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Governance and diversification - Kate Hodson on key themes for AIMA APAC event for Japanese managers

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Ogier partner Kate Hodson attended the AIMA pre-forum roundtable today ahead of the AIMA APAC annual forum taking place in Hong Kong tomorrow. AIMA had invited a high ranking official from the Financial Services Agency of Japan (**FSA**) to lead the discussions at the roundtable and it was a tribute to the "internationalisation" of the financial markets in Japan that the FSA was willing to send a representative to Hong Kong for this forum.

Mr Yasumasa Tahara, Director, Strategy Development Division presented on "The recent developments of Japanese Financial Markets and JFSA's Policies". Key themes were governance, diversification of investments with a move to alternatives, encouragement of foreign businesses to do business in Japan and other stimulus measures.

Set out below is a brief summary of some of the discussions on these topics:

- **Move towards alternatives and riskier investments.**There was recognition that Japanese investments have been historically conservative (mainly in JGBs, cash and deposits) and that this strategy has not been producing sufficient returns. A change of strategy was required, not least to cope with the demands of an ageing population.   Under the Abe administration there has been a move towards riskier investments. The administration has been looking to encourage a more diversified asset management community with a more diversified portfolio of investments. In recent years Japan has witnessed a rapid move into alternative assets by allocators such as GPIF and Japan Post. Domestic bonds which once made up 60.1% of the GPIF's investment portfolio (December 2012) were down to 28.5% (end of March 2018), with foreign assets up from 22.7% to 40% and domestic equities up from 12.9% to 26% during this period. Whereas JGB's had made up 88% of Japan Post's portfolio beginning of October 2007, that had shrunk to 30.2% by end of March 2018 and 28.5% was allocated to foreign securities.
- **Update on the launch of the Financial Market Entry Consultation Desk.** Further to the

government and FSA's drive to see greater diversification in the market, foreign financial business operators (such as asset management firms) have been encouraged to establish a business base in Japan. This is hoped to drive competition in the Japanese market. The Financial Market Entry Consultation Desk was set up to give advice on Japan's financial regulations to foreign financial business operators and to help speed up the registration procedure. The example cited was that of Legal & General Group, which was one the first to consult with the desk. The firm completed its registration in approximately half the usual time taken. Applicants can now expect around 2 months prior consultation (rather than 3-4 months) and around 2 weeks for the registration process (vs. 1-2 months). Despite these promising developments one of the points raised in the audience was that it is still a challenge for foreign asset managers to distribute and market their funds in Japan. Foreign managers need to carefully understand the web of the Financial Instruments and Exchange Act (FIEA).

- **The Stewardship Code and Corporate Governance**. The Stewardship Code (2017, as revised in May 2017) and Corporate Governance Code (June 2015 and revised June 2018) were introduced to reform governance of Japanese businesses. A key aim of the Stewardship Code is to promote the sustainable growth of companies through engagement with asset managers and to encourage a more constructive dialogue. One representative of a well-known global asset manager who was present in the audience reported that their asset managers in Japan had notice real and positive changes coming out of the Stewardship Code and felt it had made a real difference. It was reported that more than 230 institutional investors have signed up to the Stewardship Code and that the percentage of listed companies with two or more non-executive directors has risen from 17% in 2012 to 91% in 2018. The reform is intended to drive mid to long term increases in corporate value and investment returns with the ultimate goal of achieving stable asset growth of households.

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