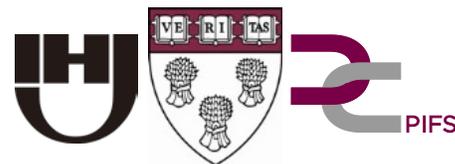


SYMPOSIUM ON BUILDING THE
FINANCIAL SYSTEM OF THE 21ST CENTURY:
AN AGENDA FOR JAPAN AND THE UNITED STATES
HARVARD LAW SCHOOL, CAMBRIDGE, MA • NOVEMBER 5-7, 2015



AGENDA (AS OF NOVEMBER 5)

THURSDAY, NOVEMBER 5 Sheraton Commander Hotel-16 Garden Street, Cambridge

6:00-6:30 p.m. COCKTAIL RECEPTION Terrace Room, Sheraton

6:30-6:40 p.m. GREETINGS George Washington Room, Sheraton

- Hal Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School
- Takashiro Furuhashi, Executive Director, International House of Japan

6:45-7:45 p.m. KEYNOTE ADDRESSES George Washington Room, Sheraton

- Masatsugu Asakawa, Vice Minister of Finance for International Affairs, Ministry of Finance, Japan
- Tara Rice, Deputy Assistant Secretary for International Financial Stability, U.S. Department of the Treasury

7:45-9:30 p.m. DINNER George Washington Room, Sheraton

FRIDAY, NOVEMBER 6 HLS Campus- Wasserstein Hall- 1585 Massachusetts Ave.

7:15-8:00 a.m. BREAKFAST BUFFET Milstein East AB – Wasserstein Hall

8:10-9:00 a.m. KEYNOTE PANEL Milstein East AB – Wasserstein Hall

Economic Policy Issues in the 2016 U.S. Presidential Election

- Glenn Hubbard, Dean, Columbia Business School
- Hal Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

9:00-9:35 a.m. PANEL SESSION Milstein East AB – Wasserstein Hall

The end of large global banks?

Panelists will introduce and discuss issues relevant to the topic. Each panelist will make a 5-7 minute presentation, followed by a plenary discussion, before all of the participants are broken into small working groups.

- John Simonson, Principal, Financial Services Regulatory Practice, PricewaterhouseCoopers LLP
- Haruyuki Toyama, Corporate Advisor, Sumitomo Mitsui Trust Bank, Limited

9:40-11:00 a.m. SMALL GROUP SESSIONS **WASSERSTEIN HALL-3RD FLOOR**

<u>GROUP</u>	<u>ROOM</u>	<u>FACILITATORS</u>	<u>REPORTER</u>
1	3015	Arthur Mitchell, Akira Ariyoshi	Bill Grimes
2	3012	Brian Kelly, Yasuhiro Harada	Alicia Ogawa
3	3011	David Asher, Hiroyuki Kamano	Dino Kos
4	3036	Doug Hymas, Shunichiro Kimpara	Hamilton Lin
5	3008	Satoru Murase, Yoneo Sakai	Rich Mattione
6	3007	Ed Rogers, Oki Matsumoto	Fabiana Fedeli
7	3038	Cliff Shaw, Osamu Yamamoto	Akihiro Wani

11:05-11:20 a.m. REFRESHMENT BREAK **Pound Hall- Room 102**

11:20-11:55pm PANEL SESSION **Pound Hall- Room 102**

Gauging the success of the three arrows

Panelists will introduce and discuss issues relevant to the topic. Each panelist will make a 5-7 minute presentation, followed by a plenary discussion, before all of the participants are broken into small working groups.

- Charles Lake, President, Aflac International
- Tsutomu Watanabe, Professor, University of Tokyo

12:00-1:20 p.m. SMALL GROUP SESSIONS **WASSERSTEIN HALL-3RD FLOOR**

<u>GROUP</u>	<u>ROOM</u>	<u>FACILITATORS</u>	<u>REPORTER</u>
1	3015	Roger Servison, Akira Ariyoshi	Bill Grimes
2	3012	Don Kanak, Yasuhiro Harada	Alicia Ogawa
3	3011	Chris Winship, Hiroyuki Kamano	Dino Kos
4	3036	Mark Siegel, Shunichiro Kimpara	Hamilton Lin
5	3008	Jim Walsh, Yoneo Sakai	Rich Mattione
6	3007	Garry Evans, Oki Matsumoto	Fabiana Fedeli
7	3038	Chris LaRosa, Osamu Yamamoto	Akihiro Wani

1:25-2:45 p.m. LUNCHEON KEYNOTE ADDRESS **Milstein East AB – Wasserstein**

- Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation (FDIC)

Introduced by: Hal Scott, Nomura Professor and Director, PIFS, Harvard Law School

2:45-4:00 p.m. PANEL SESSION – PLENARY DISCUSSION **Milstein East AB**

Rise of China: Implications for Japan, the US and the global financial markets

A moderator will facilitate a discussion giving all panelists equal opportunity to participate before incorporating the audience as well. Panelist's remarks will provide a point of view that offers Symposium participants the benefit of analysis and insight on the topic.

- Masahisa Ikeda, Partner, Shearman & Sterling LLP
- Kozo Koide, Chief Economist, DIAM Co., Ltd.
- Hiroshi Watanabe, CEO, Japan Bank for International Cooperation
- Ronald O'Hanley, Chief Executive Officer, State Street Global Advisors (Moderator)

4:00-6:30 p.m. FREE TIME / REPORTERS MEETING **Cape Cod Room, Sheraton**

6:30-7:10 p.m. COCKTAIL RECEPTION **Terrace Room, Sheraton**

7:15-7:45 p.m. KEYNOTE **George Washington Room, Sheraton**

- Shigesuke Kashiwagi, Chief Financial Officer, Nomura Holdings

Introduced by: Atsushi Saito, Chairman, KKR Japan

7:50-9:45 p.m. DINNER

SATURDAY, NOVEMBER 7 **Wasserstein Hall**

7:15-8:00 a.m. BREAKFAST BUFFET **Milstein WEST AB – Wasserstein**

8:10-9:10 a.m. PRESENTATION & DISCUSSION **Milstein EAST B**

Reform of GPIF's Investment Strategy and Governance: Implications for international capital markets

Panelists will introduce and discuss issues relevant to the topic. Each panelist will make a presentation before turning it over to the audience for Q&A.

- Takatoshi Ito, Professor, School of International and Public Affairs, Columbia University
- Arthur Mitchell, Senior Counselor, White & Case LLP and Member of the Board of Directors, Sumitomo Mitsui Financial Group, Inc.

9:10-10:10 a.m. PRESENTATION & DISCUSSION **Milstein EAST B**

The end of large global banks?

Panelists will moderate a plenary discussion that uses a synthesis of the small group sessions from the previous day as the basis for session.

- Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy, Deloitte Touche Tohmatsu Japan
- Doug Hymas, Japan Country Executive, Managing Director, The Bank of New York Mellon

10:10-10:25 a.m. BREAK

10:25-11:25 a.m. PRESENTATION & DISCUSSION **Milstein EAST B**

Gauging the success of the three arrows

Panelists will moderate a plenary discussion that uses a synthesis of the small group sessions from the previous day as the basis for session.

- Yoshio Okubo, Vice Chairman, Japan Investment Trust Association
- Robert Dohner, Deputy Assistant Secretary for South and East Asia, U.S. Department of the Treasury

11:30-12:15 p.m. CLOSING LUNCHEON **Milstein WEST AB**

Symposium Final Report

The eighteenth Japan-U.S. Symposium was held at the Harvard Law School from November 5-7, 2015. Within the contemporary global low-growth environment, participants were relatively optimistic about the US and Japanese economies, while they saw headwinds from Europe and China. As in previous Symposiums, participants examined the costs and benefits to financial institutions and to the global economy of post-crisis financial regulatory reforms. Sessions discussed prospects for the survival of large global banks; the extent of the success of Abenomics; implications of the rise of China for Japan, the U.S., and global financial markets; and the implications for international capital markets of the reform of Japan's Government Pension Investment Fund (GPIF).

Topic 1

The End of Large Global Banks?

In Session 1, participants discussed the prospects for large global banks. There was considerable discussion of the ways in which the benefits and costs of size, scope, and cross-border presence had changed with the enactment of enhanced bank regulation after the global financial crisis. While participants did not predict the end of large global banks, many predicted that those that remained would be less global and less universal than the kind of multinational financial conglomerate that had characterized the previous decade. This was seen as carrying both benefits and costs for the global economy.

COSTS AND BENEFITS OF BEING A LARGE GLOBAL BANK

Participants discussed at length the costs and benefits of being a large global bank. There was a general agreement that some aspects of the universal banking model were under pressure from both regulators and markets. Still, few participants foresaw the end of large global banks. Instead, many predicted greater differentiation among global banks along business and geographical lines.

Driving much of the conversation about the viability of large global banks were the post-crisis financial regulatory reforms, whose strongest provisions were aimed at global systemically important banks (GSIBs). While all banks were facing higher capital requirements and other increased compliance costs, GSIBs were especially burdened due to SIFI surcharges, total loss-absorbing capital (TLAC) requirements, and the need to develop and refine extensive resolution and recovery plans.

Moreover, despite the promise of G20 reforms to create consistent global standards, participants observed that rules still varied sharply among jurisdictions. The growing popularity among regulators of ring-fencing and capital prepositioning for global banks was also seen as reducing or even eliminating one of the supposed risk-reducing benefits of global banks—the ability to manage capital and liquidity efficiently by moving it to affiliates that need it. Thus, it was argued, the former model of the global universal bank might well have become too expensive for many—perhaps most—banks to maintain.

One important justification for remaining global was that global customers would need global financial services. Multinational corporations, with operations in multiple jurisdictions, would often benefit from having multinational banks supporting their financial needs across borders. And it was argued that the most global corporate actors would prefer to do business with the most global financial institutions. Moreover, as a number of participants noted,

some financial services were inherently international. In addition to functions such as trade finance and currency hedging, participants pointed to custody and clearing as two services that required multinational scope.

From the perspective of banks themselves, a number of participants argued that there could be significant benefits to diversification across borders and business lines. Given the likely ups and downs of business cycles, for example, geographic diversification could stabilize income and losses. Similarly, some participants argued that the variation of risks and activity across different business functions could justify the universal banking model, at least for some financial institutions.

In addition to diversification, participants noted the potential for economies of scale in the banking sector. Branding, marketing, and advertising were seen by some participants as functions in which size and global operations could reduce average costs. Another area in which a number of participants identified economies of scale was in information technology, where massive investment was required of any bank in order to manage the business, comply with regulations, and maintain cybersecurity. Not all participants agreed with this claim, however. Although many accepted the validity of the economy of scale argument in terms of size, some were skeptical about whether global banks could benefit from such cost reductions—they observed that regulatory and other requirements varied considerably between jurisdictions, and argued that the costs associated with compliance would reduce or eliminate the potential benefits of scale. Some participants also argued that rising compliance costs could create benefits for large global banks. Here too, there was skepticism about the benefits of multinational organizations, as many participants argued that each jurisdiction required specialized knowledge, rendering global compliance expertise of limited value.

In addition, a number of participants argued that large global banks continued to enjoy special privileges, as they might be seen by markets as too big to fail. In particular, their funding costs might be lower, which could make up for the increased capital and other costs of

compliance. In principle, the extensive regulatory reforms after the crisis, including capital increases, SIFI surcharges, TLAC, liquidity buffers, and resolution planning, were meant to have eliminated the problem, but a number of participants argued that markets still expected that large global banks would be bailed out if their failure were to threaten systemic stability or the payments system. In contrast, other participants argued that large global banks might actually be disadvantaged in capital markets, as their sheer complexity and opacity would create uncertainty among potential investors and creditors about the viability of their business models. At least for US-based bank holding companies, the single point of entry approach to resolution was seen as already having reduced the attractiveness of investing in or lending to the holding company. Further, a number of participants argued that, with new TLAC requirements in place, GSIBs would face higher financing costs due to the unattractiveness of bail-inable debt for most investors.

Finally, a number of participants argued that the pre-crisis model of the global universal bank was fundamentally flawed by its organizational complexity. They noted that, even before the crisis, many financial institutions had been so large and complex that top executives were unable to monitor risk across the institution, making them “too big to manage.” In some ways, these participants felt, the challenge of complexity had been made worse by regulatory burden, ring-fencing, and the attempts of governments to create resolution regimes that would not require use of taxpayers’ money. Some participants suggested, in contrast, that the exercise of creating resolution plans for SIFIs was creating incentives to banks to simplify their structures and give managers the ability better understand and manage risks and opportunities. They pointed out that a number of banks around the world had sought to divest themselves of certain units or functions. Others were not convinced that these efforts would simplify the banks as suggested, and argued that if there were such benefits, they came at great cost in terms of the time, effort, and expense of resolution planning.

IS THIS THE END OF LARGE GLOBAL BANKS?

In surveying this changed landscape of costs and benefits, many participants agreed that the “everything to everyone everywhere” model of global universal banking was likely over. Few felt that the era of the large global bank was actually ending; however, there was a strong sense that banks would be more selective about the business lines and countries in which they would operate. Indeed, many participants noted a variety of examples of banks—particularly banks based in Europe—that were streamlining operations and shedding business units. Overall, participants suggested that the future of the large global bank would be less global and less universal than in the years leading up to the crisis. As one put, it might be most appropriate to characterize the new model as “multi-line across some borders” rather than as truly global.

At the same time, participants agreed that there was not likely to be a single model of large global banks. For example, custodian banks would likely continue to be global in their reach, but would avoid over-diversification of functions. Moreover, “large” and “global” would not necessarily be synonymous, with some of the largest banks focused on protected home markets and some global banks not seeking to maximize size.

Many participants also suggested that the future of global banks would differ based on home market. It was noted that the largest financial institutions in the world were now Chinese state-owned banks, which did not face either the regulatory pressure or the market pressures experienced by banks in the US, Japan, and Europe. The major Chinese banks were expanding their global reach as they serviced increasingly global Chinese corporations, but in another sense they could be seen as mostly domestic banks as the bulk of their assets remained in China. Moreover, their business models remained focused on traditional commercial banking functions, making them quite unlike universal banks. Many European banks, meanwhile, were seen as either reducing their geographical scope or narrowing their

range of operations, due to regulatory changes at home as domestic authorities sought to minimize the risks caused by financial institutions that were becoming “too big to rescue.”

Some participants argued that home market would become decisive in whether a given bank could be competitive as a global financial institution. Banks from smaller economies, which might not be able to afford huge bailouts, were seen as likely to face market pressures even if their home authorities did not require a decrease in size or function, as potential investors and creditors might doubt the ability of the home government to manage a crisis or to bail them out. Similarly, financial institutions based in jurisdictions perceived to have weak financial regulation and supervision would also be restricted in their global growth, as market participants and host country regulators’ suspicions would create barriers to expansion. Looking at these trends, some participants hypothesized that only US and Japanese banks might be in a position to continue to follow the previous model of the global universal bank. As several participants pointed, in fact, major Japanese banks were actually expanding their global reach, in search of growth outside Japan’s saturated market.

Nonetheless, the new regulatory reality of widespread ring-fencing, capital surcharges, and other regulations was seen as generally weakening the case for the global universal bank. Meanwhile, enhanced capital requirements and compliance costs were seen as heightening investors’ concerns about return on investment in large global banks, putting considerable market pressure on GSIBs to cut costs and complexity. This issue was compounded by questions about whether and at what price institutional investors would be willing to purchase bail-inable debt, which would further increase costs and worsen return on investment. Thus, it appeared likely to many participants that market forces would reduce the number, scale, and scope of these banks. That said, a number of participants speculated that the small number of truly large and global banks left standing would benefit enormously from the reduced competition—indeed, they noted that

in some areas, competition had already fallen off considerably.

IMPLICATIONS AND RISKS

Participants considered a number of possible results of these trends. On the one hand, some felt that the global financial system would be more stable as individual banks became both more resolvable and less likely to run out of capital and liquidity.

Others were more skeptical. Some argued that the expectation that bank failures had become less likely was misplaced. They pointed out that insufficient capital was seldom the trigger for crises. While pointing instead to the importance of liquidity, they also noted that in a crisis it was often difficult to predict which markets would seize up. For these participants, the indispensable factor for preventing unnecessary failures was a central bank acting as lender of last resort, a function that had been weakened in the US by the Dodd-Frank Act.

It was also noted that, even if individual SIFIs had become less likely to fail, that would not necessarily prevent future financial crises. As some noted, neither the Japanese nor the UK financial crisis was the result of complex global banks not having sufficient capital; rather, both were driven by real estate bubbles primarily created by straightforward mortgage lending by domestic banks.

In discussing the implications of the likely winnowing of the ranks of large global banks, participants raised several concerns. For one, the withdrawal of banks from some markets, including acting as market makers or derivatives counterparties, was seen as likely to reduce liquidity, increase spreads, and possibly reduce the resilience of the financial system in the face of future crises.

Participants also expressed concern that more onerous capital requirements, provisioning rules, and compliance costs was already contributing to reductions in the availability of bank credit and would continue to do so. This raised two concerns: that a credit crunch would weaken growth in already stagnant economies, and that lending would increasingly move away from

banks into the shadow banking sector. While some participants felt that a shift to market-based finance would be a positive development to fill the gap, others expressed concern about the potential for non-banks to spark the next crisis. Thus, some participants called for better monitoring and regulation of shadow banking, while others worried that more regulation would only worsen the problems of insufficient credit availability to the real economy.

A number of participants also cautioned that, in the rush of policymakers to regulate shadow banking, it was important not to try to impose bank-like regulations on all financial institutions. It was noted, for example, that proposed new capital and mark-to-market rules for insurance companies appeared to be more appropriate to threats posed by banks.

Finally, there was some discussion about where the next crisis might arise. While not all participants were convinced that large global banks would not be the source of the next crisis, most participants were looking at other potential triggers, including shadow banking, cyber-attack, and the weakening of the Fed's lender of last resort function. A number of participants warned that, despite all the efforts to reduce bank risk and the need for bailouts, regulatory regimes were not necessarily prepared for the next crisis. A particular concern in this regard was the loss of flexibility and the populist resentment against bankers, especially in the US.

Financial technology was also seen as a disruptor of the financial intermediation system. It was unclear to participants, however, whether regulated banks would simply be circumvented by new players or if FINTECH offered new opportunities for banks to expand their businesses (e.g., through electronic platforms) or to reduce their costs (e.g., through blockchains or other verification technologies).

Topic 2

Gauging the Success of Abenomics

In Session 2, participants discussed the progress of Abenomics. While appraisals were mixed regarding the conception and implementation of each of the three arrows, many participants were upbeat about its progress and prospects. With regard to structural reform, discussion focused on corporate governance, “womenomics,” and immigration. Many expressed measured optimism that third-arrow policies would improve productivity and thus Japan’s long-term growth prospects, although others felt that Abenomics was more about missed opportunities than about rejuvenating Japan’s economy.

EVALUATING ABENOMICS

Participants displayed a range of opinions about the conception, implementation, and impact of Abenomics. However, an underlying question for much of the discussion was the criteria by which Abenomics should be evaluated. While participants agreed that the ultimate goals should be increased productivity, fiscal sustainability, and a more flexible and innovative economy, these goals were too far in the future and too difficult to breakdown into concrete milestones. Thus, even though the Abe administration had declared a series of specific goals, many participants saw it as difficult to make a definitive evaluation of the progress of Abenomics.

Abenomics was designed as an integrated program to improve Japan’s potential growth and fiscal sustainability over the long term,

while providing fiscal and monetary stimulus over the short to medium term. The major quantitative goals were set for the short and medium term, and thus were easier to compare against actual performance. Long-term potential growth was seen as trickier to evaluate—not only would it mostly depend on the success of structural reforms that would take years to work through the system, but the effects of those reforms were unpredictable because they would depend on interactions among firms, individuals, and government. While progress could be broadly gauged against the declared objectives of the Abe administration, the likely effects of reforms on long-term growth potential were a matter of debate.

Some goals of Abenomics had clearly not been met, such as the BOJ’s pledge to achieve 2% inflation within two years of the beginning of quantitative easing. Nonetheless, as discussed below, many participants were unwilling to characterize the failure to achieve that goal as a failure of monetary policy, since that assertive monetary policy had made more headway against deflation than nearly two decades of

alternatives. The initial fiscal policy goal of halving the primary balance was largely achieved, but skeptics argued that the way in which it was achieved would make the goal of taking the primary balance to zero by 2020 more difficult to reach. There was some debate about whether the pledge of reaching a nominal GDP of ¥600 trillion by 2020 (implying 3% annual nominal growth) would or could be reached, but obviously that remained an open question.

While some participants pointed to Abenomics' mixed performance in hitting formal targets as evidence of its lack of success, others were less critical. They argued that the targets were political statements meant to show commitment and to force the authorities to continue to push their agenda no matter what. Therefore, what was most important was the direction and commitment shown by the authorities.

FIRST ARROW: MONETARY POLICY

Participants agreed that Abenomics' first arrow had been the one that had been most aggressively pursued, in the form of quantitative and qualitative easing (QQE). Governor Kuroda's commitment to a 2% inflation target and his willingness to expand the BOJ's balance sheet at an unprecedented speed had fundamentally changed the dynamics of Japanese monetary policy. Whether these efforts had been successful or not was more in question; still, many participants expressed their support for them as a way of ending Japan's persistent mild deflation and encouraging investors and consumers to change their behavior, and in particular take on more risk.

There was disagreement among participants both as to whether creating inflation through monetary policy was a necessary step for Japan's economy and whether the BOJ's actions were in fact working. While many participants agreed that Japan's persistent mild deflation was a significant challenge to restarting sustainable economic growth due to its presumed effects on investment and consumption decisions, some demurred. They argued that deflation was the result of weak demand. For some such participants, weak demand was the inevitable result of the declining labor force, which

suggested that the key issue would be reforms to expand the labor force through greater female or elderly participation, or through greater immigration. Others highlighted stagnant wage growth as the core problem; for them, deflation would end only as a result of higher productivity or more equal distribution of income. With regard to investment as well, they argued that unless companies saw reasonable prospects for growth domestically, they would not be enticed to increase investment regardless of the levels of inflation or long-term interest rates. Still, most participants saw the reemergence of inflation—or at least the end of deflation—as essential to Japan's economic revitalization.

A second point of disagreement was over whether deflation had actually been tamed. It was noted by many participants that the BOJ's 2% inflation target had not been achieved, and many expressed skepticism that it would in fact be reached. A number of participants called out the BOJ's recent emphasis on a new measure of core inflation as being a way of distracting attention from its failure to hit its own target. (While government core inflation was measured as CPI excluding fresh food, the BOJ was increasingly relying on its own measure that also excluded energy prices.) Others disagreed with this assessment, arguing that low energy prices were an unambiguously good thing for the Japanese economy, and declining energy prices should not be understood as deflationary. Several participants also raised measurement issues related to technological progress and services.

A related line of discussion addressed the question of whether it was important that the BOJ actually hit its inflation targets. Many participants were unconcerned, arguing that the key issue was that mild deflation had been replaced by a trend of mild inflation, particularly when excluding volatile energy and food prices. Concerns over the inflation target clustered around two themes: (a) that failure to achieve targets would undercut the credibility of the BOJ, and by extension the government and economy as a whole, and (2) that such low levels of inflation could easily slide back into deflation in the face of new challenges such as weakened global demand or a political crisis.

Aside from the argument over the inflation target itself, participants discussed whether deflation had in fact ended and what effects that might be having on behavior. Participants saw evidence on prices as mixed. It was agreed that asset prices were on the rise, likely as a result of the BOJ's aggressive quantitative easing. Core CPI was also in positive territory, but declining energy prices kept CPI low. Some evidence was presented using alternative or more fine-grained price measures to show that price deflation had ended across much of the economy, except for continued weakness in services (and particularly labor-intensive services). Meanwhile, there was contradictory evidence on wages. While wage rates were rising in much of the economy, the increasing share of non-regular workers and the decline in hours worked meant that many working households were not seeing rises in income. To some participants, the evident tightness of labor markets suggested that wage hikes were likely to continue or accelerate, and would soon feed into higher nominal household incomes. Others argued that the changing structure of Japan's labor market (particularly the rise of temporary and contract jobs), along with the ability of firms to move many jobs overseas, gave pricing power to firms and would hold down labor costs. In addition, they argued that only rising demand would create sustainable wage growth, and the lack of wage growth to date would retard consumption. Some participants questioned the accuracy of wage, price, and consumption statistics, and speculated that improved sampling and composition of price baskets would show that inflation and nominal consumption were actually higher than indicated. In particular, they criticized the quality of household surveys, whose actual response rates are skewed toward an older demographic and therefore was likely discounting the actual consumption and income of working-age households.

Evidence about inflationary expectations was also seen as mixed. While one survey presented at the Symposium showed Japanese residents in general to expect that prices would rise, the extent of the expected inflation was low. Moreover, younger Japanese, who had never experienced an inflationary environment, were found to be less likely to anticipate inflation

than older ones, implying that the task of re-anchoring expectations upwards would be increasingly challenging with time. Participants' perspectives on the impact of inflationary expectations also varied. Some argued that the question of whether Japanese households and firms were anticipating mild deflation or mild inflation was irrelevant, arguing instead that they would make consumption, investment, and hiring decisions based on their expectations of their own nominal income. Thus, rather than inflation or deflation, the key variable was confidence in future growth. Others countered that nominal growth in demand was at least as important as real growth, particularly for firms that had to pay off debt accrued on long-lived assets; thus, they considered inflation to be an essential piece of the puzzle.

One point on which participants agreed was that QQE had been effective in weakening the yen. This had contributed to price inflation on tradable goods and had clearly improved the profits of exporters and import-competing companies considerably. Indeed, corporate profitability was at a post-bubble high, and participants attributed at least some of that to the weak yen. Nonetheless, a number of participants raised questions about the positive impacts of the weak currency. As several noted, export volumes had not risen to the extent that most observers had predicted, despite a 30% drop in the real effective exchange rate. Moreover, wages and employment in exporting companies had not matched increasing profits. Thus, for some participants, yen depreciation had been another force transferring purchasing power from households to corporations that were hoarding cash. In contrast, many participants expected that trade volumes would adjust and that wages would begin to rise in those sectors over time. Even for those who considered yen depreciation to have contributed positively to Japan's inflation and growth prospects, there was a general sense that further yen depreciation was unlikely to be a viable strategy going forward.

Finally, several participants brought up the questions of both the viability of continued QQE and exit strategy. While discussion on these points was limited, several points were

made. Noting the extent to which the BOJ had become the holder of JGBs, some participants questioned whether there would be sufficient government debt available to continue to expand the BOJ balance sheet indefinitely. Others worried more about an exit strategy, in particular how the BOJ would be able to unwind such a large position without market disruptions in markets whose liquidity was dropping.

SECOND ARROW: FISCAL POLICY

Opinions of fiscal policy performance varied sharply, as participants expressed different expectations of the importance of fiscal consolidation (deficit reduction) and the effects of fiscal consolidation or stimulus. However, most agreed that fiscal policy had been used much less aggressively and much less consistently to support the economy than had monetary policy.

One reason for the diversity of views was the ambiguity of the goal of “flexible fiscal policy.” Most participants understood this as long-term fiscal consolidation combined with short-term stimulus, through increased spending, as required by business cycles, supply shocks, or demand shocks. While they agreed that the initial fiscal stimulus in 2013 had contributed to increasing demand, opinions diverged on subsequent policies.

Much of the discussion addressed issues related to consumption tax hikes. Views on the consumption tax were split into three general camps. One argued that consumption tax increases should be postponed indefinitely, on the basis that Japan did not face a fiscal crisis and that consumption tax hikes were certain to cause economic downturns as long as Japan’s economy remained weak. Several of these participants voiced their suspicion that the initial fiscal stimulus had been focused mostly on justifying the 2014 consumption tax hike, rather than trying to achieve sustainable economic growth. While they applauded the decision to postpone the 2015 tax hike, they worried about the decision to lock into place a tax hike in 2017. A second group saw fiscal consolidation as urgent, while doubting that consumption tax hikes had nearly the effect on dampening

demand that opponents attributed to them. They argued that it was essential to keep the 2017 tax hike, given that it had already been postponed once. A number of these participants called for further consumption tax hikes in order to achieve longer term fiscal sustainability. The third group accepted the importance of fiscal consolidation but believed that consumption tax hikes were likely to have significant negative impacts on growth.

Participants agreed that the consumption tax remained highly unpopular among Japanese voters. However, the economic impacts were debated across two dimensions. First was whether consumption tax hikes inevitably led to recessions, as had been seen following the 1997 and 2014 tax hikes. Several participants pointed to the unexpectedly large downturn that followed the 2014 hike, despite the fiscal stimulus that had accompanied it in the form of a supplemental budget, as evidence that a further consumption tax hike would be injurious to the fragile economic recovery. Others disputed this assessment. They noted that growth typically rose considerably in the two quarters before a tax hike as consumers purchased durables in advance, then dropped considerably in the two quarters following the hike. However, they argued, the extent of the downturn merely mirrored the extent of the boom beforehand, leading to little or no net loss in trend growth. Also, a number of participants pointed out that, with trend growth only around 0.5%, even a small slowdown or a downturn in the business cycle could easily push the economy into a technical recession, so they argued that it was not helpful to get too concerned if growth were to dip below zero.

A second dimension of the consumption tax debate was over its distributional effects. Opponents of the tax argued that it was regressive, affecting the poorest households most deeply. Not only did they see this as unfair (especially given the Abe administration’s determination to lower corporate tax rates), they also argued that it would reduce propensity to consume at a time when consumption growth was stagnant. Others countered that the consumption tax was necessary in order to ensure that all Japanese residents—including

retirees—contributed to public finances, to reduce tax evasion, and to stabilize expected revenues.

The final question regarding fiscal policy was whether the government was making progress toward long-term fiscal sustainability. With the largest gross and net government debt-to-GDP ratio in the developed world, participants saw Abenomics as having to tread a narrow path between fiscal prudence to reduce debt accumulation while also supporting economic growth to increase the denominator. While few saw near-term prospects of a debt crisis, with over 90% of government debt held domestically, concerns persisted about the longer term. Meanwhile, the BOJ's program of quantitative easing meant that, increasingly, the BOJ was financing Japan's government debt, with long-term consequences that remained uncertain.

Supporters of Abenomics cited positive progress toward the goal of eliminating the deficit in the fiscal balance as evidence that fiscal policies were working. Others disagreed. As noted, some argued that the consumption tax hike would be counterproductive because it would weaken growth. Others made the case instead that the improvements in the fiscal position were likely to be short-lived. They noted that the main contributors to the improvement were higher corporate and consumption tax receipts. Corporate taxes reflected higher profits including capital gains resulting from asset price hikes, they argued, and when the business cycle inevitably shifted downward, so would the government's fiscal position. They also saw consumption tax receipt increases as a windfall that would not arise every year.

Many believed that over the long term, fiscal sustainability would depend on a combination of tax policy and a reform of the pension and health insurance systems, major areas in which spending could be reduced. With regard to tax policy, the Abe administration was banking on continued consumption tax hikes combined with revenue-neutral corporate tax reform to reduce marginal rates and expand the tax base. Economically, it was not clear to all participants that it would be possible to expand the tax base

sufficiently to make up for the proposed rate reductions, raising the possibility that corporate tax reform would aggravate the fiscal situation rather than shore it up over the long term. Meanwhile, many participants expressed pessimism about the prospects for effective pension and health insurance reform. Not only were the long-term gaps seen to be large, but they judged that Japan's predominantly elderly electorate was unlikely to go along with reforms. Moreover, they considered the lack of concrete proposals from the government to be a sign that the Abe administration was unwilling to take meaningful action. Others countered that planning and discussions were well underway for bills to address the issues of pension and health insurance, and expressed confidence that they would be introduced in the Diet in due course.

THIRD ARROW: STRUCTURAL REFORM

The most extensive discussions concerned the third arrow, structural reforms. These reforms sought to address an extremely broad scope of policies and issues, and all were still a work in progress. Although it was too early to judge the success or failure of the structural reform project, many participants commented on the importance of continued political will in advancing reforms in the face of political resistance. In this sense, the strength of Prime Minister Abe's popularity would be a key factor in whether progress continued. With the largest majority in Japanese postwar history and no viable internal rivals, plus the likelihood that he would retire as the third longest-ruling prime minister, Abe appeared to be in a strong position to keep pressure on to continue to introduce and implement reforms while preventing backsliding.

Participants primarily discussed corporate governance reform, "womenomics," and labor market reforms in Session 3, although they also brought up a broad range of other structural reform policies as examples of successes or failure. The latter included agricultural reform, energy reform, and especially the conclusion of the Trans-Pacific Partnership (TPP). The

success of TPP negotiations were seen by most participants as a particularly large victory for the reform agenda, although questions remained about whether the US Congress would approve the agreement.

Corporate Governance

Corporate governance reforms were seen by many participants as being a major success of Abenomics. Among the major accomplishments were the establishment of the Stewardship Code, Corporate Governance Code, and the creation of the JPX-Nikkei 400 index. The new Corporate Governance Code more clearly defined the responsibilities of board members and called for the presence of at least two outsiders on the board. The Stewardship Code for the first time codified principles for institutional investors in the Japanese markets to demand better corporate governance of the companies in which they invest. And the JPX-Nikkei 400 created a new stock index, where inclusion is based on corporate performance and governance, creating a powerful incentive for firms to seek to improve on those measures as part of their public and investor relations. (Some called it the “shame index,” as company leaders would be ashamed not to make it onto the list.) A number of participants stated that corporate governance at their firms was already being improved, and spoke of companies becoming more accountable to shareholders. Meanwhile, an increasing number of investors in the Japanese markets (including the Government Pension Investment Fund, as noted below) were signing on to the Stewardship Code and pledging to use their voice and votes to promote better corporate governance.

Not all participants were convinced that these measures would lead to major changes in corporate governance and accountability to shareholders, however. Several noted that the major reforms were not legally binding on all firms. For example, adherence to the Corporate Governance Code was optional for non-listed firms. Even for listed firms, enforcement was in the form of comply-or-explain. Although in principle, such an approach could create strong social and market pressures on firms to follow the code, this was not a certainty. Similarly, the

Stewardship Code remained voluntary, and left it up to institutional investors to draft their own principles for seeking to advance the causes of better corporate governance and accountability in the companies in which they invested. As for the JPX-Nikkei 400, some participants felt that enthusiasm for it was something of a fad, and that it was not certain that it would have a lasting effect on many companies’ governance practices. However, many participants argued that the prominent role of the Tokyo Stock Exchange in promoting and enforcing these initiatives would increase the impact, despite the lack of legal enforcement.

Thus, participants saw a complex landscape for corporate governance in Japan. On the one hand, rules and expectations on corporate governance were seen to be increasingly clear. Increasing numbers of firms were expanding appointments of outside directors and women, and structuring boards on the basis of committees (audit, compensation, etc.). The most recent amendment to Company Act had allowed companies to create supervisory board and dispense with the statutory auditor position, and over 200 companies had adopted this change so far. Still, few companies had a majority of outside directors, while in many cases chairmen doubled as CEOs and the relationship of boards to senior management remained ambiguous. Overall, however, there was considerable optimism that governance was improving and that companies were becoming more accountable to their shareholders. Several participants expressed the opinion that the Japan-US Symposium had contributed to the process of improvements over the years.

Labor Markets

Labor market reform was another major goal for Abenomics. The Abe administration had identified the lack of flexibility for employers and employees as a major impediment to improving efficiency and productivity. Reforms sought to address several problems, including the difficulty of firing or laying off workers, the difficulty of lateral hiring, and the wide gap in terms of pay, benefits, and job security even between regular and non-regular employees doing the same work. While the various measures that had been proposed or introduced

could in sum add up to a considerably more flexible labor market, some obstacles remained. Participants identified the Japanese pension system as a major obstacle to labor mobility, as the prevalence of defined-benefit pensions with long vesting periods made it unattractive for mid-career employees to change companies. Improving the portability of pensions, perhaps by expanding the availability of defined-contribution pensions, was suggested by many participants. Moreover, even if laws were to change considerably, a number of participants argued that it would take considerable time before corporate cultures and practices fully adapted.

Labor reforms were a particularly contentious topic in Japan, where labor unions feared losses in job security and strongly resisted efforts to reduce the rights of regular employees and to narrow the gap between regular and non-regular workers. A number of Symposium participants also expressed concerns about the reforms, arguing that they weakened the rights of regular workers and would have the effect of further depressing wages. Considered together with the Abe administration's intention to raise consumption tax and lower corporate tax rates, they saw labor reforms as more about changing the balance of power between capital and labor than about improving efficiency and meritocracy. They argued that, from the perspective of encouraging growth and reducing inequality, it would be better to provide non-regular workers with more protections and to give companies incentives to invest in human capital.

Womenomics

Perhaps the most heavily discussed aspect of the third arrow was “womenomics.” A number of participants expressed excitement about the Abe administration's stated dedication to improving economic opportunities for women. Nevertheless, there were many questions raised about the commitment of the administration, the adequacy of the proposed policies, and the effectiveness of government action to alter corporate cultures and social norms.

The case for improving economic opportunities for women was seen to be straightforward: in an

era of declining labor force, Japan should work to expand both the number of women working and the quality of their jobs in order to keep growth. Meanwhile, Japan's problem of low fertility would need to be addressed in the context of working mothers making decisions about childbearing.

One major question was what policies would be necessary to promote female workforce advancement. While some of the key issues identified by participants involved abstract and often ambitious goals such as increasing respect for female achievement and increasing equality between spouses, participants agreed that some concrete policies could be helpful as well. They noted several areas that policymakers were already discussing or addressing, including flex time, reduced expectations for overtime work, better maternity benefits, expanded daycare for working mothers, and expanded elder care.

Despite the Prime Minister Abe's stated commitment, a number of participants expressed skepticism about the government's actual commitment. One criticism was that, in many cases, womenomics goals were announced with fanfare but without follow-through. The call for 30% of managers to be female by 2020 was seen as a particularly egregious example of this dynamic—not only was the goal unrealistic, but the government had made little effort beyond exhortation to provide incentives for companies to recruit and promote women. Moreover legislative action was slow even on issues that they saw as simple and politically straightforward, such as expanding daycare. More specifically, it was noted that Japan currently had many laws on the books to protect the interests of women in the workforce, including on hot-button topics like maternity harassment, but these were seldom enforced. Thus, some participants argued that a more vigorous approach to enforcement should be put in place immediately, even as other policies were put into place.

Participants also raised the possibility of pursuing other policies that could promote female labor participation. One of these was pension reform—in this case, not just to improve pension solvency but also to reduce disincentives to women working, since benefits

remained limited for a dependent spouse who made her own living. Also, it was noted that many of the proposed legal reforms were relevant mainly to women working in larger companies or in government. However, most women worked in smaller companies or as part-timers, and that many even started their own businesses. Thus, some participants suggested that more emphasis should be given to entrepreneurship across the board to provide more high-quality positions for women.

Finally, discussion of women in the workforce edged into the question of how to improve, even partially, Japan's low fertility rate. While such policies would obviously take decades to lead to a larger labor force, many participants saw pro-natalist policies as a necessary element in addressing the demographic time bomb. Although it was recognized that it would be difficult to pursue the challenge of simultaneously incentivizing both increased female labor participation and higher fertility, several participants pointed out that there were a number of European countries that had managed to support both.

An alternative solution that some participants posed as a way of dealing with the challenge of shrinking labor supply was immigration. Several participants cited IMF and other figures on the numbers of immigrants who would be needed to fill the gap remaining as Baby Boomers exited the labor force; while estimates varied, these numbers were very large. This raised questions of whether Japanese society was willing and able to take in and assimilate large numbers of foreigners, and many participants predicted considerable political and social resistance to such a plan. The Abe administration building on the work of previous administrations, had been working on several plans to consider increasing the number of immigrants in various fields. It was noted that the administration's vision was more one of guest workers than of permanent residents, and a number of participants questioned whether that would be feasible or would fill the employment gap. Some participants, citing the example of Germany, argued that guest workers would often choose to stay in the host country if they could, whether due to marrying or having children with

a local or just preferring living and working conditions, which would inevitably complicate any guest worker program. Also, several participants raised the question of differences between how skilled vs. non-skilled workers would be treated, or whether there would be different approaches to immigrants based on country of origin, race, class, or ethnicity. It appeared to many participants that these basic issues had not been resolved within Japan or even within the ruling coalition.

ABENOMICS: A PLAY IN THREE ACTS

be Productions & Three Arrows Studios present: *Abenomics, A Play in Three Acts*

By *Anonymous*

(Note: The play has already received rave reviews, and the first run tickets are sold out, many to foreign tourists visiting Tokyo. The play has already received the Nikkei Awards for Best Stage Play and for Best Director... even though no one has seen a full performance.)

Act One

(begins with a flashback, leading into the present.)

Princess CPI lies sleeping on ... (whatever princesses in these stories lie sleeping on.) Prince Shirakawa enters, sees sleeping princess CPI, and gives her a kiss. Nothing happens. Kisses her again, nothing. Blows in her ear, tickles her nose with a feather, splashes water on her cheek – Princess CPI doesn't stir.

Shirakawa to audience: "This is not going to work! I know this is not going to work!"

Prince Kuroda bounds in from stage right: "I know I can do this! I have the tools I need! I will use my Quantitative and Qualitative Gong!!"

...rings gigantic gong. Entire stage, indeed whole theater, reverberates. Giant Yen symbol is dislodged from the wall and falls through the floor. Princess CPI stirs, and begins to sit up...Everyone in the palace applauds. Then the watchtower lookout rushes in.

Watchtower Lookout: "My Lords! The Kingdom of Saudi Arabia has given us a magnificent gift of free oil!"

Entire palace cheers wildly. Meanwhile, Princess CPI yawns, rolls over, and begins to snore loudly.

Prince Kuroda: “I can do this! I’ll just use my 80 trillion yen electroshock pads...”

Princess CPI stirs and rubs eyes...<Curtain>

Act Two

(The initial part of the script for this act inexplicably bears edits which appear to have come from the US Treasury.)

The Good and Gentle King Fiscal Stimulus has been usurped by the Evil Count Consumption Tax (who, in truth, is much uglier and more menacing than anyone remembers from casting...and who, even after four quarters is still onstage!)

What’s more, the Evil Countess Consumption Tax is waiting in the wings. The director puts off her appearance by a few scenes. But he has promised his creditors in the debt markets that she will, in fact, come onstage.

But what’s even worse is that the leading man and his faithful sidekick – Robin Wages and Friar Exports – have completely missed their entrance cues, and are nowhere to be found backstage.

...action stops onstage. Actors look around in some confusion...

Finally, Friar Exports is found, and takes the stage. He begins a great song and dance routine, and the audience applauds.

But, no sooner has he started than he drops his straw hat and cane.

Friar Exports: “I’m done.”

...and he walks off the stage.

...Cut to Prince Kuroda.

Prince Kuroda: “I can do this! I can do this! I just need a bit more time...and a slightly different definition of ‘awake’...”

Prince Kuroda *turns to look offstage, and whispers – audibly –* “Where’s Robin Wages?!? For God sake’s, where’s Robin Wages?!?”

<Curtain>

Act Three

The audience already knows that Act Three is the most important act in the play...and also the longest. But in truth, the director doesn’t have a full script written yet. His American co-director, and TPP Studios, have written a few scenes for Act Three. But first, the co-director just needs to work out a few rights issues with the US Congress.

The director is also worried because he’s having unexpected problems with the Stage Actors Guild and the Stage Hands Unions – two groups he had hoped would be much more flexible.

In addition, his equity partners in Keidanren have insisted that Abe include their favorite starlet in Act 3. Miss Corporate Tax Cut is indeed lovely, but unfortunately she can’t act...

At this point the curtain closes and the lights come up. Someone walks in front of the curtain with a sign that reads, “To Be Continued...After a short Security Law intermission”

Topic 3

Rise of China: Implications for Japan, the US and the Global Financial Markets

In Session 3, participants discussed the rising importance of China in the global economy, and its implications for Japan, the US, and global financial markets. There was considerable discussion of the extent to which the Chinese economy was slowing and the prospects for rebalancing that economy toward a more domestic-led growth model. There was also discussion about the RMB and recent Chinese initiatives including the Asian Infrastructure Investment Bank (AIIB).

PROSPECTS FOR CONTINUED CHINESE GROWTH

Participants discussed at length the prospects for future Chinese growth. Given that China had accounted for nearly a third of all global growth over the previous decade, this was seen as a key question not only for firms and financial institutions doing business in China, but for the whole world.

While participants agreed that Chinese growth was clearly slowing as a result of economic maturity and declining working-age population, there was some disagreement about how quickly growth was decelerating. Many participants appeared to accept consensus estimates that growth could average 6.5-7% in the next few years, and would ease to 5-6% by around 2020. Others were much more pessimistic. They cited a number of challenges to China, including the “middle income trap,” environmental pressures, growth of non-performing loans, economic inequality, the difficulty of transitioning from

export-led industrial development to domestic demand-led growth emphasizing services, high levels of corporate and household debt lack of incentives to invest in intellectual property, and issues of governance and corruption.

Some participants argued that Chinese growth was already considerably less than it appeared, and counseled skepticism about many of the statistics on which conclusions were being made. One participant offered the estimate that current GDP might be closer to 3-4% rather than the official 6.9%. Some argued that statistics on fixed investment were skewed upwards by misreporting by companies and by rising inventory due to weak demand for manufactured products. Others noted that the situation might be even worse if the official figures on investment were accurate, as that implied very low capital productivity; combined with the high and rising leverage in the corporate sector, it raised questions about the sustainability of economic growth. Some participants argued that Chinese growth had become dependent on credit creation and public

investment, and worried that the Chinese government had become caught in a trap that would only lead to more leverage throughout the economy and more reliance on public works projects of declining economic value. Increasing debt throughout society raised the specter of further non-performing loans in both the banking and shadow banking sectors, especially given how tight profit margins appeared to be relative to the costs of servicing debt incurred for capital investment.

EXTERNAL ECONOMIC IMPACT

Participants considered several ways in which China's economic transition might affect its neighbors and the global economy.

Some participants expressed pessimism about investment prospects in China for Japanese and US firms. In addition to the slowing economy, they pointed out several particular concerns. With the shift toward a more domestic demand-driven economy, it was noted that services would become more important in the Chinese economy; however, several participants noted that the Chinese service sector was more closed to outsiders than manufacturing. Meanwhile, a major concern for Japanese and US firms and financial institutions was the problem of intellectual property—not only the lack of protection of intellectual property rights, but also demands for disclosure of proprietary information and restrictions on information of many kinds. For a number of participants, the issue of competition was also an open question, given the prevalence of state-owned enterprises (SOEs) and the importance of political connections in many fields. At the same time, many participants still saw a variety of opportunities, including in the relatively limited number of service sectors that were open to foreigners and in infrastructure-related activities.

With regard to portfolio investments, some participants worried about government intervention in markets, as seen in the reactions to the stock market declines of the previous summer. In contrast, others saw the longer-term opening and liberalization of Chinese financial

markets as an important opportunity for foreign investors and expressed optimism about business prospects.

Meanwhile, participants noted that China's engagement with the world had been changing as well. Both SOEs and private firms were increasing their international presence through trade and outward FDI, with the blessing and often the support of the government. The progress of capital liberalization led participants to expect that this would continue. Chinese firms were already major players in commodity-producing economies such as Australia and across Africa, and were also increasing their presence in East and Southeast Asia as well as Japan and the US.

In terms of finance, some participants noted that for Chinese financial institutions seeking to do business abroad, US regulations and regulators were the most intrusive and extraterritorial among host countries. Even Japanese banks had occasionally run afoul of these rules and it seemed likely to a number of participants that some Chinese banks, inexperienced as they were in the international sphere, could run into trouble with US laws. Some participants warned that, if China were to retaliate by making its financial regulations as intrusive and extraterritorial as those of the US, it could lead to confrontations that would be very problematic for Japanese and US financial institutions. Thus, participants observed that it would be essential for Japan and the US to work together with China to ensure that the outward expansion of Chinese financial institutions would be economically beneficial for all parties and did not raise political tensions.

Another aspect of China's engagement with its neighbors was its massive efforts to integrate the region through infrastructure development through the Asian Infrastructure Development Bank (AIIB), the "One Belt, One Road" (Silk Road) project, and other initiatives. As one participant put it, when combined with China's efforts to support trade through bilateral free trade agreements and the Regional Comprehensive Economic Partnership (RCEP), these initiatives were like a new Marshall Plan for Asia. While the US and Japanese government had expressed serious reservations

about some of these projects, some participants contrasted China's outward gaze and positive vision with what they saw as an increasingly inward orientation on the part of the US. Depending on how the various initiatives actually worked out, they could help China to draw many of the countries of its region close economically—and perhaps politically as well. Several participants urged the governments and corporations of Japan and the US to engage with China so as to benefit from and shape that process of integration, and to avoid the development of exclusive economic spheres of influence in the region.

Finally, it was noted that the Asian economies were affected not only by official actions or even by FDI. Exports of a number of Asian economies were highly sensitive to growth in China; moreover, regional currencies were also quite sensitive to movements in the RMB, as so many of their companies either competed with Chinese companies or provided goods and services to China and Chinese companies. Rising capital outflows from China were also likely to affect Asian economies and currencies. And while Japan and the US were clearly less vulnerable to swings in the RMB, they retained an interest in its movements.

Topic 4

Reform of GPIF's Investment Strategy and Governance: Implications for International Capital Markets

In Session 4, participants discussed the status of reform of Japan's massive Government Pension Investment Fund (GPIF). There was considerable appreciation for the strides that GPIF had taken in diversifying its portfolio, although governance reform was seen to be lagging. Many participants expressed optimism that GPIF could be an important actor in improving Japanese capital markets.

GPIF REFORMS

The GPIF reform committee report of November 2013 had two pillars: portfolio and governance reform. Many participants agreed that portfolio reform had been remarkably successful. GPIF had shifted its allocation of domestic bonds from 62% in March 2013 to 39% in June 2015, as it diversified its holdings into domestic equities, international equities, and international bonds. Indeed, as of June 2015, GPIF had completed its transition to its new benchmarks. Returns had also risen dramatically.

Governance reform, in contrast, had proceeded less quickly. Currently, there was no board of trustees, so all investment decisions were ultimately the responsibility of the president. The reform plan called for an independent board with responsibility for investment and management decisions so as to improve accountability. Participants agreed that one reason for the delay in governance reform was that legislation would be required to change the governance structure. Legislation had been slowed by two factors, one of which was the intense debate over security bills that had preoccupied the Diet and voters for several months in the spring and summer of 2015.

More fundamentally, however, several participants pointed to opposition to the proposed changes on the part of Keidanren and many unions. Both had demanded that if an independent board were created, it should be dominated by representatives of management and labor rather than made of up investment professionals. Labor unions in particular had

opposed the reforms as being undemocratic, since they would delegate governance to an appointed board of experts. (Some participants expressed frustration with this argument, pointing out that at present all decisions were the responsibility of the president, which they saw as less democratically accountable than the proposed board structure.) As for Keidanren's resistance to the governance reforms, several participants argued that the true reason was concern that a more activist board would push for corporate governance reforms in the companies in which GPIF would invest.

Participants were cautiously optimistic that the Diet would pass the necessary laws in 2016. Passage of the governance reform was seen as important for several reasons. One was that over the long term, it would be impossible to depend on a single leader for consistently wise decisions. Moreover, having an accountable board and a clear set of governance rules in place was seen as reducing the anger of citizens if the Fund were to lose money in a given year. For many participants, however, the greatest benefit of GPIF governance reform would be the effect they expected it to have on other institutional investors and on the companies in which they invested. By providing a model of high-quality corporate governance and investments strategy, GPIF could put pressure on other pension and investment funds to improve their own governance and performance. They also hoped that more active investment strategies would contribute to capital markets in which good performance and good governance were rewarded.

However, until GPIF governance reform had been completed, it was noted that the fund

would continue to invest only in indexes, even as it changed its asset class allocation. Thus, it would not be able to differentiate between well-managed and poorly-managed companies in its equity investment decisions or to act as an activist investor as envisioned by the Stewardship Code. The one major innovation that allowed for a measure of activism was the establishment by the Tokyo Stock Exchange of the JPX-Nikkei 400 index, which was designed only to include those firms that demonstrated both good corporate governance and good returns. By focusing equity investment on that index, GPIF was able to partially fulfill its mission of promoting better governance on the part of Japanese firms. Still, many participants looked forward to the day when GPIF governance reform laws would be passed and the Fund could become a more activist investor.

EFFECTS ON CAPITAL MARKETS

While participants considered GPIF reforms to be important in their own right, given the fund's role as steward of the nation's pensions in an era of aging society and weak economic growth, many focused more on the potential impacts of GPIF reform on Japan's capital markets.

They argued that GPIF reform should be understood as part of Japan's wider corporate governance revolution. Good corporate governance, including board composition, committee structure, compensation practices, and audit practices, were seen as means of improving returns and reducing volatility relative to established Japanese patterns of appointing insiders as directors and relying on statutory auditors. The proposed GPIF governance reforms would embody those principles, and thus were seen as providing a powerful example to institutional investors and Japanese corporation of the government's commitment to improving governance as a step toward improving accountability and—they hoped—performance.

GPIF reform would interact in two ways with the stewardship code. First, governance reform would reflect the values embodied in that code. Second, GPIF would follow the stewardship

code in its investing practices, along with the UN responsible investor code.

For the moment, the hopes of these participants were only partially fulfilled. GPIF governance reform had not yet been passed by the Diet, and therefore had yet to act as an activist investor or even to vote its own shares. Some participants suggested that this pattern might not change even with governance reform, and that GPIF might remain a mostly passive investor.

In terms of acting as a role model for other institutional investors, participants agreed that it would take some time. Only after Diet approval of the reforms could GPIF begin to put into place active management (let alone internal management) of assets. Moreover, GPIF still had very few employees and did not pay them well in comparison with CalPERS and other similar funds. Without a fundamental change in compensation rules, many participants agreed that there would be little prospect of having experienced portfolio managers in-house. For example, although the salaries of GPIF's president and CIO had doubled (¥32 and ¥31 million), many participants still saw them as low. Staff salaries were also seen as much lower than CalPERS and other US funds, but others pointed out that there were not necessarily out of line with mid-level salaries in Japanese financial institutions.

Appendix

Symposium Participants

Symposium Agenda

Sponsor Profiles

Symposium Participants

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CEO, Americas, Sumitomo Mitsui Banking Corporation

Masashi Oba

*Member of the Board, Executive Vice President and
Chief Financial Officer, Tokio Marine Holdings, Inc.*

Alicia Ogawa

*Senior Advisor, Center on Japanese Economy and
Business, Mike and Maureen Mansfield Foundation*

Ronald P. O'Hanley

Chief Executive Office, State Street Global Advisors

Hiroshi Okada

Counselor, Embassy of Japan

Yuri Okane

Director, Tudor Investment Corporation

Mack Okubo

*General Manager, International Affairs, Planning
and Research Department, Nippon Life*

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Vice Chairman, Japan Investment Trust Association

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President, Okazaki Institute

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Managing Director, Nomura Holdings, Inc.

Melissa Otto

Director, TIAA-CREF

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*Chief Strategic Officer, Managing Director
(Member of the Board), Monex Group, Inc.*

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Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

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Naoki Tabata

Visiting Scholar, International Monetary Fund, Senior Adviser, Japan Economic Research Institute

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Senior Staff Writer, Nikkei

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*Manager, International Financial Institutions,
Federal Reserve Bank of New York*

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Chief Global Strategist, Nikko Asset Management Co., Ltd.

James Walsh

Managing Director, Walsh Advisors, LLC

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Senior Counselor, Morrison & Foerster, LLP

Hiroshi Watanabe

Governor, CEO, Japan Bank for International Cooperation

Tsutomu Watanabe

Professor, University of Tokyo

Bill Wilder

CIO & Senior Consultant, MATTER

Chris Winship

*Financial Attaché, US Embassy Tokyo,
U.S. Department of the Treasury*

Mark Wu

Assistant Law Professor, Harvard Law School

Osamu Yamamoto

Partner, Unison Capital, Inc

Takahiro Yazawa

*Executive Officer, Head of International Business,
SMBC Nikko Securities, Inc.*

Symposium Agenda

Thursday, November 5

6:00-6:30 p.m. COCKTAIL RECEPTION

6:30 p.m. GREETINGS AND INTRODUCTIONS

- Hal Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School
- Takashiro Furuhashi, Executive Director, International House of Japan

6:45-7:45 p.m. KEYNOTE ADDRESS

- Masatsugu Asakawa, Vice Minister of Finance for International Affairs, Ministry of Finance, Japan
- Tara Rice, Deputy Assistant Secretary for International Financial Stability, U.S. Department of the Treasury

7:45-9:30p.m. DINNER

Friday, November 6

7:15-8:00 a.m. BREAKFAST

8:10-9:00 a.m. KEYNOTE PANEL

- Glenn Hubbard, Dean, Columbia Business School
- Hal Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

9:00 – 9:35 a.m. PANEL SESSION

The end of large global banks?

Panelists will introduce and discuss issues relevant to the topic. Each panelist will make a 5-7 minute presentation, followed by a plenary discussion, before all of the participants are broken into small working groups.

- John Simonson, Principal, Financial Services Regulatory Practice, PricewaterhouseCoopers LLP
- Haruyuki Toyama, Corporate Advisor, Sumitomo Mitsui Trust Bank, Limited

9:40-11:00 a.m. SMALL GROUP SESSIONS

GROUP	ROOM	FACILITATORS	REPORTER
1	3015	Arthur Mitchell, Akira Ariyoshi	Bill Grimes
2	3012	Brian Kelly, Yasuhiro Harada	Alicia Ogawa
3	3011	David Asher, Hiroyuki Kamano	Dino Kos
4	3036	Doug Hymas, Shunichiro Kimpara	Hamilton Lin
5	3008	Satoru Murase, Yoneo Sakai	Rich Mattione
6	3007	Ed Rogers, Oki Matsumoto	Fabiana Fedeli
7	3038	Cliff Shaw, Osamu Yamamoto	Akihiro Wani

11:05-11:20 a.m. REFRESHMENT BREAK

11:20-11:55 a.m. PANEL SESSION

Gauging the success of the three arrows

Panelists will introduce and discuss issues relevant to the topic. Each panelist will make a 5-7 minute presentation, followed by a plenary discussion, before all of the participants are broken into small working groups.

- Charles Lake, President, Aflac International
- Tsutomu Watanabe, Professor, University of Tokyo

12:00 – 1:20 p.m. SMALL GROUP SESSIONS

GROUP	ROOM	FACILITATORS	REPORTER
1	3015	Roger Servison, Akira Ariyoshi	Bill Grimes
2	3012	Don Kanak, Yasuhiro Harada	Alicia Ogawa
3	3011	Chris Winship, Hiroyuki Kaman	Dino Kos
4	3036	Mark Siegel, Shunichiro Kimpara	Hamilton Lin
5	3008	Jim Walsh, Yoneo Sakai	Rich Mattione
6	3007	Garry Evans, Oki Matsumoto	Fabiana Fedeli
7	3038	Chris LaRosa, Osamu Yamamoto	Akihiro Wani

1:25 – 2:45p.m. LUNCHEON AND KEYNOTE ADDRESS

- Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation (FDIC)
- Introduced by: Hal Scott, Nomura Professor and Director, PIFS, Harvard Law School

2:45-4:00 p.m. PANEL SESSION- PLENARY DISCUSSION

Rise of China: Implications for Japan, the US and the global financial markets

A moderator will facilitate a discussion giving all panelists equal opportunity to participate before incorporating the audience as well. Panelist's remarks will provide a point of view that offers Symposium participants the benefit of analysis and insight on the topic.

- Masahisa Ikeda, Partner, Shearman & Sterling LLP
- Kozo Koide, Chief Economist, DIAM Co., Ltd.
- Hiroshi Watanabe, CEO, Japan Bank for International Cooperation
- Ronald O'Hanley, Chief Executive Officer, State Street Global Advisors (Moderator)

4:00-6:30 p.m. FREE TIME \ RAPORTEURS MEETING

6:30-7:10 p.m. COCKTAIL RECEPTION

7:15-7:45 p.m. KEYNOTE ADDRESS

- Shigesuke Kashiwagi, Chief Financial Officer, Nomura Holdings
- Introduced by: Atsushi Saito, Chairman, KKR Japan

7:50-9:45p.m. DINNER

Saturday, November 7

7:15-8:00 a.m. BREAKFAST BUFFET

8:10-9:10 a.m. PRESENTATION & DISCUSSION

Reform of GPIF's Investment Strategy and Governance: Implications for international capital

markets

Panelists will introduce and discuss issues relevant to the topic. Each panelist will make a presentation before turning it over to the audience for Q&A.

- Takatoshi Ito, Professor, School of International and Public Affairs, Columbia University
- Arthur Mitchell, Senior Counselor, White & Case LLP and Member of the Board of Directors, Sumitomo Mitsui Financial Group, Inc.

9:10-10:10 a.m. PRESENTATION & DISCUSSION

The end of large global banks?

Panelists will moderate a plenary discussion that uses a synthesis of the small group sessions from the previous day as the basis for session.

- Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy, Deloitte Touche Tohmatsu Japan
- Doug Hymas, Japan Country Executive, Managing Director, The Bank of New York Mellon

10:00-10:25 a.m. REFRESHMENT BREAK

10:25-11:25 a.m. PRESENTATION & DISCUSSION

Gauging the success of the three arrows

Panelists will moderate a plenary discussion that uses a synthesis of the small group sessions from the previous day as the basis for session.

- Yoshio Okubo, Vice Chairman, Japan Investment Trust Association
- Robert Dohner, Deputy Assistant Secretary for South and East Asia, U.S. Department of the Treasury

11:30-12:15 p.m. CLOSING LUNCHEON

Sponsor Profiles *(listed alphabetically)*

ABeam Consulting Ltd.



ABeam Consulting provides business transformation services that create strategic advantage, improve business processes, leverage technology innovation, and enhance organizational performance for leading

multinational and domestic companies worldwide. ABeam partners with clients to diagnose and solve their real challenges with solutions that combine industry and operational best practices with technical expertise. Pragmatic approaches ensure that clients gain measurable value more quickly. Headquartered in Tokyo, ABeam's over 4,100 professionals serve more than 700 clients throughout Asia, the Americas and Europe.

Advantage Partners, Inc.

Advantage Partners

Advantage Partners is a leading provider of services to private equity and similar funds focused on the Japanese and Asian markets. Advantage Partners was founded in 1992 by Taisuke Sasanuma and Richard Folsom and has been providing services to funds since 1997, when the firm established the first buyout fund in Japan. Funds served by Advantage Partners have invested in more than 40 companies representing total invested capital approaching JPY300 billion across a wide range of industries and sectors. Advantage Partners has offices in Tokyo and in Hong Kong.

Aflac



When a policyholder gets sick or hurt, Aflac pays cash benefits fast. For six decades, Aflac insurance policies have given policyholders the opportunity to focus on recovery, not financial stress. In the United States, Aflac is the leading provider of voluntary insurance at the worksite. Through its trailblazing One Day PaySM initiative, Aflac U.S. can receive, process, approve and disburse payment for eligible claims in one business day. In Japan, Aflac is the leading provider of medical and cancer insurance and insures one in four households. Aflac individual and group insurance products help provide protection to more than 50 million people worldwide. For nine consecutive years, Aflac has been recognized by Ethisphere magazine as one of the World's Most Ethical Companies. In 2015, Fortune magazine recognized Aflac as one of the 100 Best Companies to Work For in America for the 17th consecutive year. Also, in 2015, Fortune magazine included Aflac on its list of Most Admired Companies for the 14th time, ranking the company number one in innovation for the insurance, life and health category. Aflac Incorporated is a Fortune 500 company listed on the New York Stock Exchange under the symbol AFL. To find out more about Aflac, visit aflac.com.

Asian Century Quest

Asian Century Quest

Asian Century Quest LLC (ACQ) is a New York based investment management firm with asset under management of over \$1.5 billion. The portfolio is comprised principally of publically listed equities domiciled across Asia. ACQ seeks to achieve superior investment returns by utilizing rigorous, research-driven fundamental analysis to identify longer term investment opportunities across all major countries in the region. The firm's goal is to leverage its pan-Asian focus to identify companies in which capital can be reinvested at an attractive rate of return for a sustained period. The investment team includes a matrix of 20 research analysts based in New York, Tokyo and Hong Kong, combining sector-specific insights with country and regional expertise. The team has nine Japanese nationals with fluency also in Korean, and Mandarin Chinese.

The Bank of Tokyo-Mitsubishi UFJ, Ltd.



The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) is Japan's premier bank, with a global network spanning nearly 50 countries. BTMU offers an extensive scope of commercial and investment banking products and

services to businesses, governments, and individuals worldwide. In the Americas, BTMU has offices throughout the United States and in Canada, Mexico, and South America. BTMU's parent, Mitsubishi UFJ Financial Group, Inc. (MUFG), is one of the world's leading financial groups. MUFG's services include commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group's operating companies include BTMU, Mitsubishi UFJ Trust and Banking Corporation (Japan's leading trust bank), and Mitsubishi UFJ Securities Holdings Co., Ltd., one of Japan's largest securities firms. MUFG's shares trade on the Tokyo, Nagoya, and New York (NYSE: MTU) stock exchanges.

BCA Research

BCA is the leading independent provider of global investment research. Since 1949, BCA's mission has been to support its clients in making better investment decisions through the delivery of leading-edge analysis and forecasts of all the major asset classes and economies, as well as educating, informing and stimulating discussion through clear and thought-provoking research. The firm maintains a head office in Montreal, with local offices in London, New York, San Francisco, Hong Kong, Sydney, Cape Town and São Paulo. BCA provides analysis and forecasts for all asset classes and economies, covering every corner of the globe through its Global, U.S., European, Emerging Markets, Frontier Markets and China strategy services. Asset class coverage includes equities, fixed income, FX, commodities and energy – as well as the geopolitical issues affecting the investment climate. With over 65 research staff including 18 Chief Strategists, we have tremendous continuity amongst our team of strategists; nine have been with the firm for more than a decade. BCA strategists are supported with an environment conducive to independent thought. We employ proprietary models and leading indicators, and with over 160,000 data series, BCA controls a vast treasure of historical data, including countless proprietary leading indicators and predictive economic models. BCA has a dedicated Client Relationship Team for quick response and efficient fulfillment of client requests. The team is also available to assist with the provision of chartbooks and in the interaction between clients and BCA's research strategists



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CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is the leading voice for developing and setting the highest educational and professional standards in the industry to increase competence and integrity. We champion ethical behavior in capital markets through development of codes and standards that help guide the profession. Because we all have a responsibility and a role to play in building a stronger and more accountable investment industry, CFA Institute has launched a long-term global effort, the Future of Finance, to shape a trustworthy, forward-thinking financial industry that better serves society. It provides tools to motivate and empower, and its success is driven by ongoing input from an advisory council of prominent global leaders and others in the financial community. CFA Institute has more than 128,000 members in 149 countries and territories, including 120,000 CFA charter holders, and 144 member societies.

Citi



Citigroup's history dates back to the founding of the City Bank of New York in 1812. Citigroup's original corporate predecessor was incorporated in 1988 under the laws of the State of Delaware. Following a series of transactions over a number of years, Citigroup Inc. was formed in 1998 upon the merger of Citicorp and Travelers Group Inc. Citigroup is a global diversified financial services holding company, whose businesses provide consumers, corporations, governments and institutions with a broad range of financial products and

services, including consumer banking and credit, corporate and investment banking, securities brokerage, trade and securities services and wealth management. Citi has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. At December 31, 2014, Citi had approximately 241,000 full-time employees, compared to approximately 251,000 full-time employees at December 31, 2013. Citigroup currently operates, for management reporting purposes, via two primary business segments: Citicorp, consisting of Citi's Global Consumer Banking businesses and Institutional Clients Group; and Citi Holdings, consisting of businesses and portfolios of assets that Citigroup has determined are not central to its core Citicorp businesses.

CME Group



As the world's leading and most diverse derivatives marketplace, CME Group (www.cmegroup.com) is where the world comes to manage risk. CME Group exchanges offer the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate. CME Group brings buyers and sellers together through its CME Globex® electronic trading platform and its trading facilities in New York and Chicago. CME Group also operates CME Clearing, one of the world's leading central counterparty clearing providers, which offers clearing and settlement services across asset classes for exchange-traded contracts and over-the-counter derivatives transactions. These products and services ensure that businesses everywhere can substantially mitigate counterparty credit risk.

Daiwa Securities Group



The Daiwa Securities Group is a comprehensive financial services firm with a strong domestic network of 144 branches and sales offices nationwide, as well as a global network of operating offices in 20 countries and regions. The primary businesses of the Group are Retail, Wholesale and Asset Management. All business divisions and offices in Japan and overseas work in close cooperation, seeking ways to enhance synergy and provide a broad selection of financial products and services that meet the diverse needs of customers.

Deloitte Touche Tohmatsu LLC



Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 220,000 professionals are committed to making an impact that matters. Deloitte's Global Financial Services Industry practice is comprised of more than 34,000 dedicated professionals in more than 40 country member firms with a single focus: serving clients and helping them solve their toughest problems. The group is focused on five business segments— Banking & Securities, Insurance, Investment Management and Real Estate, with practitioners aligned specifically to each. The practice works in five key business areas — audit, enterprise risk services, financial advisory, tax & legal and consulting — and the real strength comes from combining the talents of those groups to address clients' needs. Deloitte's industry experience enables the delivery of tailored solutions to help companies address challenges, maximize market opportunities and create competitive advantage.

DIAM Co., Ltd.



DIAM Co., Ltd. was established in 1999 by merging the asset management houses of the Industrial Bank of Japan Co., Ltd. (the current Mizuho Financial Group) and The Dai-ichi Life Insurance Company, Limited. Inheriting the long experience and strong investment foundation of its predecessors, the company, which was known as DLIBJ ASSET MANAGEMENT CO., LTD., further broadened its base to become one of the largest managers of Japanese pension assets. On January 1, 2008, to reflect the company's growth and increased international stature, the name was changed to DIAM Co., Ltd. In an economic landscape undergoing seismic change, our long experience in Japanese pension asset management—and our access to the resources of Mizuho-DL Financial Technology Co., Ltd., Dai-ichi Life Research Institute Inc., Mizuho Research Institute Ltd., and subsidiaries and affiliates around the world—uniquely positions us to assist investors in managing portfolio risks and returns on a global basis.

Elliott Management



Elliott Management Corporation is responsible for the management of two funds, Elliott Associates, L.P. and Elliott International, L.P., who together have more than \$19 billion of capital under management. Founded in 1977, Elliott is one of the oldest firms of its kind under continuous management, and its investors include large institutions, college endowments, charitable trusts, family offices, and friends and employees of the firm. Elliott has major investment interests around the world and pursues a diversified trading program, emphasizing thoroughness, hard work, creativity, and tenacity. The firm seeks to generate an annual return with a high degree of consistency, regardless of fluctuations in the stock and bond markets. Since inception through March, 2012, Elliott has generated a 14.0% net compound annual return, compared to 10.6% for the S&P 500 stock index. The annual standard deviation of returns for Elliott over this period was only 5.8%, compared with 16.4% for the S&P 500. Elliott's performance has been highly consistent throughout many market cycles and has resulted in only nine losing quarters during its more than 35-year history.

Fidelity Investments



Global Strategic Associates



Global Strategic Associates LLC (GSA) is an independent, privately owned international advisory firm. We work with a select group of clients that seek significant capital investment, guidance on expanding operations into foreign markets, and expertise in corporate finance and mergers and acquisitions. The firm specializes in three main areas: (i) access to high value sources of investment capital and financing; (ii) sourcing and advising on global investment opportunities, with a particular emphasis on Asia, Latin America, and the Middle East; and (iii) structuring and negotiating complex cross border financial and strategic transactions. We represent financial

institutions and sponsors, asset managers, corporations and real estate developers that want equity and/or debt financing or expert advice on large investment and strategic opportunities. Our clients include some of the most prominent investors in the world. We offer clients access to key relationships with the most active and best funded sources of capital in Greater Asia and China, the Middle East, ASEAN member countries and the United States. These relationships and sources of capital include sovereign wealth funds and state-owned enterprises. GSA is particularly adept at bringing these constituencies together and creating value through this process. Founded by Ambassador Paul Speltz in 2009, GSA is headquartered in New York City and has grown into a global operation with offices and wholly owned subsidiaries in Hong Kong and Beijing. With over 160 years of collective experience working and residing throughout Asia, Latin America and the Middle East, the GSA team consists of professionals who have held senior positions in the public and private sectors, and includes corporate leaders, former Ambassadors and senior-level Presidential appointees.

Japan Exchange Group, Inc.

Japan Exchange Group, Inc. (JPX) is Asia's leading global exchange group and home to subsidiaries Tokyo Stock Exchange, Inc. (TSE) and Osaka Exchange, Inc. (OSE). The JPX cash equity market operated by TSE hosts over 3,400 companies and boasts the market capitalization of approximately USD 4.41 trillion (JPY 528 trillion, as of Sep. 2015) while the OSE market offers, among others, highly liquid Nikkei 225 futures, TOPIX futures, JPX-Nikkei 400 futures as well as benchmark JGB derivatives. Providing clearing services through subsidiary Japan Securities Clearing Corporation and self-regulation through a dedicated organization, Japan Exchange Regulation, JPX offers integrated infrastructure that enhances the appeal and functionality of the Japanese securities market. In its commitment to Asia, JPX collaborates with exchanges in the region to play an integral role in developing Asian financial and capital markets.



Japan Investment Advisers Association (JIAA)

Japan Investment Advisers Association (JIAA) was established in October 1987. JIAA is acting as a self-regulatory organization (SRO) as well as a trade association. JIAA has 261 Investment Management Members whose assets under management is Yen 205 trillion (US\$ 1.7 trillion) and 476 Investment Advisory Members as of June 30, 2015. For the protection of investors and the sound development of the asset management industry, JIAA is engaged in a wide range of activities including: Establishment and enforcement of self-regulatory rules, Representation and advocacy before relevant authorities, Publication of statistics and preparing of reference materials, Corporate governance, Training programs and seminars, and Establishment of sponsored courses at universities. JIAA is expected to act as an intermediary between the asset management industry and the relevant authorities in order to help both members and the authorities have better communication with one another, which should contribute to facilitating innovation and establishing a better regulatory environment.

Japan Securities Dealers Association (JSDA)

Japan Securities Dealers Association (JSDA) is a primary self-regulatory organization (SRO) in Japan's securities market. Its legal status is as a Financial Instruments Firms Association authorized by the Prime Minister, pursuant to Article 67-2, Paragraph 2, of the Financial Instruments and Exchange Act. The members of JSDA consist of securities firms, banks, and other financial institutions operating securities businesses in Japan. As a fully empowered SRO, JSDA extensively regulates market intermediaries, aiming to protect investors by ensuring fair securities



transactions. Its self-regulatory functions encompass rulemaking, enforcement, inspection, disciplinary actions, accreditation of sales representatives, and dispute mediations. JSDA also functions as an interlocutor for the securities industry, providing vehicles for policy dialogue among the industry, the government and other related parties, as well as conducts and promotes investor education, and implements studies to further activating the market.

JPMorgan Chase & Co.

JPMORGAN CHASE & CO.

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of \$2.5 trillion and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands. Information about JPMorgan Chase & Co. is available at www.jpmorganchase.com.

Kamano Sogo Law Offices

KAMANO SOGO LAW OFFICES

Kamano Sogo Law Offices offers a full range of legal services in international and domestic business transactions. Practice areas are: International, Corporate, Commercial, Banking, Trust, Securities, Finance, Leases, Anti-Monopoly, Mergers and Acquisitions, Foreign Investments, Intellectual Property, and Litigation. Based on the firm's expertise and primary focus on international business transactions, the firm regularly assists overseas clients conducting business in Japan, as well as guiding Japanese clients with investments and businesses abroad. Mr. Hiroyuki Kamano, the firm's founding partner, and other members of the firm have various international experience, which enables them to provide clients with a comprehensive legal representation from a global perspective. All of the members of the firm are committed to providing clients with legal representation based on dedication, experience, continuing legal education, and active involvement in legal and business developments.

Mitsubishi Corporation



Mitsubishi Corporation (MC) is a global integrated business enterprise that develops and operates businesses across virtually every industry including industrial finance, energy, metals, machinery, chemicals, foods, and environmental business. MC's current activities are expanding far beyond its traditional trading operations as its diverse business ranges from natural resources development to investment in retail business, infrastructure, financial products and manufacturing of industrial goods. With over 200 Offices and Subsidiaries in approximately 90 countries worldwide and a network of over 600 group companies, MC employs a multinational workforce of over 70,000 people.

Mizuho Bank, Ltd.



The Mizuho Financial Group is one of the largest financial institutions in the world, offering a broad range of services including banking, trust banking and securities, and other business related to financial services through its group companies. The group has approximately 55,000 staff working in approximately 900 offices inside and outside Japan, and total assets of over US\$1.5 trillion (as of March 2015). Under the umbrella of the holding company Mizuho Financial Group, our major group companies include Mizuho Bank (MHBK), Mizuho Trust & Banking (MHTB) and Mizuho Securities (MHSC). MHBK is a leading financial institution with one of the largest customer bases in Japan, leveraging the comprehensive capabilities of the Mizuho group fully to meet its customers' diverse financial needs and contribute to the economic and social development of Japan and countries around the world.

Monex Group Inc.



MONEX GROUP

The Monex Group (TSE: 8698) is a global online financial institution centered around three online brokerages, Monex, Inc. in Japan, TradeStation Group, Inc. in the U.S., and Monex Boom Securities Limited in Hong Kong. It has 12 offices across the globe and about 1,000 employees, with more than half of its staffs located in the U.S. The Monex Group aspires to empower traders and investors worldwide with best of breed technology, education, service, and financial professionalism to provide access to top financial markets globally.

Nagashima Ohno & Tsunematsu

長島・大野・常松 法律事務所
NAGASHIMA OHNO & TSUNEMATSU

Nagashima Ohno & Tsunematsu, having offices in Tokyo, New York, Singapore, Bangkok, Ho Chi Minh City, Hanoi and Shanghai, is widely known as a leading law firm and one of the foremost providers of international and commercial legal services in Japan. The firm represents domestic and foreign companies and organizations involved in every major industry sector and in every legal service area in Japan. The firm has structured and negotiated many of Japan's largest and most significant corporate and finance transactions, and has extensive litigation strength spanning key commercial areas, including intellectual property, labor and taxation. The firm comprises around 350 lawyers capable of providing its clients with practical solutions to meet their business needs.

Nikko Asset Management

nikko am
Nikko Asset Management

Nikko Asset Management is positioning itself to be Asia's premier global asset manager. The firm offers world-class asset management solutions for global investors, and has US\$161.3 billion (19.74 trillion yen) in assets under management*. With approximately 200 investment professionals**, the firm leverages its extensive global resources representing over 30 nationalities across 11 countries. Headquartered in Asia for over 55 years, Nikko Asset Management's vantage point, extending east to west, distinguishes its investment approach.

* As of 30 June 2015

** As of 30 June 2015, including employees of Nikko AM and its subsidiaries, but excluding minority affiliates and minority joint ventures.

Nomura

NOMURA

Nomura is an Asia-based financial services group with an integrated global network spanning over 30 countries. By connecting markets East & West, Nomura services the needs of individuals, institutions, corporates and governments through its three business divisions: Retail, Asset Management, and Wholesale (Global Markets and Investment Banking). Founded in 1925, the firm is built on a tradition of disciplined entrepreneurship, serving clients with creative solutions and considered thought leadership. For further information about Nomura, visit www.nomura.com.

Norinchukin Bank

The Norinchukin Bank

The Norinchukin Bank (the "Bank") was established in 1923 as a quasi-governmental financial institution and became a private bank in 1959. The Bank is one of Japan's largest and most distinguished banks.

The Bank is the central bank for Japan's agricultural, forestry, and fishery cooperative systems. Based on constant stable funds funding procurement from member cooperatives, the Bank carries out efficient and flexible asset management by investing investment activities in various financial products. This is carried out on a global scale. The profits from these activities are then continuously passed on to its members. The Bank

has branches in the world's major financial centers, including New York, London, and Singapore. Coupled with its head office in Tokyo, this network enables 24-hour coverage of the global financial markets. For further information, please visit <http://www.nochubank.or.jp/en/>.

PricewaterhouseCoopers

Coming from Allison Gilmore



Shearman & Sterling LLP SHEARMAN & STERLING LLP

Shearman & Sterling has been advising many of the world's leading corporations and financial institutions, governments and governmental organizations for more than 140 years. We are committed to providing legal advice that is insightful and valuable to our clients. This has resulted in groundbreaking transactions in all major regions of the world. In Beijing, for example, we advised on the first successful transaction done under new Chinese M&A rules and, more recently, played a key role in the US\$ 2.4 billion initial public offering of Metallurgical Corporation of China Ltd, one of Hong Kong's largest IPOs of 2009, and in Shiseido's acquisition of US cosmetics company Bare Escentuals. Together, our lawyers work across practices and jurisdictions to provide the highest quality legal services, bringing their collective experience to bear on the issues that clients face. For example, underpinning the quality of our work firm-wide are our shared values. We take pride in the successes of our clients and in our contributions to them.

SMBC Nikko Securities Inc.



Since its establishment in July 1918, SMBC Nikko Securities Inc. —then known as Kawashimaya Shoten— has grown with its customers for over 90 years. It started a new chapter in SMBC Nikko's history in October 2009 as a member of Sumitomo Mitsui Financial Group (SMFG). One of the largest full service securities and investment banking firms in Japan and a provider of high-quality products and services, SMBC Nikko Securities is working with Sumitomo Mitsui Financial Group (SMFG) to create a new business model integrating banking and securities activities. It aims to become the number one securities company in Japan by delivering still more value. www.smbcnikko.co.jp

State Street



With US\$28.5 trillion in assets under custody and administration, and US\$2.4 trillion in assets under management* as of March 31, 2015, State Street is a leading financial services provider serving some of the world's most sophisticated institutions. Our suite of services spans the investment spectrum, including investment management, research and trading, and investment servicing. With operations in 29 countries serving clients in more than 100 markets, our global reach, expertise, and unique combination of consistency and innovation help clients manage uncertainty, act on growth opportunities and enhance the value of their service. Since entering the European market in 1970, we've worked to strengthen and expand our presence in the EMEA region to better serve our clients. Today, with more than 10,000 employees as of March 31, 2015 and 17 offices throughout Europe, the Middle East and Africa, we offer investors a complete range of financial solutions backed by local expertise. For more information, visit our web site at www.statestreet.com.

** Assets under management include the assets of the SPDR® Gold ETF (approximately \$28 billion as of March 31, 2015), for which State Street Global Markets, LLC, an affiliate of SSGA, serves as the distribution agent.*

Sumitomo Mitsui Banking Corporation



Sumitomo Mitsui Banking Corporation ("SMBC") was established in April 2001 through the merger of two leading banks of The Sakura Bank, Limited and The Sumitomo Bank, Limited. Sumitomo Mitsui Financial Group, Inc. was established in December 2002 as a bank holding company through the share transfer, and SMBC became a wholly owned subsidiary of SMFG. SMBC's competitive advantages include its solid and extensive client base, the expeditious implementation of strategies, and also the service providing capability of its predominant Group companies. SMBC, as a core member of SMFG, integrally work with other Group companies to provide highly sophisticated and comprehensive financial services to clients.

Sumitomo Mitsui Trust Group



Sumitomo Mitsui Trust Group (SuMi TRUST) is established in 2011 through the management integration between Chuo Mitsui Trust Group and Sumitomo Trust and Banking Group. SuMi TRUST is an only one listed trust bank group in Japan, which boasts 81 trillion yen in assets under management, and 232 trillion yen in domestic entrusted assets* as of the end of June 2015. *Total trust assets of the group companies. Based on the "Trustee Spirit" and with significant expertise and comprehensive capabilities, "SuMi TRUST" will create distinct value by leveraging a new business model, combining its banking, asset management and administration, and real estate businesses, and will move onto the global stage as a leading trust bank group which boasts the largest and highest status in Japan.

Tokio Marine & Nichido Fire Insurance Co., Ltd.



**TOKIOMARINE
NICHIDO**

Tokio Marine & Nichido was founded in 1879 as Japan's first insurance company and is a leader in the non-life insurance industry in Japan. It delivers optimal insurance products and services for customer needs from an ample product lineup and diverse service menu through

agencies with 51,364 offices in Japan (as of March 31, 2015). Our mission is to respond to our customers' hopes and trusts through superior product and service development and risk consulting, as well as its superior distribution network of agents, claims settlement service network and worldwide network. We aim to be a "Good Company" by acting with integrity for the benefit of our customers, business partners, and society.

Unison Capital



UNISON CAPITAL

Having been founded as an independent investment fund in 1998, Unison Capital is a pioneer of private equity in Japan, focusing primarily on mid-cap buyouts in both Japan and Korea. Managed by a handful of seasoned professionals with no ties to large corporate groups, we assist our portfolio companies in devising strategies to enhance their long-term value, without falling prey to conflicts of interest. We seek "growth with stable cash flows", while our investment philosophy is for management, employees and shareholders to work in unison to deliver growth and create value. We rely on an extensive and long-standing global network consisting of in-house management advisors, financial institutions and consulting firms. Our investor base consists of world-class government and financial institutions, pension funds and endowment funds, domiciled both in Japan and overseas. The funds managed by Unison Capital have aggregated over 350 billion in total commitments to date. Through 23 investments totaling over 650 billion yen in total enterprise value, we have accumulated in-depth industry knowledge and business management expertise across a range of industries including retail/services, consumer goods, healthcare, manufacturing, technology, telecom/media, financial services and real estate.