top 20, there are many more foreign asset managers. The focus on “Customer-Oriented Business Conduct” throughout the fund market in Japan has led to an increase in the use of foreign asset managers. Needless to say, the distributor, as well as the asset manager, is expected to act in the best interest of the investors, regardless of the group relations.

In addition, the objectives of many of funds have been altered towards more foreign or specialized mandates giving rise to further outsourcing of the actual fund management. Investors continue to seek unique and innovative products, which leads to demand for skills beyond that provided by current domestic players. As these trends continue, the opportunities for foreign managers as sub-advisors to capture more of the revenue stream will likely remain.

Asset under management of public Toshin by top asset managers

	Domestic / Foreign	Dec. 2016 (In JPY trillion)
1. Nomura Asset Management Co., Ltd.	D	24.5
2. Daiwa Asset Management Co. Ltd.	D	14.0
3. Nikko Asset Management Co. Ltd.	D	11.3
4. Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	D	9.8
5. Asset Management One Co., Ltd.	D	8.5
6. FIL Investments (Japan) Limited	F	3.6
7. Sumitomo Mitsui Trust Asset Management Co., Ltd.	D	3.5
8. Sumitomo Mitsui Asset Management Company, Limited	D	2.5
9. Daiwa SB Investments Ltd.	D	2.3
10. Nissay Asset Management Corporation	D	2.1
11. Okasan Asset Management Co., Ltd.	D	1.3
12. Pictet Asset Management (Japan) Ltd.	F	1.3
13. Tokio Marine Asset Management Company, Limited	D	1.1
14. Goldman Sachs Asset Management Co., Ltd.	F	1.0
15. Amundi Japan Ltd.	F	1.0
16. BlackRock Japan Co., Ltd.	F	0.8
17. Legg Mason Asset Management (Japan) Co., Ltd.	F	0.7
18. UBS Asset Management (Japan) Ltd	F	0.7
19. JPMorgan Asset Management (Japan) Limited	F	0.6
20. Deutsche Asset Management (Japan) Limited	F	0.5
<b>Total retail assets</b>		<b>96.6</b>

(Source: The Investment Trusts Association, Japan)

## The landscape for institutional investors

The Pension market is quite competitive, as the trust banks and the Asset Management companies are in the market to manage large public pension assets.

It is noted that institutional investors have been focusing more on passive investment strategies. GPIF currently manages over 77% of its total assets passively. Consequently, foreign passive managers with strong capabilities could be positioned as the top-tier companies.

Assets under management in pension assets  
by top asset managers

	Domestic / Foreign	Jun. 2016 (In JPY trillion)
1. Asset Management One Co., Ltd.	D	24.3
2. Sumitomo Mitsui Trust Bank, Limited	D	21.1
3. Mitsubishi UFJ Trust Banking Corporation	D	16.9
4. BlackRock Japan Co., Ltd.	F	13.5
5. State Street Global Advisors (Japan) Co., Ltd.	F	9.3
6. Resona Bank, Limited.	D	8.5
7. Nomura Asset Management Co., Ltd.	D	6.9
8. Tokio Marine Asset Management Company, Limited	D	3.3
9. Goldman Sachs Asset Management Co., Ltd.	F	3.1
10. PIMCO Japan Ltd.	F	2.0
Total pension assets under management		140.7

(Source: Rating and Investment Information, Inc., Newsletter on Pensions & Investments)

## **How to get invited to the party? - Entry strategies**

### **Launching full scale investment management operations**

The benefit of launching a full scale business in Japan is access to a wider investor base and brand recognition in Japan. There are still areas that can be leveraged by centralizing certain middle and back office processes or delegating portfolio management to affiliates.

There are different registration requirements depending on the type of the businesses the company would be engaged with, i.e., investment advisory and/or discretionary management for institutional investors, fund management or distributions for either public or private Toshin funds. The detailed guidance for the required license can be found in the later in this material.

## **Cooperation with domestic asset managers**

There is a growing need for the domestic asset managers to offer its customers a range of products that are not necessarily aligned with their in-house investment capabilities. Therefore demand for outsourcing to the sub-advisors exists to service this need.

In addition, there are an increasing number of fund-of-fund products available. For these products, the domestic manager creates a domestic fund in Japan and invests into foreign funds sponsored by foreign asset managers.

## **Foreign fund distribution**

Another strategy is to sell funds domiciled outside of Japan (foreign funds) which already exist. It should be noted that the market share of foreign funds sales is much lower than that of domestic products in the Japan retail market - total foreign fund assets in Japan is approximately JPY 5 trillion (USD 44 billion), whereas the domestic retail Toshin fund reaches JPY 96 trillion (USD 848 billion). Therefore, the opportunities in this space may be limited.

## **Business registration**

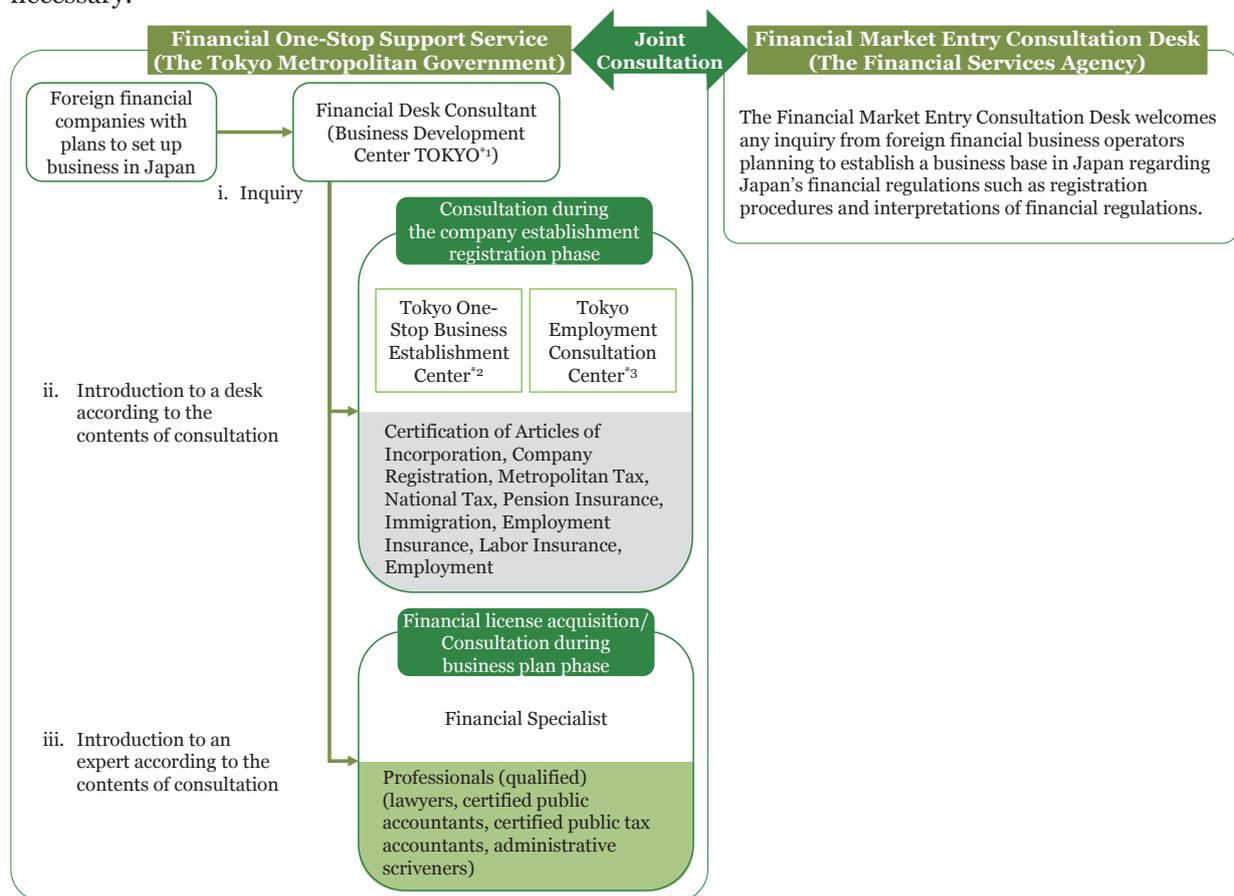
The legal requirements for registration and the regulation imposed after registration vary depending on the operations to be performed in Japan. For instance, a company launching full scale investment operations, including fund distribution, may be registered to operate “Type II Financial Instruments Business”, “Investment Management Business” and “Investment Advisory Business”. A company to be a sub-advisor for domestic asset managers may apply for “Investment Management Business” and/or “Investment Advisory Business”, and a company to conduct sell and solicit foreign funds in Japan may apply for “Type I Financial Instruments Business” and/or “Type II Financial Instruments Business”. Please refer to Chapter II for further details.

The Tokyo Metropolitan Government is making various efforts to attract foreign financial companies with the aim to have Tokyo become Asia’s top global financial and economic city, which continues to gather talent, goods, finances and information from around the world. As part of this effort, the government is trying to attract foreign financial companies to Tokyo by approaching them individually and providing consulting services such as drafting business plan with knowledge of consulting companies and others expert. In addition, the government offers the following services to foreign financial companies considering setting up business in Tokyo.

### Financial One-Stop Support Service

The Tokyo Metropolitan Government provides “Financial One-Stop Support Service” within the Business Development Center TOKYO which comprehensively supports foreign financial companies and entrepreneurs to set up or expand their business in Tokyo.

In this service, a Financial Desk Consultant, who is well-versed in financial administration and the financial industry, offers administrative procedure support and comprehensive consulting services in cooperation with the Financial Services Agency’s Financial Market Entry Consultation Desk. Adequate experts in each area (lawyers, accountants, administrative scrivener, etc.) can be introduced as necessary.



\*1 Business Development Center TOKYO  
 Providing business support such as corporate establishment and sales channel development as well as personal support such as providing living administrative procedures and information of English-speaking hospitals and schools for foreign companies and entrepreneurs who plan to set up or expand their business in Tokyo

\*2 Tokyo One-Stop Business Establishment Center  
 Assisting procedures required to establish and start a business in Tokyo comprehensively such as certification of articles of incorporation, company registration and notification of incorporation, taxes, pension insurance, social security, and immigration, etc. Furthermore, the center also offers support for electronic application.

\*3 Tokyo Employment Consultation Center  
 Supporting companies that advanced from overseas into Tokyo, or just started doing business in Tokyo, in order to have them accurately understand Japanese employment regulations and smoothly expand business by providing consultation and support from lawyers and certified social insurance and labor consultants, etc.

### **The Overseas Financial Corporation Business Establishment Subsidy Program**

Foreign financial companies newly establishing their business operation in Tokyo can apply for this subsidy. The amount of subsidy for one company shall be no more than 1/2 of the Expenses Eligible for Subsidy, and be capped at a maximum amount of 7.5 million yen. There are various criteria to be eligible for the subsidy. Please consult Financial Desk Consultant before determining plans to establish the business operation.

#### Expenses Eligible for Subsidy

1. Consulting fee to specialists  
Fees incurred for consultation with experts. Fees paid to experts (lawyers, administrative scriveners, certified public tax accountants, labor and social security attorneys, etc.) regarding consultation on obtaining / registering license, and legal and tax matters
2. Personal recruitment costs  
Fees paid to fee-charging employment placement business provider at the time of recruitment.

## ***Critical success factors in Japan***

New market participants face different challenges depending on their entry strategy. Accordingly, the key to success will vary under the specific circumstances. Nevertheless, a number of overarching factors are indispensable to be successful in launching investment management services in Japan.

### ***Long-standing relationships***

The importance of relationships in the Japanese investment management market cannot be overstated. Loyal relationships built over many years are highly valued by the Japanese and are at the core of a trusting partnership that forms the basis for doing business on a continuous basis. This is particularly true for the relationship between the asset manager and the retail distributor and to the institutional investors and investment consultants.

### ***Specialized investment capabilities***

Japanese asset managers are generally focused on managing domestic, long-only strategies. New market participants that possess unique investment capabilities that are in demand by the investors will likely be more successful than those trying to compete in a crowded market with established strategies.

### ***Right product offering***

As the readers engaged in the global market know, products based on well-researched market demand with consistent above-average performance provide a foundation for asset growth. Furthermore, asset growth over time often provides a more balanced range of investment products. A diverse product offering is important as it helps stabilize revenues by cushioning the effects of negative market developments in a particular strategy. Stabilized profitability in turn is important as sound financial condition typically is one of the manager selection criteria of institutional clients and retail distributors.

### ***Other matters to be considered***

Like in any country, it is important to understand who in the market will have a direct or indirect influence on the success of new market entrants. Evaluating this impact on the specific venture is of vital importance.

### ***FSA's Strategic Direction and Priorities***

The FSA raised the “stable household asset formation” as one of the main themes in its Strategic Direction and Priorities during the past few years. As mentioned in “Principles for Customer-Oriented Business Conduct” published by the FSA in March 2017, the FSA encourages financial service providers to pursue “Customer-Oriented Business Conduct” to achieve such objectives. In the process of developing the principles, cases that distributors recommend investors repeat switching among funds frequently in order to gain sales commissions from unnecessary

switching, and ignore the investors' potential long-term profits are pointed out. The principles also focus on due explanation of sales commissions and investment risks, as well as offering high quality services to the investors. In addition, on the basis of Stewardship Code, the FSA encourages asset managers to enhance the quality of engagement with investee companies to improve the investors' return. The FSA expects the stable household asset formation contributes to the success of the financial institutions in the long run. Therefore, it is expected that the financial institutions provide a customer-oriented service from a long-term perspective, and the asset management industry plays the significant role in the forthcoming Japanese economy and financial markets.

### *Financial conglomerates*

Conglomerates (keiretsu) have a strong presence in the Japanese financial industry, and their strong market position could give them significant competitive advantage. The top-tier conglomerates include Mitsubishi UFJ, Mizuho and Sumitomo Mitsui financial groups, as well as the Nomura Group and the Daiwa Group. They significantly influence the industry given their wide ranging distribution network, their large asset management subsidiaries, and their financial interest in the major Japanese trust banks and, in certain cases, investment consultants and service providers.

### *Service providers*

The lack of competition in the market among service providers is unlike most countries. There are only a few platforms for use in the fund accounting space, one of which dominates the market to the tune of approximately 80% market share. While these highly qualified service providers contribute the asset managers to sustain consistency and stability in fund operations, their market dominance makes it challenging to drive costs or influence the service quality.

However, we are observing certain changes in the environment. In 2016, Sumitomo Mitsui Asset Management, one of the domestic asset management giants, agreed to outsource the middle-back office function to State Street, the world's leading financial service provider. The alliance further plans to develop a fund platform which would enable asset managers in Japan to lower costs. It is expected that more entrants will follow this movement, leading to the creation of a fairer, more competitive environment.

### *Cultural differences and language challenges*

The cultural differences and the related difficulties between Japanese and foreigners should not be underestimated. Doing business in Japan necessitates being prepared and understanding the way business culture, business etiquette, negotiation and meeting protocols are handled. The population of talented, bi-lingual employees is limited. Expatriate employees in key positions are often a means by which companies bridge the home office and local office. However, the remuneration and living allowances of these employees are not insignificant. The Japanese language is another difficulty in doing business in Japan, while the Tokyo Metropolitan Government, as well as the FSA, industry associations and other regulatory bodies have been taking action to ease the situation by providing information in both Japanese and English.

# II. Methods of Japan Market Entry, and Business Registration

## Outline

The four principal types that business of foreign financial instruments business operators, and in particular operators of asset management businesses, seeking to enter the Japanese market usually engage in are:

- (1) Discretionary investment management business for domestic institutional investors;
- (2) Solicitation and management of foreign funds to domestic investors;
- (3) Investment advisory business for domestic investors; or
- (4) A comprehensive investment management business (including items (1) through (3) above).

This Chapter explains the types of registration for a “Financial Instruments Business” under the Financial Instruments and Exchange Act (the “FIEA”).

The FIEA defines certain acts relating to financial instruments as “Financial Instruments Business” and a specific registration with the Prime Minister is required depending on the type of business that the operator intends to engage in. The acts that constitute a Financial Instruments Business are classified into the following four categories depending on the services provided:

- Type I Financial Instruments Business;
- Type II Financial Instruments Business;
- Investment Management Business; and
- Investment Advisory Business.

The legal requirements for registration and the regulations imposed after registration vary significantly depending on the category. Generally speaking, the requirements and regulations are most strict for Type I Financial Instruments Businesses and become progressively less strict for Investment Management Businesses, Type II Financial Instruments Businesses and Investment Advisory Businesses, in that order. As the degree of regulation will impact the business significantly, operators of Financial Instruments Business (“Financial Instruments Business Operators”) planning to enter the Japanese market first need to confirm whether the business they intend to engage in is considered as a Financial Instruments Business and if so, which category of registration is required. If the intended business spans multiple registration categories, then registration in each applicable category is required.

The types of registration of a Financial Instruments Business under the FIEA which may be required for each category for entry listed in items (1) through (4) above are broadly divided as in the table below:

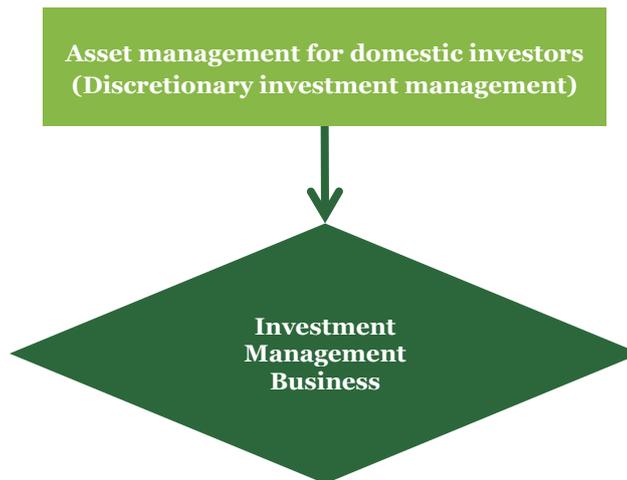
	Investment Management Business*	Type II Financial Instruments Business	Investment Advisory Business
<b>(1) Discretionary investment management</b>	✓	N/A	N/A
<b>(2) Self Offering / Private Placement</b>	N/A	✓	N/A
<b>(2) Dealing in Offering and Private Placement</b>	N/A	✓ (for foreign collective investment scheme interests)	N/A
<b>(2) Investment Management</b>	✓	N/A	N/A
<b>(3) Investment advisory business</b>	N/A	N/A	✓
<b>(4) Comprehensive investment management business</b>	✓	✓	✓

\* If investors in all managed assets comprise only “Qualified Investors” (e.g., Qualified Institutional Investors, listed companies, Financial Instruments Business Operators, foreign judicial persons), and the total value of the assets under management is not more than JPY 20 billion, it is possible to be registered as an “Investment Management Business for Qualified Investors”.

Below is an explanation of the cases in which these business registrations or notifications are required for each (1) to (4) above.

### ***(1) Discretionary investment management business for domestic institutional investors***

This business comprises the entrustment by domestic investors, such as institutional investors of public or corporate pension funds, etc. to the business operator of the right to manage investments on a discretionary basis pursuant to a Discretionary Investment Contract between the operator and the investors; registration as an Investment Management Business is generally required, as illustrated in the chart below:



A "Discretionary Investment Contract" is an agreement under which one party is engaged by another party to make all or part of the investment decisions supported by valuations, etc. of financial instruments and other analyses (such as valuation of financial instruments, option pricing or trends in financial indices) and is authorized to make investments on behalf of the other party based on such investment decisions; "investment decisions" means decisions regarding the types, brands, the number or the price of target securities, purchase or sale, method or timing of investment, or the details or timing of derivative transactions, but does not include decisions on the exercise of voting rights.

Foreign judicial persons that provide investment management services under Discretionary Investment Contracts in any foreign country may provide the same services in Japan without registration as an Investment Management Business, but only to the following persons:

- Financial Instruments Business Operators\* engaged in an Investment Management Business; or
- Registered Financial Institutions\* engaged in an Investment Management Business (financial

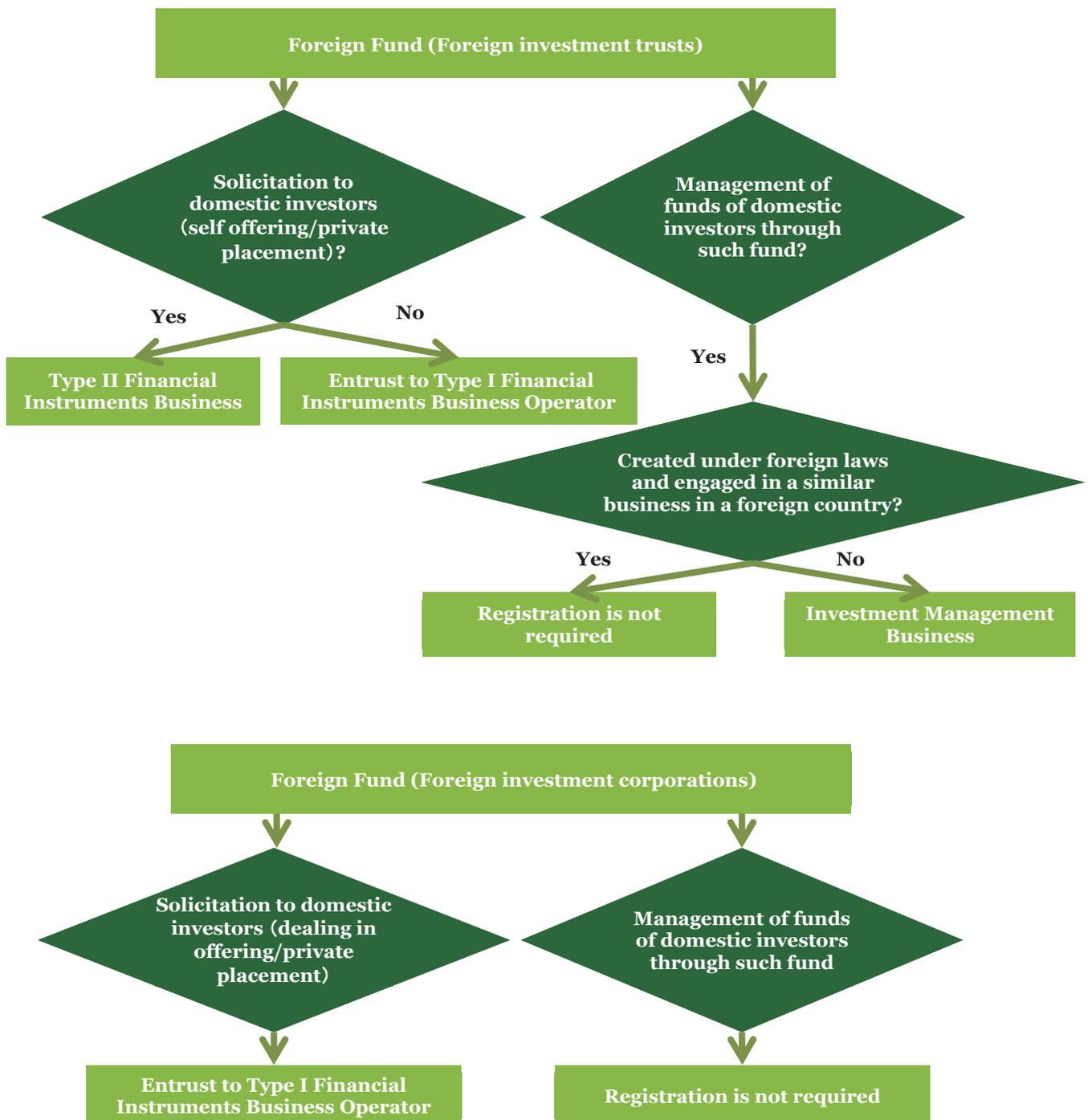
institutions such as banks that are registered in an Investment Management Business).

\* Whether an entity is a Financial Instruments Business Operator engaged in the Investment Management Business or a registered financial institution engaged in an Investment Management Business can be ascertained from the FSA's website.  
<http://www.fsa.go.jp/en/regulated/licensed/>

***(2) Solicitation for the acquisition and management of foreign funds to domestic investors***

This category would apply to a business operator that wishes to solicit the acquisition of foreign funds to domestic investors, and manage funds contributed by domestic investors through foreign funds. Under this category, the treatment is different depending on whether any such fund is classified as a "foreign investment trust" / "foreign investment corporation" or as a "foreign collective investment scheme" (please note that the relevant fund may not be classified into either of these classes because of its structure or other circumstances).

***In the case of foreign funds (foreign investment trusts / foreign investment corporations)***



A "foreign investment trust" means a trust created in a foreign country pursuant to foreign laws and regulations, which is similar to an investment trust under Japanese law and "foreign investment corporation" means a corporation or association etc. created under foreign laws that issues securities that are similar to investment securities or investment corporation bonds, but there is no standardized criteria for assessing whether this applies, so it needs to be determined taking into account the fund structure and the various terms and conditions of each fund.

When conducting solicitation on its own for the acquisition of interests in foreign investment trusts which are foreign funds to domestic investors, registration as a Type II Financial Instruments Business is required. However, registration is not required if the act of solicitation is entrusted to a Financial Instruments Business Operator rather than the fund handling the soliciting itself. In such a case, a Type I Financial Instruments Business Operator is allowed to conduct the solicitation.

The act of conducting solicitation to domestic investors by a foreign fund which is a foreign investment corporation is not considered as Financial Instruments Business, and therefore no registration is required. However, as with the case of a foreign investment trust, when entrusting the act of solicitation to a Financial Instruments Business Operator, it must be entrusted to a Type I Financial Instruments Business.

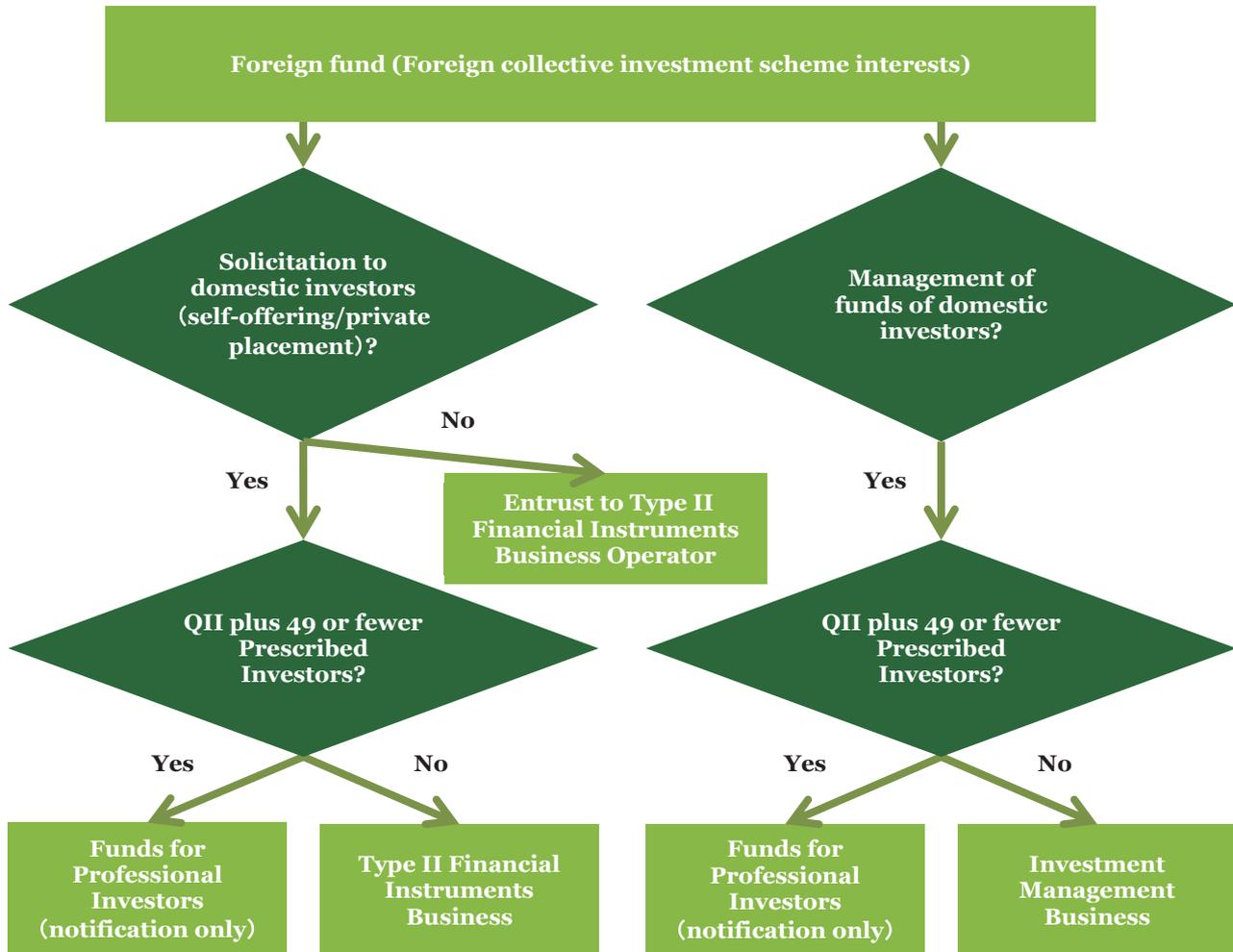
When an offering or private placement etc. of interest in foreign funds (foreign investment trusts / foreign investment corporations) is made in Japan, please note you will be required to file a notification, and to prepare and deliver an investment management reports regarding foreign investment trusts pursuant to the Act on Investment Trusts and Investment Corporations, in addition to obtaining a business registration under the FIEA. Further, if soliciting for the acquisition of interests in a fund is by way of public offering rather than by private placement, you must submit a securities registration statement and fulfil other requirements under the FIEA. Further, in the case of a public offering, it is necessary to appoint an agent company (*daikou kyokai-in*) (a member of the Japan Securities Dealers Association that performs certain services on behalf of issuers of funds including prospectus delivery and the disclosure of unit price per share and other services).

Registration as an Investment Management Business is required in order to manage foreign investment trusts invested in by domestic investors. However, as

shown in the chart above, if the Investment Management Business of foreign investment trusts is conducted by a person established under a foreign law and engaged in a similar business in a foreign country or countries in accordance with foreign laws, registration is not required. Registration as an Investment Management Business is not required in order to manage foreign investment corporations.

Please note that unlike the case of a foreign collective investment scheme illustrated below, the special exception for Funds for Professional Investors does not apply to the solicitation and management of interests in foreign funds (foreign investment trusts/ foreign investment corporations).

***In the case of a foreign fund (foreign collective investment scheme interests)***



"Collective investment scheme interests" means the right to receive distributions and dividends of profits /assets from the businesses in which money is invested. In the case of rights based on funds organized in foreign countries, these are called "foreign collective investment scheme interests". In general, rights of limited partners of limited partnerships and the position as a member of limited liability companies, etc. can also be "Collective investment scheme interest."

When soliciting the acquisition of foreign collective investment scheme interests to domestic investors, registration as a Type II Financial Instruments Businesses is required. However, registration is not required if the solicitation is wholly entrusted to a Financial Instruments Business Operator.

Soliciting the acquisition of foreign collective investment scheme interests on behalf of a foreign fund requires registration as a Type II Financial

Instruments Business as it constitutes dealing in an offering or private placement.

When managing funds contributed by the holders of foreign collective investment scheme interests (investors) through investment primarily (meaning more than 50% of assets under management) in securities or rights related to derivative transactions under the FIEA, registration as an Investment Management Business is required as "self-management" of such fund. Therefore, this does not include self-management of funds that invest primarily in physical real estate or power generation businesses, etc., other than securities or derivatives, but does include self-management of funds that invest primarily in trust beneficiary interests (backed by real estate or other assets). However, if a fund has delegated its entire authority to invest to a Financial Instruments Business Operator registered as an Investment Management Business and has made the requisite notification, etc., self-management of that

fund is not considered to be a Financial Instruments Business.

Registration as an Investment Management Business is not required for management through a foreign collective investment scheme in the following cases:

- The total number of interest holders (whether direct or indirect) is nine or fewer Qualified Institutional Investors and/or “notifies of specially permitted services” (those who have made notifications under the special provisions on Funds for Professional Investors described below) and no individual contribution is more than one third of the total amount contributed to the foreign collective investment scheme; or
- In the case of a foreign judicial person engaged in the business of managing the abovementioned funds in foreign countries, that it only manages funds for the following persons (as investors):
  - Financial Instruments Business Operators engaged in an Investment Management Business; or
  - Registered Financial Institutions engaged in an Investment Management Business.

### ***Special provisions on Funds for Professional Investors***

Solicitation for the acquisition by domestic investors of foreign collective investment scheme interest (private placement) and the investment management of foreign collective investment scheme interests invested in by domestic investors, require registration as a Type II Financial Instruments Business and an Investment Management Business, respectively as described above. However, as shown in the chart above, for certain funds invested in by professional investors, the regime has been simplified so that registration for these is not necessary provided the requisite notification is made (defined as a “special provisions on Funds for Professional Investors”). Caution should be taken as even if the notification could be made, the notifier is subject to certain regulations that apply to registered Financial Instruments Business Operators and penalties and/or administrative orders; there have been many cases recently where a Fund for Professional Investors has been subject to administrative orders.

The special provisions on Funds for Professional Investors apply to funds which consist of the following investors (these investors do not include certain non-qualified investors):

- One or more Qualified Institutional Investors (information on Qualified Institutional Investors is available on the FSA's website); and
- 49 or fewer Prescribed Investors

“Prescribed Investors” include, for instance:

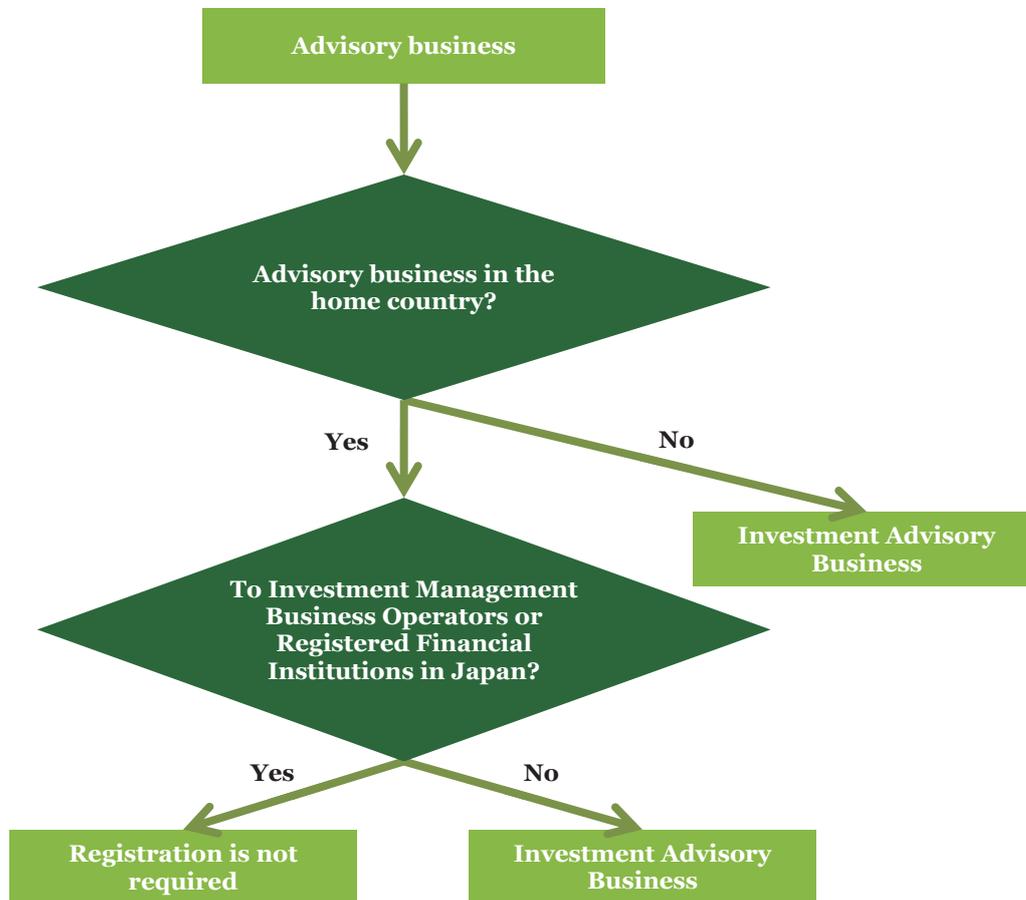
- (a) Financial Instruments Business Operators, Registered Financial Institutions and the subsidiaries or affiliates of either;
- (b) Persons engaged in the private placement or management of collective investment schemes;
- (c) Listed companies and their subsidiaries or affiliates;
- (d) Corporations with a stated capital or net assets of JPY50 million or more and their subsidiaries and affiliates;
- (e) Foreign judicial persons; and
- (f) Foreign partnership-type funds that meet certain requirements.

In addition, a certain range of investors into a fund that meets certain requirements to be considered a “venture capital fund” are also included in the scope of “Prescribed Investors.”

If the Qualified Institutional Investors invested in a fund are all investment limited partnerships established under the Limited Partnership Act for Investment, the balance of the assets under management (excluding borrowed money) must be JPY 500 million or more.

### (3) Investment advisory services to domestic investors

When providing investment advisory services to any domestic investor, registration as an Investment Advisory Business may be required as described below:



If a foreign business operator intends to provide advice on investment decisions based on analyses of securities or financial instruments and other analyses under investment advisory contracts with investors, registration as an Investment Advisory Business is required; the business operator may conduct its business activities without a business base in Japan - only the registration would be required (see Chapter III). However, under the Companies Act, if a foreign business operator is a corporation and intends to carry out transactions continuously in Japan, it must appoint one representative with an address in Japan.

"Investment Advisory Contract" means an agreement under which one party undertakes to the other party to provide advice on investment decisions supported by valuation of securities and financial instruments, and other analyses, for which the other party promises to pay remuneration. Unlike an Investment Management Business, the operator provides nothing more than "advice" and it has to be the investor who makes the investment decisions.

There may be cases in which an overseas investment advisory business operator enters into an Investment Advisory Contract with an Investment Management Business operator in Japan and not directly with a domestic investor, and provides investment advice as a sub-advisor through the Investment Management Business operator. In such a case, any corporations or individuals who provide investment advice in foreign countries in accordance with foreign law may provide such sub-advisory services in Japan without registration as an Investment Advisory Business as long as the direct recipient of the investment advisory services is either a Financial Instruments Business Operator engaged in Investment Management Business or a Registered Financial Institution engaged in Investment Management Business (as shown in the above chart).

## ***(4) Establishing a comprehensive investment management business***

A business which includes more than one of (1) through (3) above must apply for separate registration in each applicable category the business operates in; registration in one category does not provide an exemption for regulation in another.

If it is intended to engage in the sale and purchase, etc. of securities such as shares and bonds,

underwriting, etc. of securities (ordinary broker-dealer business), then in addition to the registrations described in Section (1) through (3) above, registration as a Type I Financial Instruments Business is also required; the registration requirements are much stricter than those for registration of an Investment Management Business.



# III. Main Requirements, Organized by Business Type

The following types of businesses must be registered: (1) Investment Management Business, (2) Type II Financial Instruments Business, and (3) Investment Advisory Business. The specific requirements for registration are set out below. In addition, requirements common to all these businesses include: (i) requirements regarding the history of past registrations, etc. (i.e., that a registration as a Financial Instruments Business Operator has not been rescinded in the past five years, etc.); (ii) requirements regarding officers and employees (“Officers, etc.”) (including, for example, that there is no-one among its Officers, etc. (a) who was a representative of a Financial Instruments Business Operator whose registration was revoked in the past five years at any time during the 30 days prior to the rescission, or (b) who at any time in the past five years has been ordered to be dismissed or removed from a position as an Officer, etc. at a Financial

Instruments Business Operator); and (iii) its other businesses are not against the public interest, etc.

Registration is not required to start the business of Funds for Professional Investors, only prior notification. However, a foreign juridical person must appoint a representative with an address in Japan and, in addition to requirements (i) and (ii) above, Officers, etc. may not be any person who, in the past five years, has been a member of any criminal organization, etc. In addition, a foreign juridical person may not handle Funds for Professional Investors unless there is a MoU in place between the financial regulatory authority of the country of its location and the FSA to guarantee cooperation in regulatory investigations or the provision of information, etc.

Type of business	Investment Management Business	Type II Financial Instruments Business	Investment Advisory Business
<b>Legal form</b>	A stock company (K.K.) (limited to those with a board of directors and either a company auditor/auditors, an audit or supervisory committee, or a nominating committee, etc.) OR, A juridical person of the same kind as a company with a board of directors established in compliance with laws and regulations of a foreign state	No requirement  A foreign juridical person can be registered	No requirement  A foreign juridical person can be registered
<b>Requirement for domestic office</b>	Required NOTE: In the case of a foreign juridical person, a domestic representative needs to be specified.	Required NOTE: In the case of a foreign juridical person, a domestic representative needs to be specified.	No requirement NOTE: Not required as a registration requirement but in the case of carrying out transactions continuously in Japan, it is required to appoint a representative in Japan under the Companies Act
<b>Capital requirements, etc.</b>	50,000,000 yen	10,000,000 yen (If an individual, then a business security deposit of same price)	None (5,000,000 yen business security deposit)
<b>Net assets</b>	As for capital requirements	No requirement	No requirement
<b>Equity capital</b>	No requirement	No requirement	No requirement
<b>Personnel</b>	Required	Required	Required

III. Main Requirements, Organized by Business Type

Type of business	Investment Management Business	Type II Financial Instruments Business	Investment Advisory Business
<b>Operational control system</b>	Internal rules regarding the business should be established and compliance structure including training system for employees arranged.	Internal rules regarding the business should be established and compliance structure including training system for employees arranged.	Internal rules regarding the business should be established and compliance structure including training system for employees arranged
<b>Concurrent business requirements</b>	Required	No requirement	No requirement
<b>Trade name requirements</b>	No requirement	No requirement	No requirement
<b>Major shareholders</b>	Required	No requirement	No requirement

**Personnel Requirements – Affirmative Requirements – General**

With regard to an Investment Management Business, satisfaction of following points [A] to [F] must be confirmed by the regulatory authority via the registration application, its attachments, and interviews. In this regard, even at the prior consultation stage, an overview of the proposed business is required to be disclosed; for example, for Items (a) through (m) of requirement [F] below, the name of the division in charge, the name of the person in charge, the number of responsible people in charge, and an overview of the relevant business must be provided. If any of the operations at Items (a) through (m) of requirement [F] below is outsourced, the service provider, and the person(s) in charge of supervising the service must be clearly identified.

- [A] Senior managers must be sufficiently qualified to conduct the business as Investment Management Business operators in a fair and appropriate manner, in terms of their backgrounds and capabilities.
- [B] A person who is continuously engaged in management on a daily basis must understand the perspectives of the management of a company, and have sufficient knowledge and experience to conduct such governance, and of compliance and risk management to conduct a Financial Instruments Business in a fair and appropriate manner.

- [C] Persons with sufficient knowledge and experience regarding the assets being managed must be appointed to manage them for the beneficiaries.
- [D] There must be a compliance division (responsible person) that is separate from the asset management division, and persons with sufficient knowledge and experience must be in charge of it.
- [E] In addition to requirements [C] and [D] above, personnel necessary for conducting the relevant business in an appropriate manner and persons responsible for internal control are duly allocated to each division.
- [F] Staff capable of setting up the internal structure should be appointed to the relevant business:
  - (a) Compilation and management of accounting documents, reports and other documents
  - (b) Disclosure
  - (c) Segregation of managed assets
  - (d) Risk management
  - (e) Computer systems management
  - (f) Processing of complaints and resolution of disputes
  - (g) Corporate information management
  - (h) Advertisement screening
  - (i) Customer information management
  - (j) Processing of complaints and resolution of disputes

- |   |   |
|---|---|
| (k) Execution of the asset management business of the asset management division                             | Verification of similar requirements will also be conducted with respect to an Investment Advisory Business and a Type II Financial Instruments Business. The requirements above are not applied in the case of funds for professional investors. |
| (l) Internal audits   |   |
| (m) If the assets managed are investment trust assets, calculation and screening of investment trust assets |   |

***Personnel Requirements – Number of Officers and Employees***

The specific number of officers and employees, etc. required to be appointed for the registration of a Financial Instruments Business Operator is not specifically stipulated in the FSA's supervisory guidelines. In practice, Investment Management Businesses are known to have been registered with as few as five people. However, this is not the minimum required number, and it must be noted that there is no clear standard for the specific number of officers and employees required to be appointed as a personnel requirement for a Financial Instruments Business Operator, and therefore the number is determined on a case-by-case basis in light of the actual conditions.

## ***Personnel Requirements – Outsourcing of Compliance***

As described above, Investment Management Business operators are required to have a compliance division (responsible person) as part of the organization. However, please note that with respect to an Investment Management Business for Qualified Investors, the FSA has clarified that compliance may be outsourced (supervisory guidelines VI-2-7-1(2)), in which case the following minimum conditions must be met, and comprehensive outsourcing is not permitted:

- A. Policies and procedures for appointing a compliance service provider are clearly defined;
- B. in the case of outsourcing compliance services to a domestic or overseas group company, such company has a compliance system for an Investment Management Business for Qualified Investors in light of the status of its compliance functions and performance of outsourced services, etc.; and
- C. in the case of outsourcing compliance services to a lawyer, a legal professional corporation or other equivalent persons, such person is deemed capable of duly performing the instructions, etc. necessary to comply with laws and regulations with respect to a Financial Instruments Business, and the service agreement to be entered into with such person stipulates certain matters, including, but not limited to, matters regarding development of communication channels and development of a system for properly performing compliance services.

It is considered that, if the conditions equivalent to the above are met, regular Investment Management Business, Investment Advisory Businesses and Type II Financial Instruments Business are also permitted to outsource compliance in some cases.

## ***Personnel Requirements – Back Ground of Officers etc.***

The authorities will determine, as a personnel requirement, whether there is the risk that public confidence in a Financial Instruments Business could be damaged because of the inclusion among its staff of officers and employees with an inappropriate background (such as members of organized crime groups or a person having a close relation with an organized crime group, or a person with a criminal record, etc.).

In addition, if an individual who is a Major Shareholder (defined below) of a Financial Instruments Business Operator engaged in Investment Management Business has such an inappropriate background, and if it is determined that there is a risk that public confidence in the investment management business could be damaged as a result of such Major Shareholder exercising its

influence in an unjust way, then there is a possibility of the investment management business operator being treated as not having an adequate personnel structure to appropriately operate an Investment Management Business.

## ***Major Shareholders Requirement***

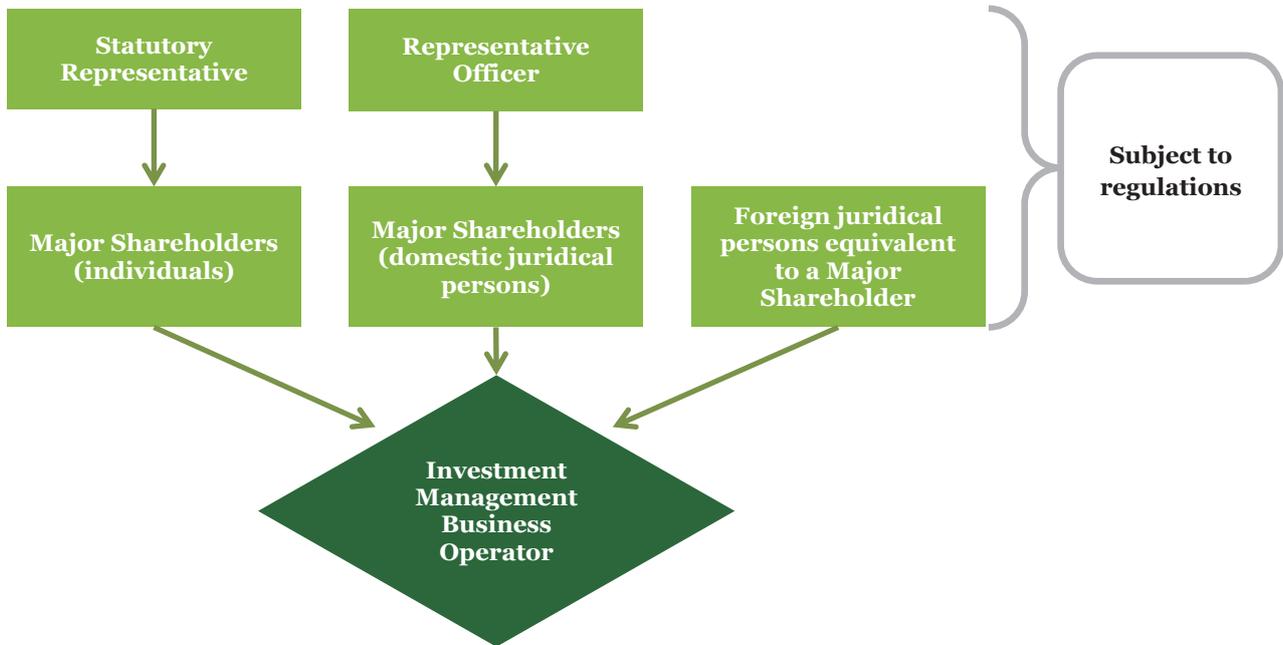
"Major Shareholder" means, as a rule, any holder of 20% or more of the voting rights of all shareholders of a company, but if there is anything to suggest that a holder would have a material influence on the financial or business policy decisions of the company, then the threshold is 15%.

An Investment Management Business operator may not conduct a Financial Instruments Business if any of its Major Shareholders (other than foreign juridical persons), or the legal representative (if the shareholder is an individual) or a representative

### III. Main Requirements, Organized by Business Type

officer (if the shareholder is a juridical person) of a Major Shareholder meet certain special disqualification criteria such as, but not limited to, a history of violation of laws.

Foreign juridical persons who are Major Shareholder must be certified by the relevant foreign regulatory agency as not being considered at risk of causing hindrance to the sound and appropriate operation of the Financial Instruments Business.



# IV. Process Up to Commencement of Operations

As noted above, in order to conduct a financial instruments business in Japan, it is necessary to obtain a registration from the Prime Minister (except for the business of Funds for Professional Investors, where notification is sufficient). The particular registration required will depend on the type of business. To obtain the registration, an application for registration must be submitted specifying the business classification. Below is an overview of the standard process up to commencement of a financial instruments business assuming that the applicant

has its principal place of business in Tokyo (excluding a Type I Financial Instruments Business).

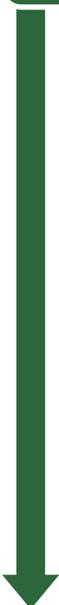
The following process is generally common to all types of businesses, except that a deposit for operation and a notification of deposit are only required in the case of registration of an Investment Advisory Business and an individual Type II Financial Instruments Business. Applications for registration of more than one business type may be filed simultaneously.



**Approximately 4 to 6 months\***

\*Where prior consultations with Tokyo local finance office and consultations with regard to membership of a financial instruments firms association are made concurrently. The period depends on the type of business and the circumstances of the prospective applicants.

## Prior consultation



**Approximately 3 to 4 months**

### 1. *Prior consultation*

Before filing an application for registration, applicants are to consult with Tokyo local finance office on their specific business schemes, business methods and organizational structures, etc.

In the prior consultation process, the applicant submits a document that gives an overview of the application, etc., with details to be later confirmed in interviews, etc. based on that document with regard to the points as listed below, although the specific legal and regulatory requirements differ depending on the business category, so interviews may not be exactly as set out here:

Outline of the prospective applicant, including such things as amount of capital, number of officers and employees, major shareholders, primary bank;

- Background and purpose of the application, the management plan and expenditure plan;
- Business description and methods, such as the types of financial instruments to be handled, customer base and method of soliciting and informing customers; and

- Operating structure of the business, such as the whether the applicant has an adequate personnel structure and internal rules to perform the business, etc. in a proper manner.

Further, when conducting "interviews", it is necessary to describe the outlines of certain important matters specified in the FSA's supervisory guidelines (business execution systems, method of soliciting and informing customers, measures to avoid problems, etc.) as necessary by attaching materials or otherwise.

The average consultation period is approximately 3 to 4 months.

### **Joint Consultation Scheme by the Tokyo Metropolitan Government and the FSA to attract foreign-affiliated finance companies**

The Tokyo Metropolitan Government provides assistance with administrative procedures and comprehensive consultation in cooperation with the FSA for foreign financial business operators considering establishing offices in Tokyo as a "Financial One-Stop Support Service". As part of this service, at its Business Development Center TOKYO in Marunouchi, where finance professionals well-versed in the administrative procedures and the finance industry are stationed, businesses can consult with officials regarding the registration application procedures to the local financial bureau / office, make inquiries regarding establishment of an office (company registration, etc.), and receive information regarding living environment (hospitals and schools, etc. providing English services), as well as tailored advice, introductions to specialists and other services in English. The Tokyo Metropolitan Government also offers subsidies for foreign-affiliated finance companies planning to open an office in Tokyo.

The FSA has also launched its "Financial Market Entry Consultation Desk" to give advice on Japan's financial regulations such as registration application procedures under the FIEA to foreign financial business operators planning to establish a business base in Japan. The FSA's "Financial Market Entry Consultation Desk" supports the "fast entry" for foreign financial business operators with high likelihood of establishing its business base in Japan, due to the prospective entrustment of asset management from asset owners in Japan.

Foreign financial business operators considering opening offices in Tokyo may consult with both the "Financial One-Stop Support Service" provided by the Tokyo Metropolitan Government and the "Financial Market Entry Consultation Desk" of the FSA and receive comprehensive support through coordination of these institutions.

#### **Tokyo Metropolitan Government "Financial One-Stop Support Service"**

E-mail : [financial-desk@bdc-tokyo.org](mailto:financial-desk@bdc-tokyo.org)

Phone : +81-3-6269-9981

Business Development Center TOKYO Marunouchi Desk

JP Tower, KITTE B1, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo

HP : <http://www.bdc-tokyo.org/en/about>

\* Consultation by email, phone call, and face to face is available.

#### **FSA "Financial Market Entry Consultation Desk"**

E-mail : [marketentry@fsa.go.jp](mailto:marketentry@fsa.go.jp)

Phone : +81-3-3506-7109

3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo

HP : <http://www.fsa.go.jp/en/policy/marketentry/index.html>

\* Consultation by email, phone call, and face to face is available.

**Submission of application forms**

**2. Submission of application forms**

Below is an outline of the registration application process:

Submission documents

(1) Registration application form

	Item	Outline
1	Submitted to:	Kanto Local Finance Bureau/Tokyo Local Finance Office Location: 4-6-15, Yushima, Bunkyo-ku, Tokyo  Relevant Division: For Investment Management Business and Investment Advisory Business: Finance Bureau Division 6 (Tel: +81-3-5842-7145) For Type II Financial Instruments Business: Finance Bureau Division 7 (Tel: +81-3-6682-3824)
2	Number of copies to be submitted	One original copy and two duplicate copies
3	Application fee	Registration and license tax 150,000 yen
4	Place of payment of application fee	Bank of Japan, revenue agency of the Bank of Japan, post offices of Japan Post Co., Ltd. and tax offices that accept payments The tax office to submit the registration and license tax payment slip to is Urawa Tax Office as having jurisdiction over the Kanto Local Finance Bureau.

(2) Principal attachments (Note 1)

	Documents to be attached	Juridical person	Individual	Remarks
1	Affidavit of the registration applicant	✓	✓	
2	Document describing the business and business methods	✓	✓	
3	Documents describing the business execution systems such as personnel structure and organization, etc. relating to the business	✓	✓	
4	Resumes of officers and important employees (Note 2)	✓	N/A	If an officer of the applicant is a juridical person, the background of such juridical person officer
5	Resumes of the registration applicant and important employees	N/A	✓	
6	Extracts of the certificates of residence, etc. of officers and important employees	✓	N/A	Or equivalent document (affidavit, etc.), if the individual is a foreigner, or does not reside in Japan If the officer of the registration applicant is a juridical person, certificate of registered matters, etc.

#### IV. Process Up to Commencement of Operations

	Documents to be attached	Juridical person	Individual	Remarks
7	Extracts of certificates of residence, etc. of the registration applicant and important employees	N/A	✓	Or equivalent document (affidavit, etc.), if the individual is a foreigner, or does not reside in Japan
8	Identification, etc. of officers and important employees (Note 3)	✓	N/A	Or equivalent documents (affidavit, etc.) in the case of foreigners
9	Identification, etc. of the registration applicant and important employee	N/A	✓	Or equivalent documents (affidavit, etc.) in the case of foreigners
10	Certificates of the Legal Affairs Bureau of officers and important employees (Note 3)	✓	N/A	Or equivalent documents (affidavit, etc.) in the case of foreigners
11	Certificates of the Legal Affairs Bureau of the registration applicant and important employees	N/A	✓	Or equivalent documents (affidavit, etc.) in the case of foreigners
12	Affidavits of officers and important employees	✓	N/A	
13	Affidavits of important employees	N/A	✓	
14	Document describing the status of persons with specified relationships (parent company, etc., subsidiaries, etc. and holding companies)	✓	✓	
15	Articles of incorporation	✓	N/A	
16	Certificate of registered matters	✓	N/A	Or equivalent documents (which certify the location of the head office and places of business in Japan, and its officers) if the applicant is a foreign juridical person.
17	Final balance sheet (including related footnotes) and income statement (including related footnotes)	✓	N/A	
18	Internal rules concerning financial instruments business	✓	N/A	Required as attachment if not joining any financial instruments firms association
19	Seal registration certificate	✓	✓	For the seal affixed to the application form (in the case of a juridical person, the seal of its representative) Not required if signature is affixed to the application form.
20	Receipt for payment of registration and license tax	✓	✓	

(Note 1) Of the attached documents, official certificates issued by government and public offices must have been issued within the last three months.

(Note 2) "Officer" includes those who are found to have the same or a higher authority than a director, executive officer or any other person equivalent thereto over the juridical person, irrespective of their title, such as consultant, advisor and others.

(Note 3) "Identification" and "Certificate of Legal Affairs Bureau" mean documents described below:

		Place of issue	Certifying:
1	Identification	Municipality where the registered domicile is located	He or she is not deemed to be an adult ward or a person under guardianship (has not been declared incompetent, quasi-incompetent). He or she has not received notice of ruling for commencement of bankruptcy proceedings.
2	Certificate of Legal Affairs Bureau (Official title: Certificate of Not Being Registered)	Guardianship Registration Division, Tokyo Legal Affairs Bureau or family register division of any other legal affairs bureau	<ul style="list-style-type: none"> <li>• He or she is not an adult ward.</li> <li>• He or she is not a person under guardianship.</li> </ul>

**Review**

**Approximately 2 months**

**Registration**

### 3. Review

Upon submission of the registration application, the finance bureau/office will conduct a review. The scope of the review will differ depending on the applicable laws and regulations, etc., and the details of specific review may be subject to change. The review will generally relate to such matters as:

- Confirmation of the information entered in the registration application form
- Confirmation of the attachments
- Confirmation of the requirements for registration (i.e. whether or not the requirements for registration established for each business type have been satisfied. For the details of requirements for registration, see "III Main Requirements, Organized by Business Type".)

### 4. Registration

After the review, if the registration of a Financial Instruments Business Operator has been accepted, the financial instruments business operator will be registered in the registry of Financial Instruments Business Operators. The date of registration, registration number and other matters stated in the registration application are available for public inspection in the registry.

If the applicant has been registered in the registry of Financial Instruments Business Operators, notice of completion of registration will be issued to the applicant.

It takes approximately two months to complete the application process.

Association  
membership/  
ADR measures

## 5. Association membership/ADR measures

- (1) Membership in a financial instruments firms association (Self-Regulatory Body)

Registered Financial Instruments Business Operators are eligible for membership of a financial instruments firms association (self-regulatory body) corresponding to their business classification. (For eligibility to join a financial instruments firms association, see below.) Admission will not be granted until registration as a Financial Instruments Business Operator is completed, though it is advisable to discuss with the appropriate association(s) for the admission to the association(s) at the time of the prior consultations with Tokyo local finance office.

Membership of a financial instruments firms association is not obligatory, but if a Financial Instruments Business Operator, other than an Investment Advisory Business, does not join one, it is necessary for it to have in place internal rules that are in line with the regulations of the applicable association(s) and to implement internal structures for compliance with those internal rules. It is therefore more convenient to join an association.

The period from application to admission to a financial instruments firms association is approximately one to three months.

The membership qualifications for the associations are as follows:

- The Investment Trusts Association, Japan  
Financial Instruments Business Operators registered as investment managers who manage either assets of investment corporations or trust assets of investment trusts are eligible for full membership.
- Japan Investment Advisers Association  
Financial Instruments Business Operators registered as investment managers who either manage assets under a Discretionary Investment Contract or who have self-managed funds are eligible for investment manager membership.  
Financial Instruments Business Operators registered as an Investment Advisory Business are eligible for investment advisory membership.
- Type II Financial Instruments Firms Association  
Financial Instruments Business Operators registered as a Type II Financial Instruments Business (excluding those only registered for market derivatives transactions) are eligible for regular membership.

- (2) ADR measures (complaint processing and dispute resolution)

ADR measures must be prepared when starting operations.

Complaint processing and dispute resolution procedures conducted by the Financial Instruments Mediation Assistance Center (FINMAC) are available through either of the following means:

- (a) by becoming a member of certain financial instruments firms associations (either one of the above 3 associations, or the Japan Securities Dealers Association or the Financial Futures Association of Japan) depending on each business type (Type I Financial Instruments Business Operators are required to enter into a master agreement on implementing complaint-handling and dispute resolution procedures with FINMAC);
- (b) individual user registration with FINMAC for Type II Financial Instruments Business Operators, etc.

**Deposit for operation and notification of deposit**

### 6. *Deposit for operation and notification of deposit*

Persons who intend to engage only in Investment Advisory Business, and individuals who intend to engage in a Type II Financial Instruments Business must make a deposit for operation (Investment Advisory Business: 5 million yen, individuals who intend to engage in Type II Financial Instruments Business: 10 million yen) to the deposit office (Legal Affairs Bureau) nearest to its principal place of business after obtaining registration and before commencing their business.

In addition to cash, the deposit for operation may be made using Japanese government bonds, municipal bonds, government guaranteed bond certificates, bonds or other bonds designated by the Commissioner of the FSA.

After a deposit for operation is made, persons who intend to engage only in Investment Advisory Business, and individuals who intend to engage in Type II Financial Instruments Business must notify Tokyo local finance office with jurisdiction over the location of their principal place of business that they have deposited such funds, and may not start their financial instruments business until such notification has been sent.

Submission documents (number of copies)	Attachments	Submitted to:	How to submit
Notification of deposit for operation (1 copy)	Original of the certificate of deposit	Kanto Local Finance Bureau / Tokyo Local Finance Office	Delivery by hand or by mail only

No deposit for operation is required for a Type II Financial Instruments Business (juridical person) or an Investment Management Business or an Investment Management Business for Qualified Investors.



Commencement of operations

## 7. *Commencement of operations – Time limit*

A registration may be voided if the business does not commence within 3 months of the day on which the business is registered, unless there are justifiable grounds for such delay.



# Useful Links

<b>Bank of Japan</b>	<a href="http://www.boj.or.jp/en/index.htm">http://www.boj.or.jp/en/index.htm</a>
<b>Business Development Center TOKYO</b>	<a href="http://www.bdc-tokyo.org/en/about">http://www.bdc-tokyo.org/en/about</a>
<b>Financial Instruments Mediation Assistance Center</b>	<a href="http://www.finmac.or.jp/english/">http://www.finmac.or.jp/english/</a>
<b>Financial Services Agency</b>	<a href="http://www.fsa.go.jp/en/index.html">http://www.fsa.go.jp/en/index.html</a>
<b>Government Pension Investment Fund, Japan</b>	<a href="http://www.gpif.go.jp/en/">http://www.gpif.go.jp/en/</a>
<b>The Investment Trusts Association, Japan</b>	<a href="http://www.toushin.or.jp/english/">http://www.toushin.or.jp/english/</a>
<b>Japan Exchange Group</b>	<a href="http://www.jpx.co.jp/english/">http://www.jpx.co.jp/english/</a>
<b>Japan Investment Advisers Association</b>	<a href="http://www.jiaa.or.jp/index_e.html">http://www.jiaa.or.jp/index_e.html</a>
<b>Japan Securities Dealers Association</b>	<a href="http://www.jsda.or.jp/en/index.html">http://www.jsda.or.jp/en/index.html</a>
<b>Japanese Bankers Association</b>	<a href="http://www.zenginkyo.or.jp/en/">http://www.zenginkyo.or.jp/en/</a>
<b>Ministry of Finance</b>	<a href="http://www.mof.go.jp/english/index.htm">http://www.mof.go.jp/english/index.htm</a>
<b>Ministry of Health, Labor and Welfare</b>	<a href="http://www.mhlw.go.jp/english/index.html">http://www.mhlw.go.jp/english/index.html</a>
<b>Pension Fund Association</b>	<a href="https://www.pfa.or.jp/english/index.html">https://www.pfa.or.jp/english/index.html</a>
<b>Tokyo Metropolitan Government</b>	<a href="http://www.metro.tokyo.jp/ENGLISH/index.htm">http://www.metro.tokyo.jp/ENGLISH/index.htm</a>
<b>Type II Financial Instruments Firms Association</b>	<a href="http://www.t2fifa.or.jp/teikan/index.html">http://www.t2fifa.or.jp/teikan/index.html</a>

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# *About This Report*

The report in relation to Guidance to the Asset Management Industry in Japan, which is issued by Tokyo Metropolitan Government with the cooperation of the Financial Services Agency, is based on industry data obtained from publicly available sources and industry publications. Based on the analysis of this data, industry trends were identified and their potential implications on the investment management industry assessed. We draft the sections of the report relating to as to necessary legal procedures before commencement of business in light view of the professional practice and regulatory requirements. All information regarding applicable laws and regulations are as of September 2017.

Nevertheless, the trends and industry implications identified in this report represent subjective opinions of the authors and no representation or warranty is given as to the accuracy or completeness of the information. Additionally, any information contained in this report including content as to necessary legal procedures and regulatory matters shall not be construed as constituting any legal, tax, accounting, financial, investment or other advice. The parties specifically deny liability for loss arising from reliance on any information contained in the report and any use is at the reader's sole discretion.

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