

# **Japan Revival Vision**

*Provisional Translation*

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Liberal Democratic Party of Japan  
Japan Economic Revival Headquarters



*Note: This is only a provisional translation. With regard to any parts that seem unclear, please refer to the original Japanese version.*

## **Introduction**

In December of 2012, the Liberal Democratic Party returned to power with Prime Minister Abe in the lead, based on the slogan “Take Back Japan”.

After the bubble burst, Japan had experienced a “Lost Two Decades” of long-term economic slump and deflation. Furthermore, stagnation escalated following the “Lehman Shock”, partly due to the deficient economic policies of the new government established after the LDP lost power. However, after the launch of the second Abe Cabinet, as a result of releasing what is known as the “Three Arrows,” domestic and international perceptions of Japan’s economic prospects significantly improved. This was reflected in the rapid rise of stock prices last year. The first arrow was aggressive monetary easing; the second arrow, flexible fiscal policy; and the third arrow, released in June of last year, was the Japan Revitalization Strategy, “Japan is Back”. According to the Tankan (the Bank of Japan’s quarterly economic survey) published in December of last year, for the first time in 21 years and 10 months, the Business Sentiment Diffusion Index turned positive for small and medium-sized enterprises in the non-manufacturing sector, which had been suffering from a long-term slump. Moreover, real GDP for the first quarter of this year grew as much as 5.9% on an annual basis, although this was buoyed in part by rush-demand before the increase of the consumption tax rate. In view of these positive trends, the business conditions are solidly on the upturn.

Nonetheless, as shown by the fact that stock prices have been seesawing since the start of this year, the future actions of the Japanese Government remain the focus of attention both domestically and abroad. Above all, the revision of the Japan Revitalization Strategy scheduled for June of this year is extremely important. Therefore, this proposal document, which is a revised version of the “Interim Proposals” prepared by the Japan Economic Revival Headquarters of the LDP last year, must make the maximum possible contribution to that revision of the government’s strategy.

Of course, the root causes of the structural issues faced by Japan’s long-struggling economy cannot be eliminated overnight. No significant changes have yet occurred to the overall low level of Japanese companies’ international competitiveness, at a time when other developed countries’ economies have been growing more sophisticated, and emerging economies continue to grow. In addition, within Japan, the regional economies are still significantly battered, and some even perceive that the daily lives and livelihoods of citizens may be getting more difficult.

Based on the economic reality depicted in the graph on page 39 comparing Japanese and U.S. productivity by industry, it is clear that stagnation of productivity is still an extremely serious problem, especially when coupled with setbacks in international competition. The concentration of the working population in the less productive, non-manufacturing sector is considered to be the principal reason why there is not yet a tangible sense of economic turnaround in society as a whole.

At this low level of productivity, we cannot expect increases in corporate profitability. This in turn will make it difficult to raise wages or expand employment, both of which are goals that Abenomics has set to achieve on a permanent basis. Thus, it will simply not be possible to improve the quality of life for citizens unless these deep-rooted problems related to industrial structure and the economic system of Japan are solved. Currently, the world is watching Japan with high expectations, to see whether it will take decisive action on these issues. This is why attention is focused on the content of the “Third Arrow” and whether its policies will be implemented in a speedy and thorough manner.

In December of last year, Germany’s former Prime Minister Schröder visited Japan, gave a lecture, and participated in a panel discussion under the title “Recommendations for Abenomics.” Successful restoration of the profitability and international competitiveness of German companies through comprehensive reforms of employment, tax, and corporate systems – later collectively called “the Schröder Reforms” – have transformed Germany. Once called “the Sick Man of Europe” in the 1990s, Germany has become the “driving force of the European economy,” enjoying the greatest prosperity in the Eurozone. Former Prime Minister Schröder was the central figure in this turnaround. He did away with cross-shareholdings by boldly abolishing capital gains taxes on stock sales; and he enhanced corporate governance, strengthened companies, fortified the financial sector, increased labor mobility, and advanced social security reforms. When asked what the key to the success of his reforms was, he replied without hesitation: “unwavering, top-down implementation of reform by the nation’s leader.”

Now is the time for comprehensive reforms that could be called “Japan’s Schröder Reforms” to be implemented. Under the firm leadership of Prime Minister Abe, the government and the ruling party must work as a united team to revitalize the Japanese economy through reform. In particular, it is important to work on the Japanese corporate structures, economic cultures and ecosystems which for the most part have been essentially untouched in the past, and transform Japanese firms into companies that are healthy, dynamic, and competitive.

To restore confidence - this is what the LDP promised the citizens of Japan in the last general election and the last upper house election. However, we should begin by realizing once again that there is great potential within the Japanese people and within Japanese companies themselves.

For example, Professor Shinya Yamanaka of Kyoto University, a Nobel Prize winner, won that prize just six years after he successfully induced the generation of iPS cells, at a time when there were no certain prospects for practical applications of his findings. From this, it is obvious that Professor Yamanaka is endowed with an epoch-making, enormous ability to innovate. In addition, four Japanese companies ranked in the top ten in the US patent acquisition rankings of last year (see further down in this document), which is the greatest number for any country. This fact shows that Japanese companies are by no means inferior to companies of other countries in terms of innovation.

However, there is a problem: many Japanese Nobel Prize winners have chosen to permanently reside in the U.S. They have left their Japanese universities and laboratories, and their talent is not contributing in Japan. Moreover, while Japanese companies are strong in terms of the number of acquired patents, their return on equity (ROE) is far inferior to that of other multinational companies, and they fail to leverage their strengths into increased international competitiveness. Companies with potential should grow. However, inasmuch as there has been a persistent trend of slower growth and declining competitiveness of Japanese companies, there must be factors that are inhibiting growth. The “Interim Proposals” prepared by the Japan Economic Revival Headquarters of the LDP last year identified and proposed solutions for the following obstacles: excessive regulations, procrastination finance, corporate governance that lags other countries, a bureaucrat-led economy, and closed domestic markets.

In addition, it is important for the Japanese people to recapture the “courage to try” and to turn potential into reality - the “animal spirits” that are needed to boldly tackle new challenges. In order to recapture these animal spirits and harness the power of imagination to create new value, strategic corporate management induced by effective corporate governance is necessary. To this end, not just businesses, but institutions of higher education such as universities must be responsible for the development of energetic human resources. In this revision of the growth strategy, we have formulated policy proposals based on such recognition of the fundamental issues we have been facing.

One of the biggest challenges facing the Japanese economy is simultaneously to restore sound public finances, now at the most critical level among developed countries, and to achieve higher growth at the same time. In April of this year, the consumption tax was increased by 3%, and decision must be taken by the end of this year on a further increase of 2% in October 2015. However, even if this further increase is implemented as scheduled, it will by no means be easy to achieve the goal of a positive fiscal primary balance for the combined total of the national and the regional governments by 2020, which is the government’s target. It need hardly be mentioned that, in addition to clarifying the mid- and long-term path for restoring

fiscal health through revenue and expenditure reform, administrative reform, and other measures, we need to address head-on reform of the social security system, which is the largest expenditure item. However, at the same time, we must not lose sight of our basic perception that fiscal reform will not be possible without growth (“no growth, no fiscal reform”).

Keenly aware of the problems described above, the Japan Economic Revival Headquarters of the LDP has set the following seven pillars as its most important policy themes, and is striving to execute these policies in a steady and prompt manner, as the responsible ruling party.

**The Seven Pillars of the “Japan Revival Vision”  
of the LDP and its Japan Economic Revival Headquarters**

- 1. Japan Revival through Strong, Sound Companies**
- 2. Public Asset Management Reform to Enhance Prosperity**
- 3. Strengthening Human Capacity**
- 4. Bold Financial Reform for Japanese Revival**
- 5. Becoming a #1 Country for Entrepreneurship**
- 6. Promotion of Involvement by Active Women**
- 7. Achievement and Perceived Sense of Growth in Local Economies**

**1. Japan Revival through Strong, Sound Companies**

The world is watching to see whether Japanese companies can regain strong competitiveness and transform themselves into high-potential companies that are worthy of investment. In order to overcome low profitability and low productivity, and regain top-class international competitiveness and dynamics, there is a strong need for Japanese companies themselves to firmly implement reforms one after another at a pace faster than the leading global companies that are evolving further every moment. It is the crucial mission of government and politics to make it easier for companies to strengthen their competitiveness through their own efforts, and to

create an environment where they can more easily realize their potential by making effort on their own initiative.

In last year's "Interim Proposals", we pointed out that some of the reasons for the loss of international competitiveness of Japanese companies included inadequate functioning of corporate governance and, as a result, low profitability by international standards. In addition, these factors were one source of the low level of inward foreign direct investment (FDI) into Japan, and we made clear that corporate governance reform is essential to achieving the doubling of inward foreign direct investment by 2020 as part of the Japan Revitalization Strategy. In this proposal document, as an advanced version of the "Interim Proposals", we propose more concrete reform policies.

These policies go one or even two steps further than past proposals, by proposing the adoption of a Corporate Governance Code, promotion of the dissolution of cross-shareholdings and measures to deal with the resulting impact on stock prices, promotion of the introduction of independent outside directors, and a review of legal systems and operational practices regarding corporate revitalization.

## **2. Public Asset Management Reform to Enhance Prosperity**

The Abe Cabinet promptly set up and implemented the "Three Arrows" policy framework in order to end longstanding deflation and revitalize the Japanese economy. This has already generated successful results to some extent. However, with regard to "growth strategies to encourage private investment", which is the focus of the third arrow, it is extremely important to continue to examine and implement all political options. Above all, it is urgently necessary that we enact reforms for the effective investment of financial assets that can be more efficiently deployed, by considering more advanced investment methods for public and semi-public funds. Such reforms are also needed in order to have an impact on corporate behavior.

Reforming the Government Pension Investment Fund (GPIF) in order to encourage more flexibility via diversified investment, and to enhance governance with respect to matters such as the risk management framework, will serve the interests of pensioners. It will also lead to a virtuous cycle in the economy, and the generation of wealth in a broad sense.

Furthermore, with regard to so-called "dormant deposits," to which no deposits or withdrawals have been made for the past 10 years and whose depositors cannot be contacted, measures to utilize such deposits in a broad and socially-beneficial way should be examined.

### **3. Strengthening Human Capacity**

Japan is a society facing rapid population shrinkage. In order to maintain and develop economic activity under these circumstances, it is essential to not only ensure a sufficient working population, but also further develop our human resources.

To maintain a large enough labor force, flexible working environments that make it easier for the current working generations to work should be arranged. Limits on the acceptance of foreign technical intern trainees should be reduced, and periods of stay should be extended, while enhancing governance at host organizations. In addition, we propose to re-vitalize Japan's economy by accelerating the introduction of knowledge and vitality from overseas, and by considering the admission of a broader range of foreign personnel, in addition to highly specialized and skilled foreign workers.

At the same time, during the past year there have been major advancements with regard to the university governance reforms set forth in last year's "Interim Proposals" to upgrade universities that they will raise the competent personnel who can serve as the foundation of Japan's future society, and develop world-class human resources and research capabilities. These advancements include re-defining the position of faculty councils by revising the School Education Act. In order to press ahead with university governance reform, we continue to propose broader and more concrete directions for governance reform at national universities, public universities, and private universities, including a review of the National University Corporation Act, which was enacted more than 10 years ago.

### **4. Bold Financial Reform for Japanese Revival**

The Japanese economy, and local economies in particular, are heavily dependent on indirect finance, i.e. bank lending. In the "Interim Proposals" of last year, as one of the reasons for the low metabolism of the Japanese economy, we pointed out that the passive attitude of financial institutions toward credit provision, and that it is essential to shift finance toward emphasis on corporate revival and support for new business, rather than taking the easy way out.

The most important issue is to revitalize regional companies and industries. We expect that under stronger, more open corporate governance, the financial institutions themselves will enhance their profitability and capital adequacy, and aim at greater multi-functionality, based on their own business judgment. We also believe it is important to seriously explore the possibility of forming new, wide-area regional financial institutions – for example, "Japan super regional banks". Furthermore, regarding bank transfers, a growing number of countries have

introduced systems by which it is possible to send and receive money instantly 24 hours a day, including weekends. The government and the Bank of Japan should cooperate closely with the financial and industrial sectors to improve user convenience and, as a result, improve the productivity of corporate activities by creating a 24-hour instantaneous funds transfer system.

Likewise, the Japan Exchange Group, which has an 80% share of the derivative transactions inside Japan, should be transformed as promptly as possible into a comprehensive exchange that also handles commodity derivatives, in order to strengthen international competitiveness by offering a wide variety of products, and in order to increase convenience for market participants.

Furthermore, to prevent Japan from becoming an economic version of the Galapagos Islands, and to develop companies and employees that can perform well on a global stage, we propose to set up a concrete schedule for unifying accounting standards to a single standard that will be accepted internationally, and offer support to companies that introduce them.

## **5. Becoming a #1 Country for Entrepreneurship**

Even now, we cannot say that Japan is considered to be a preeminent nation for entrepreneurship, even in the Asian region. Statistics show that companies that are less than 10 years old are more active in creating employment. Therefore, the creation and development of world-class venture companies is essential to the vitalization of the Japanese economy.

On September 25, 2013, Prime Minister Abe said at the New York Stock Exchange, "I would like to transform Japan into a 'great entrepreneurial nation' like the US." In order to achieve this, there is a strong need for the government to establish systems that support the private sector in creating social and economic environments in which the younger generation can take on new challenges without undue fear of risk, and where even after experiencing failure they can get up and try again. At the same time, we should prepare necessary policies on our own, and press ahead for their execution by the government with all our energy. In order for the entire government to support new entrepreneurs in all the areas that can generate new ideas, new technologies, and new employment, we propose to establish a "Leading Entrepreneurship Nation Promotion Headquarters" (provisional name) in the Prime Minister's Office.

## **6. Promotion of Involvement by Active Women**

Women who work actively in society and “shine” not only fundamentally energize Japan, but are essential to increasing productivity and revitalizing the Japanese economy.

However, it is undeniable that Japan still faces more challenges than other countries with respect to its policies to promote the full utilization and activation of women. We are still only mid-course on the road to raising the workforce participation rate and the number of employed women. We need to patiently enact measures that combine various policies, including support systems to change society and corporate awareness, and revision of the tax system.

At the LDP’s Japan Economic Revival Headquarters, we believe that the key to increasing “women power” and supporting women so that they can actively participate in society lies in expanding “options” for various types of working styles that are flexible and can fit with women’s life cycles and life stages. In order to arrange environments that support women in balancing working, child-raising, and care of the elderly from all points of view, we also propose to increase the awareness and “visibility” of working styles at employment locations, and reform the social security and pension systems.

## **7. Achievement and Perceived Sense of Growth in Local Economies**

“No Japan revitalization without regional revitalization” is the slogan we set forth in last year’s “Interim Proposals”. Above all, it is essential for people in local economies to feel a real sense of economic growth.

Strengths unique to local economies tend to arise from love of one’s homeland or of that particular region. Thus, it is important to respect and reinforce regional cultures. Moreover, a range of support measures that consider local companies’ specific needs and characteristics are needed, and it is of paramount importance for the government to develop these various measures as comprehensive and cross-cutting policies that closely link the relevant implementing ministries and agencies.

To this end, we propose to implement policies to enhance inter-ministerial information sharing via the “Regional Revitalization Bureau”, to further increase love for (and ties to) local regions, and to strengthen the potential of the human resources – the *people* - who are the principal source of regional power, and to take other measures.

## Table of Contents

1. Japan Revival, through Strong, Sound Companies.....	14
(1) Corporate Tax.....	14
● Growth-Focused Corporate Tax Reform.....	14
(2) Corporate Governance Reform, to Strengthen Competitiveness.....	14
● Eliminating Cross Shareholdings, Strengthening Equity Holding Rules for Banks and Financial Institutions.....	17
● Consideration of Cross-Holding Curbs and Mandatory Disclosure.....	17
● Response to Impact of Elimination of Cross Shareholdings on Equity Prices.....	17
● Promotion of Independent Outside Directors.....	18
● Formulation of a Corporate Governance Code.....	18
● Revision of Law and Practice in Corporate Revival.....	21
2. Public Asset Management Reform to Enhance Prosperity .....	22
(1) Reform of the GPIF .....	22
● Joint Reform of GPIF Asset Management and Governance System.....	22
● Reforms for More Flexible Asset Management .....	23
(2) Asset Management Reform at Universities .....	24
● Promotion of Asset Management Reform at Universities.....	24
(3) Utilization of Dormant Deposits.....	24
● Enactment of “Dormant Deposit Utilization Law” .....	24
3. Strengthening Human Capacity .....	25
(1) Realization of a Society That Offers Flexible and Diversified Working Environments	25
● Diffusion and Expansion of “Diversified Full-Time Employees” .....	25
● More Flexible Understanding of Labor Compensation .....	25
● Establishment of Fair and Highly Transparent Rules for Employment .....	26
● Forward-Looking Review of Job Cards.....	26
● Consider Review of Old-Age Pensions for Active Employees .....	26
(2) Promotion of Utilization of Foreign Human Resources.....	27
① Development and Expansion of the Technical Intern Training Program (TITP) .....	27
● Extension of Period .....	27
● Expansion of Number of Trainees that Can Be Received.....	27
● Expansion of “Technical Intern Training (ii) Transferable Occupations” .....	27
● Response to Technology Innovation and Demand for Multi-Skilled Workers.....	28
● Review of the Technical Intern Training Evaluation System .....	28
● Clarifying the Roles of Institutions Operating and Directing TITP, and Enhancement of its Functions and Structure .....	28
● Enhancement of Detection Capability and Clarification of Punishment in Case of the Trainee Disappearance in Japan .....	29
● Sharing of Japanese Language and Culture .....	29
● Promotion of Understanding of Welfare Pension Insurance Application for TITP Trainees.....	30

② Aiming to Become a More Open Nation .....	30
● Admit Greater Numbers of Highly Skilled Persons .....	30
● Nation-Wide Discussions for the Future .....	30
(3) Better Lifestyle through Reform of Defined Contribution Pensions .....	31
● Review of Constraints on Matching Contributions .....	31
● Diffusion of the Corporate DC System to Employees of Small Firms .....	32
● Improving DC System Asset Choice after Exit from Deflation.....	32
(4) Further Promotion of University Governance Reforms .....	33
● Clarification of Governance by Defining the Role of Faculty Councils (revision to School Education Act) .....	34
● Nomination and Selection of Presidents .....	35
● Selection of Department Chairs by President; President's Authority to Make Personnel Decisions and Prepare the Budget.....	36
● Majority of External Committee Members Required for Management Councils of National University Corporations.....	36
● "Global University Special Designated Areas" (provisional name) Aiming to Establish World-Class, Leading-Edge Universities .....	36
● Promotion of Asset Management Reform at Universities (re-inserted).....	37
4. Bold Financial Reform for Japanese Revival.....	38
(1) Regional Economic Revival through Stronger Regional Finance .....	38
● Strengthening Management and Financial Ability to Support Corporate and Industry Revival (Creating "Japan Super Regional Banks") .....	41
● Stronger Support of Private Financial Institutions through Increased Functions for REVIC .....	41
● Stronger Corporate Governance at Banks .....	42
(2) Bank Money Transfer System Reform.....	43
● Radical Reform of Bank Transfers Would Raise Convenience and Productivity..	43
(3) Increasing the Attractiveness of Financial and Capital Markets (Global #1, in Four Years).....	44
● Establish Japan's Reputation as the Best Financial Market in the World within Four Years.....	44
(4) Early Implementation of Integrated Exchanges .....	45
● Realization of the Integrated Exchange .....	45
● Creation of Rules of Conduct at Integrated Exchanges .....	45
● Unified Taxation of Derivatives and Listed Equities .....	45
(5) Accounting Standards: Internationalization of Firms, Unification Toward International Standard Rules .....	46
● Reconfirming the Clear Commitment to Creation of Single, High Quality International Standards in Accounting .....	46
● Promotion of Expanded Voluntary Adoption of IFRS .....	46
● Approach Firms Included in the JPX-Nikkei 400 Index .....	47
● Promotion of Explanation by Firms of Attitudes Toward IFRS in TSE Listing Rules, and Creation of an "IFRS Usage Report.".....	47

5. Becoming a #1 Country for Entrepreneurship .....	48
(1) Eye-Catching Policies Reflecting Our Seriousness about Becoming a Leading Nation for Entrepreneurship.....	48
● Establish a “Leading Entrepreneurship Nation Promotion Headquarters” (provisional name) at the Prime Minister’s Office .....	48
● Promote Investment in Venture Businesses by Large Corporations, and M&As..	49
● Promote Procurement from Venture Businesses by the Government and Municipalities .....	50
(2) Revolutionary Increase in the Number People Who Dare to Take on New Challenges .....	51
● Creation of “Entrepreneurship Awards” (provisional name; Prime Minister Awards)	51
● Promotion of Career Education and Entrepreneurship Education .....	51
● Expanding the Cultivation and Nurturing of “Genius IT Personnel” .....	52
● Securing Labor Mobility / Designing Systems for Highly Predictable Dispute Settlements.....	52
● Improvement of the Safety Net for New Businesses .....	53
(3) New Structures for Raising Capital .....	53
● Fortify Policy to Increase Supporters of Entrepreneurs (Drastic Reform of the “Angel Tax System”) .....	53
● Expanding the Range of New Financing Methods Such as “Crowdfunding” .....	54
● Enhancement of Funds of Funds and Matching Funds.....	54
● Strengthening Capability to Supply Risk Money, Especially Smooth Bridge Financing .....	55
● Greater Facilitation of the Use of Stock Options and Different Classes of Stock .	55
(4) Assisting Forward-Looking Approaches .....	56
● Establishment of a “Flagship Special Zone for a Leading Entrepreneurship Nation” (provisional name) .....	56
● Legislation for a New Corporate Form: “Social Business Corporation” .....	56
6. Promotion of Involvement by Active Women .....	58
(1) Systems that Provide Women with Options to “Shine” .....	58
● Consider a New Format for the Spousal Tax Deduction .....	58
● Discuss a “Neutral” Social Security System, Including Review of the “1.3 Million Yen Ceiling” .....	60
● Review of Pension Systems to Cope with Life-Style Changes Arising from the Longevity of Women.....	60
● More Options in the Medical and Nursing Care Fields .....	60
● Examine Assistance Measures Including Tax Breaks for Child and Nursing Care (the so-called “Tax System for Domestic Work Assistance”) .....	61
(2) Making the Status of Female Advancement More “Visible” .....	63
● Expansion of Items for Measuring Female Advancement (requested) .....	63
● Building a Framework to Promote Independent Information Disclosure by Corporations (requested) .....	63

●	Leverage Disclosure as a Tool that Gives Working Women More Options .....	64
(3)	Review of Systems Related to Child Care and Nursing Care Leaves and Short-Time Employment .....	64
●	Enlightening Corporate Mindsets (administrative guidance) .....	64
●	Promotion of Child-Care Leave by Non-Regular Employees (administrative guidance) .....	64
●	Relaxation of Requirements for the Payment of Childcare Leave Benefits (revision of ministerial ordinance) .....	65
●	Review of the Family Care Leave System .....	65
●	Promotion of the Use of Short-Day/Time Policies .....	66
●	Extensive Use of Women in Public Administration .....	66
(4)	Raising Awareness Among Men .....	66
●	“Visibility” About the Way Men Work (administrative guidance) .....	66
●	Promotion of Child-Care Leave Taken by Men (administrative guidance) .....	67
(5)	Develop the Environment to Support Child Care and Nursing .....	67
●	Infrastructure Development (administrative guidance) .....	67
●	Diffusion and Expansion of Stay-at- Home Work, Including Telework .....	68
●	Drastic Improvement of Child Care Support .....	68
●	Significant Improvement of After School Care Programs .....	68
●	Care for Sick and Recovered Children .....	69
(6)	Assisting Female Employment and Re-Employment .....	69
●	Employment Assistance for Single Mothers .....	69
●	Promotion of Utilization of Human Resources Development Agencies .....	70
●	Development and Greater Utilization of the Vocational Ability Assessment System .....	70
7.	Achievement and Perceived Sense of Growth in Local Economies .....	71
(1)	Collaboration Between Government Efforts .....	71
●	Enhancing Inter-Ministerial Information-Sharing Functions through the Regional Revitalization Bureau .....	71
●	Promotion of Procurement by the National and Local Governments from Small-and Medium-Sized Local Companies .....	72
(2)	Activation of PPP/PFI Projects Utilizing the Public Facility Concession System ..	72
●	Promotion of PFI Projects Utilizing the Concession System .....	72
●	Systemic Reforms for the Promotion of PFI Projects Utilizing the Concession System .....	73
●	Study of Accounting Standards and Interpretation .....	73
●	Strengthening of Support for the Utilization of PPP/PFI by Local Companies .....	73
(3)	Revitalization of Local Economies through the Promotion of Community and Regional Spirit .....	73
●	Revitalization of Local Economies by Forming 16 Professional Baseball Teams ..	73
●	Transmission of Japan’s Culture and Traditions and the Revitalization of Regions through the Creation of “Japanese Heritage” (provisional name) .....	74
●	Relaxation of Regulations for Promoting the Utilization of Cultural Assets and	

Historic Buildings .....	75
(4) Boosting Regional “Metabolism” .....	76
● Strengthening Support for Business Recovery, New Business Start-Ups, Second Business Chances.....	76
● Promotion of Prompt Business Recovery by Applying the Majority Vote Principle	76
● “Matchmaking” Support for Promotion of Smooth Third-Party Succession .....	76
● Information Sharing with Parties Considering or Desiring Discontinuation of Business .....	77
● Promotion of Lending Not Dependent on Land Collateral and Personal Guarantees	77
(5) Support for Regional and Global Market Expansion .....	78
● Support to Small-Scale Businesses for Market Development in Local Economies	78
● Market Development Support to SMEs Aiming for National and Global Markets.	78
● Broadening Appeal of Japanese Food Overseas Leading to the Fostering of Local Industries .....	78
(6) Support for the Creation of Industrial Clusters and the Fostering of Innovation ...	79
● Creating Regional Innovation from SMEs’ Core Technology .....	79
● Promotion of Regional Innovation through Industrial Clusters .....	79
(7) Support for Education for the Fostering of Future Local Business Leaders .....	80
● Promotion of the International Baccalaureate Program in Local Economies.....	80
● Promoting Accounting Education to Foster an Entrepreneurial Spirit.....	80
● Developing Future Leaders in Local Industries through Exchanges with Business leaders .....	80
(8) Developing Capabilities to Support the Future of Local Communities.....	80
● Establishing “Human Resource Banks” and Promoting the “Plan for the Creation of Regional Vitality” .....	80
(9) Comprehensive Support Measures for Industries to Enhance Regional Strength	81
● Supporting the Acquisition, Protection, and Utilization of Intellectual Property Contributing to Regional Industries.....	81
Meetings (Presentations) .....	82
List of Members .....	85
Sub-Groups Covering Key Themes .....	87

## **1. Japan Revival, through Strong, Sound Companies**

In order for Japanese companies to conquer low profitability and low productivity, and to return to world-class international competitiveness, the government and politics must make it easier for companies to use all their power to strengthen their competitiveness. It is extremely important to create an environment where companies can more easily realize their potential and make efforts on their own initiative. We make proposals here that will push forward by several steps some concrete measures such as policies to eliminate or reduce cross shareholdings among firms, to promote introduction of independent outside directors, to formulate a corporate governance code, etc.

### **(1) Corporate Tax**

- **Growth-Focused Corporate Tax Reform**

The Liberal Democratic Party promised a “bold cut of the corporate tax” in the party platform for the general election of 2012 and the Upper House election of 2013, from the viewpoint of raising competitiveness of locating operations in Japan.

Among OECD countries, Japan is viewed as having a high corporate tax rate and corporate tax burden. Moreover, in order to encourage both Japanese and foreign firms to make new investments, raise employment, and increase business in Japan, it is essential to reform the corporate tax system, so as to increase predictability of timing and definition of taxable income in corporate taxes.

On corporate taxation, we will implement a structural reform that will, for example, “expand the tax base, but cut the tax rate,” as has been done in some foreign countries. Through such a reform, while simultaneously returning to sound fiscal policy, we will build a “structure for growth-focused corporate taxation.”

### **(2) Corporate Governance Reform, to Strengthen Competitiveness**

In last year’s “Interim Proposals”, we pointed out that some of the reasons for the loss of international competitiveness of Japanese companies included inadequate functioning of corporate governance and, as a result, low profitability by international standards. In addition, these factors were one cause of the low level of inward foreign direct investment (FDI) into Japan, and we made clear that corporate governance reform is essential to achieving the doubling of inward foreign direct investment by 2020 as part of the Japan Revitalization Strategy. It is the crucial mission of government and politics make it easier for companies to strengthen their competitiveness through their own efforts, and to create an

environment where they can more easily realize their potential by taking steps on their own initiative.

In more concrete terms, we proposed a number of measures to improve corporate governance in a broad sense: Promotion of introducing a minimum of one independent outside director at firms, ending cross-shareholding and docility of shareholders, and strengthening the limits on bank holding of equities. In addition, we sought increased corporate profits through constructive dialogue with beneficiaries, through a fundamental reform of GPIF and other public and quasi-public asset managers – with the goal of improving pension fiscal performance.

In light of this lively discourse in the LDP, the government last autumn introduced a bill to the extraordinary Diet session to revise the Corporation Law in order to effectively make mandatory the introduction of at least one outside director, even while maintaining the framework of a “comply or explain” provision. In addition, through the reforms proposed in November 2013 by the expert committee on reforms of the GPIF’s asset management and organization, we have already moved toward strengthening of asset management and risk control, through diversification of investment. As this is being written, the creation of a stronger governance system at the GPIF on the basis of the committee proposals is proceeding rapidly, and we seek an acceleration of government consideration of legal changes.

Recently, there has been an increase of the need to promote the elimination of cross shareholding and docile shareholders, in part due to lending to anti-social groups by some major banks. The role of independent outside directors has attracted more attention. On the matter of bank governance, there are mounting calls for a higher standard of governance than at general companies, in view of the social role of banks.

Thus, the Japan Economic Revival Headquarters of the LDP forcefully proposes a new set of reforms, aimed at strengthening corporate governance, as follows.

## Rules on Independent Directors of Listed Companies

		Japan	UK	Germany	France	US	Korea
<b>Mandatory Rule</b>		—	—	—	—	<b>Majority</b> of the board (Listing Rules)	<b>Not less than 1/4</b> (Commercial Act)
<b>Comply or Explain Rule</b>	<b>Comply Rule</b> on independent directors	<b>At least one or more</b> (Amended Listing Rules)	<b>At least half</b> of the board, excluding the chairman (Corporate Governance Code)	<b>Adequate number</b> (Corporate Governance Code)	<b>Half</b> of the board (Corporate Governance Code)	—	—
	Legal Basis	Amended Listing Rules	Corporate Governance Code	Corporate Governance Code	Corporate Governance Code		
	Regulatory Body	Stock Exchange	Independent Legal Entity	Government Commission	Enterprise Association		
	<b>Explain Rule</b>	Verbal explanation at the shareholders' meeting	Disclosure	Disclosure	Disclosure		
	Legal Basis	Amendment Bill of the Companies Act	Listing Rules	Stock Corporation Act	Commercial Code		
(Reference)	<b>Corporate Governance Code</b>	—	✓	✓	✓	—	—
	<b>Stewardship Code</b>	✓ (Feb.2014)	✓	—	—		

\*Comply or Explain"... Under this regulatory approach, regulators set out a rule, which companies may either comply with, or if they do not comply, explain publicly why they do not. The purpose of this approach is to let the stakeholders decide whether the companies' determination is appropriate or not.

Source: Liberal Democratic Party of Japan.

## Number of Patents Issued by U.S. and ROE (2013)

Rank	Company	(Nationality)	Numer of Patents	ROE (Return on Equity)
1	IBM	(U.S.)	6,809	79.1 %
2	Samsung Electronics	(Korea)	4,676	18.8 *
3	Cannon	(Japan)	3,825	8.7 *
4	Sony	(Japan)	3,098	2.0
5	Microsoft	(U.S.)	2,660	30.1
6	Panasonic	(Japan)	2,601	-47.2
7	Toshiba	(Japan)	2,416	8.2
8	Hon Hai	(Taiwan)	2,279	15.5 *
9	Qualcomm	(U.S.)	2,103	19.7
10	LG electronics	(Korea)	1,947	0.5 *

※ [Authority] \* Number of Patents Issued by U.S.: USPTO , \* ROE : T1.com IB Foundation Solution Japan

Source: Liberal Democratic Party of Japan.

- **Eliminating Cross Shareholdings, Strengthening Equity Holding Rules for Banks and Financial Institutions**

As pointed out in the LDP's "Interim Proposals," cross shareholding of equities and bank/financial institution cross shareholdings have curtailed the sense of crisis among management of Japanese companies for many years, and have been one reason for the stagnation of industrial metabolism. Japan has formulated a "Japan Stewardship Code" in February of this year, after reflecting upon this problem, as a way to clarify the principle of fiduciary duty of institutional investors in particular to exercise their ownership rights on behalf of their ultimate beneficiaries, through voting of owned shares, and in other respects.

However, although some progress has been made, there is still a need to eliminate "cross shareholdings" and "docile share ownership" as part of corporate governance reform, in order to raise the profitability of Japanese firms, and to radically increase the potential growth rate through increased metabolism and revitalization of economic activity.

- **Consideration of Cross-Holding Curbs and Mandatory Disclosure**

It is necessary to reconsider the state of how voting rights of equity share crossholdings are exercised, and the state of shareholdings by listed companies and the firms within the corporate groups to which firms lend, as a way to avoid conflicts of interest between general shareholders and creditors with business relationships with the invested firm. Such reconsideration would raise the level of stewardship by banks above that of mere lender with regard to stocks disclosed on their securities statements (*yuka shoken hokoku sho*) as "policy stockholdings" (stocks held for purposes other than pure investment). In addition, in encouraging such trends, while using as a reference the experiences of foreign countries in eliminating crossholdings and policies to encourage equity investment by individuals, we shall continue to examine the state and the impact of the NISA accounts that were introduced at the start of the year, and consider the impact of encouraging increased holdings by individual investors.

- **Response to Impact of Elimination of Cross Shareholdings on Equity Prices**

As a result of the elimination of cross shareholding and the reduction of policy shareholdings by banks, share sales in the stock market will increase, bringing the possibility of an impact on share prices. In order to avoid this, there is a need to simultaneously consider a mechanism to make possible off-market sales. In particular, for banks, there is a particularly strong desire to avoid stock price declines of the shares of bank borrowers. It is essential to have a pre-planned policy for selling over time, with a bridging institution (including use of the Banks'

Shareholding Purchase Corporation, or efforts to raise the attractiveness of the equities sold).

- **Promotion of Independent Outside Directors**

In order to strengthen corporate governance, it is necessary not only to reflect the voices of stockholders, but also to intensify the oversight of management by board members within firms.

On this point, in the recent revision of the Corporation Act, there was clear intent of the lawmakers in the government and the ruling party to review the content within two years, with the potential to make outside directors mandatory, but there remains a need to strengthen mechanisms aimed at promoting the introduction of independent outside directors, beginning with the Corporate Governance Code discussed below.

In particular, concerning banks, with the recent occurrence of lending to anti-social forces at a megabank as the trigger, the need to strengthen corporate governance at banks has been noted. As a basic principle, the social role of financial institutions must be considered sufficiently, in light of (a) their role as exemplars for corporate governance, due to their role as mentors for borrowers; (b) their social impact as recipients of protection by the deposit insurance system that presupposes the possibility of public funds injections to protect depositors; and (c) their social responsibility, which exceeds that of ordinary companies in confronting antisocial forces and in other respects. In addition, we must consider this matter sufficiently in light of the intent of the recent Corporation Act revision, which included a reconsideration clause on the matter of outside directors in two years' time.

Hence, in concrete terms, if the revised Corporation Act does not show results within two years of coming into effect, we should consider revision of the Banking Act to make mandatory the introduction of multiple independent outside directors. In the meantime, the FSA should strongly encourage exchange-listed financial holding companies and listed banks to introduce at least one, and to the extent possible multiple, independent outside directors. In addition, consideration should be given to introducing independent outside directors even at 100% owned bank subsidiaries.

- **Formulation of a Corporate Governance Code**

In February this year, as proposed in the government's "Japan Revitalization Strategy – Japan Is Back" (of June 14, 2013), a "Japan Stewardship Code" was introduced in order to clarify the fiduciary duty of institutional investors in their relationship with the companies in which they invest, and there has been

consequent improvement in the behavior of company management and institutional investors, through improved communications. That said, European countries such as the UK, France, and Germany have formulated “Corporate Governance Codes” which set forth concrete best practices for corporate governance and unified disclosure of them, on the basis of comply-or-explain rules.

We propose that in a similar manner, Japan too should formulate a Corporate Governance Code, which would (a) require strict adherence to comply-or-explain rules, and (b) set forth concrete methods of sound corporate governance for listed Japanese companies, including introduction of independent directors, securing transparency in setting compensation and methods for nominating directors and appointing other top personnel, separation of execution and oversight functions, and practices for top management development and training.

In more concrete terms, there should first be created an expert committee with broad representation, supported by a joint secretariat from the FSA and the Tokyo Stock Exchange (TSE), which would compile by this autumn basic concepts for the Corporate Governance Code, based on best practices and OECD principles. Next, the TSE should formulate a concrete Corporate Governance Code in time for the general shareholders meeting season next year. The FSA should request the TSE to specify clearly the comply-or-explain rule in the listing regulations of the TSE.

The effectiveness of corporate governance will be enhanced by (a) clarification of the status of executive officers, and the duties of loyalty that they owe, none of which are prescribed by law; (b) requiring balance among directors from various viewpoints, such as experience, independence, and knowledge; and (c) disclosure of methods of corporate governance and explanation thereof by management. In addition, there is a need to build systems to enhance information flow within firms, such as an internal whistleblower system that feeds into both outside directors and statutory auditors.

- **The Corporate Governance Code Might Include the Following**

- ① **Independent Outside Directors**

For example, the TSE listing regulations might include best efforts at appointment of independent outside directors in the code of best practices, which requires firms to disclose the reasons why they believe it not appropriate for them to fulfill the requirements, if that is the case.

(Code Proposal)

- The issuers of listed equities must secure two or more independent directors

on the Board of Directors.

- When two or more independent directors are not secured for the Board of Directors, at the scheduled general shareholders meeting of the said company, the firm must explain the reasons why it is not appropriate to have two or more independent directors on the Board.

## ② Shareholder Voice

Corporate governance is basically a method to govern the relationship between stockholders and managers, and heretofore most discussion has concentrated on governance of managers. However, in order to strengthen the effectiveness of governance, it is necessary to spur stockholders to perform their roles as well. That is, the awareness of institutional investors of their role as stockholders must be enhanced, and there is a need to encourage institutional investors to speak out in favor of improvement of corporate earnings. On this point, there is no fundamental difference between the position of institutional investors and listed companies, which owe a fiduciary duty toward the stockholders of their company.

(Code Proposal)

- In order for firms to raise firm value sustainably, and to promote growth of the firm, stockholders should responsibly exercise their rights. Specifically, in exercising voting rights, stockholders should:
  - Examine thoroughly the suitability and independence of candidates for directorships, in order to secure directors who can perform their functions;
  - Make decisions from a high-level, balanced perspective, from the viewpoint of raising the medium and long-term growth of the firm, through investments to raise productivity and return profits to shareholders.
  - Disclose adequate information for these purposes, in the case of issuers of listed equities.
- In particular, institutional investors must accept the principles of fiduciary responsibility (in the “Japan Stewardship Code”), the purpose of which is to promote the medium and long-term growth of companies through active consultation with firm management, and must disclose their share voting policies and vote results.

## ③ Stock Crossholding

Under Cabinet Office rules, when firms hold listed equities with voting rights as “policy stockholdings” (i.e. for purposes other than pure investment), for holdings

listed on the balance sheet that exceed 1% of equity capital, there is a requirement to disclose: (a) the number of shares; (b) the amount on the balance sheet; and (c) the concrete reason for holding. However, this requirement is only a disclosure requirement.

In addition to this disclosure requirement, the following rules might be put into effect, for the purpose of clarifying compliance, and adding accountability concerning the reasons why the equities are held.

(Code Proposal)

- Crossholding of equities for “policy” reasons inevitably creates obstacles to effective governance, due to latent conflicts of interest concerning profit-seeking, return of profits to shareholders, and the interests of general stockholders. Hence, unless there is a rational reason, such policy stockholdings should be drastically reduced.
- When “policy stock” is held, the rationale for that holding must be explained in addition to the specific policy goal (e.g. in cases where there is a need for capital injections to raise the value of a company needing DIP finance, or new investments by banks for restructuring borrowers which are in danger of bankruptcy, or conversion of debt into equity).

- **Revision of Law and Practice in Corporate Revival**

In order to increase the metabolism of Japanese companies and industries further, from the viewpoint of implementing early corporate restructuring, the following steps to change law and practice are needed: (a) consider the state of mechanisms, such as voluntary liquidation, related to preventing minority creditors from irrationally opposing corporate revival; (b) promote the use of the “Guidelines for Personal Guarantees by Business Owners” (for small business) that support smooth business dissolution and conversion; and (c) expand the scope of special monetary claims (*tokutei kinsen saiken*) by servicers under the Servicer Act, thus enabling servicers to engage flexibly in corporate revival.

## **2. Public Asset Management Reform to Enhance Prosperity**

We will create a positive cycle of increased prosperity in a broad sense for the Japanese economy through reform of the Government Pension Investment Fund (GPIF), by promoting diversified investment, making asset allocation more flexible, strengthening the governance of the risk management system, and thus increasing the benefits to the enrollees. In addition, we will consider policies for utilization in a broad social sense of so-called “dormant deposits,” which have been untouched for 10 years or more and for which the whereabouts of the owner cannot be determined.

### **(1) Reform of the GPIF**

Based on the recommendations in the report of the “Expert Committee on Improving the Returns and Risk Management of Public and Quasi-Public Funds” (Chairman: Prof. Takatoshi Ito, of Tokyo University) of last November, there is already progress toward a forward looking investment reform, revising the current basic portfolio that focused on domestic bonds, and aiming at diversification of investment methods of the GPIF and enhancement of active investment, with a basis in the results of the ongoing fiscal assessment (*zaisei kensho*) of the pension system. This trajectory has already been included by the Prime Minister in his speech at the Davos World Economic Forum.

In addition, on the matter of GPIF governance reform, based on the “Basic Policy on Reform of Independent Administrative Agencies” (adopted by the Cabinet on Dec 24, 2013), it will serve the interests of pensioners to construct a stronger governance system for more flexible asset management and enhanced risk control, based on establishing a system for appointing multiple full-time members of an asset management committee.

- **Joint Reform of GPIF Asset Management and Governance System**

While the LDP recognizes the value of the MHLW and GPIF reforms made so far, we have also studied thoroughly the concrete form of governance structure that is needed.

In the future, on the basis of the December 24, 2013 Cabinet decision on “Basic Policy on Reform of Independent Government Agencies,” the GPIF, as a corporate body managing toward medium term objectives, should create an investment committee with multiple full-time members and should create a system whereby this committee will effective decision-making powers with respect to important asset management policies. In addition, based on the Cabinet decision, the GPIF

should carry out enhancement of its asset management and risk control systems, and ease, to the maximum extent possible, the restrictions on numbers of employees, remuneration levels, and costs.

It is important for GPIF to promote the revisions of asset management and governance including risk control as a single package of measures, and, in accordance with the Cabinet decision above and with the “Implementation Plan for Strengthening Industrial Competitiveness” (Cabinet decision of January 24, 2014), to carry out aggressive, continued implementation of necessary measures, based on the proposals of the report from the Expert Committee mentioned above.

In the recommendations of the Expert Committee, it was noted that, in the governance system of the GPIF, power in the organization is concentrated in a single person, that there are constraints on number of personnel, remuneration, and costs, and that reform of these aspects is particularly necessary. In addition, from the viewpoint of asset management, it recommended that, *“A collegial governing body should decide important policies, and, emphasizing the expertise required, the governing body should be given a high level of autonomy and independence on the premise of appropriate information disclosure.”*

Concerning the Expert Committee recommendations on asset management, the December 24, 2013 Cabinet decision on “Basic Policy on Reform of Independent Government Agencies,” states that, “in the future, the Ministry of Health, Welfare, and Labor should, considering the scale and nature of the funds in question, and considering achievement of long term soundness, take required action in a prompt and steady fashion, including location of principal offices.” In addition, we request: (a) progress in the review of the governance system that is now under way; (b) consideration of the need for changes of the law with respect to the governance system; and (c) more rapid action on the basis of the recommendations of the Expert Committee.

- **Reforms for More Flexible Asset Management**

The GPIF should aim for more flexible asset management, through strengthening governance, a more forward-looking stance, and rebuilding of its risk management system and its framework for remuneration of fund managers. In addition, focused on exit from deflation and transition to an environment of appropriate inflation, it should implement reform of asset management including its basic portfolio, and thus, through diversification of investment, realize improvements of benefits to end-user pensioners, such as higher returns and risk reduction. In this way, asset management that is solely in the interests of pensioners will result in investment in growth, and contribute to the Japanese economy, creating a positive cycle for the economy. From this viewpoint, promotion of reforms for more flexible asset management is essential.

## **(2) Asset Management Reform at Universities**

- **Promotion of Asset Management Reform at Universities**

With regard to asset management of universities, based on the spirit of the proposals submitted in November of last year by the “Expert Panel on Upgrading the Operations and Risk Management of Public and Quasi-Public Funds” (leader: Professor Takatoshi Ito of the Graduate School of the University of Tokyo), methods for upgrading asset management and risk management should be considered and the results should be communicated thoroughly to related parties. This should include the perspective of reforming and enhancing governance structures and increasing returns from surplus funds.

## **(3) Utilization of Dormant Deposits**

- **Enactment of “Dormant Deposit Utilization Law”**

So-called “dormant deposits”, to which no transactions including deposits and withdrawals have been made for the past 10 years and for which the depositor cannot be contacted, should, considering the nature of these deposits, be utilized in a broad and socially beneficial way.

For this purpose, the “Dormant Deposit Utilization Law (provisional name)” should be promulgated at an early stage as a lawmaker-initiated bill, in order to effectively utilize inactive deposit funds as a solution to social issues and needs that cannot be necessarily met by budgets of central and local governments, with sufficient consideration to protection of the rights of the depositors and other parties, convenience of withdrawal procedures, and similar matters.

### **3. Strengthening Human Capacity**

Japan is a society that faces rapid population decline, and thus, in order to maintain and develop economic activity, it is essential to ensure a sufficient labor force and to develop human talent. In securing a large enough labor force, in addition to improving the flexibility of the working environment for the current working generation, it is necessary to expand the entry of foreign trainees and to lengthen their terms of stay, and to strengthen the governance of the institutions that accept them. In addition, we will continue to promote university governance reforms in order to develop the promising talent that will be responsible for the future of Japanese society, and to raise standards at universities for preparing global-class personnel and research development abilities,

#### **(1) Realization of a Society That Offers Flexible and Diversified Working Environments**

The conventional employment system of Japan, in which people continue to work for one company for a long time while undergoing department transfers within the company, has become dysfunctional in a context where global competition is intensifying, the rise-and-fall-cycles of companies are shortening, and working styles are becoming more diverse. We should work to create “world-class environments that facilitate the activities of both people and companies” by producing “new working styles” that are productive, and by establishing an employment system with a high level of predictability and transparency,

- **Diffusion and Expansion of “Diversified Full-Time Employees”**

With common employment rules in Japan in mind, the government should present clear models for various possible types of full-time employment (limited-duty contracts, limited-area contracts, etc.), including working regulations and job descriptions.

In addition, we should examine measures to support companies in actually adopting the new employment styles based on these models, so that different types of full-time employees can advance or change their careers by their own free will through various working styles.

- **More Flexible Understanding of Labor Compensation**

With ability-based salary systems and working styles of Japan in mind, we should aim to have “same-work, same-salary” rules to the extent possible, and work to ensure same-level treatment tailored to each style of non-regular employees. At

the same time, along with curbing long working hours and maintaining health standards as preconditions, we should consider a new system that suits the working styles of employees who are assessed on the basis of performance rather than the number of hours worked.

- **Establishment of Fair and Highly Transparent Rules for Employment**

In order to prepare a labor dispute resolution system that is predictable and internationally accepted, we should research dispute resolution cases inside and outside Japan, and accelerate our review in order to establish a dispute resolution system appropriate for Japan's actual situation.

Furthermore, we should work to create a high quality external labor market and supplement educational and training systems, by means of the broad implementation of performance-based assessments.

- **Forward-Looking Review of Job Cards**

Job cards have been widely used as a tool to look back on one's own past job experience and think about future goals. On the other hand, there is the issue that most job card holders are job trainees. We should examine the usage of job cards up to the present, and drastically review this system while maintaining the agreement of both employers and employees. Possible ideas include modifying job cards so that they can be used from the student stage throughout one's career, as well as offering incentives to use job cards (e.g., by means of subsidies related to skill development programs) so that use of job cards will become more common at companies.

- **Consider Review of Old-Age Pensions for Active Employees**

With regard to old-age pensions for active employees, pensions that are currently paid to people in their early 60s will be abolished in principle by 2025 as a result of raising the minimum age for pension commencement. However, some have pointed out that this system is inhibiting people from working, as shown in the case where people in their late 60s stop working once they earn 460,000 yen.

In the Social Security System Reform Act enacted last year, diversification of the working lives of elderly people and a pension system that suits this diversification were seen as issues. Old-age pensions for active employees have been pointed out as inhibiting elderly people from working (part or all of the pension is suspended, depending on the amounts of salary and pension). This should be examined alongside the issues of extension of the premium payment period and the raising of the pension commencement age.

## **(2) Promotion of Utilization of Foreign Human Resources**

### **① Development and Expansion of the Technical Intern Training Program (TITP)**

- **Extension of Period**

Measures to extend the program period beyond the currently maximum of three years should be considered. For example, intern trainees who have completed their technical intern training period with good results and meeting certain requirements should be able to extend their stay for approximately two years at a qualifying company or at a supervising organization if both the intern trainee and the company wish to do so. Similarly, intern trainees with good results for which a certain period of time has elapsed since they returned to their countries after completing the program, should be able to return to Japan and continue to receive technical intern training for approximately two years at a qualifying company or supervising organization, premised on mutual agreement between the trainee and the host training organization.

- **Expansion of Number of Trainees that Can Be Received**

Currently, the number of trainees that can be received by companies with 50 full-time employees or less is limited to three, and this number increases as the number of full-time employees increase - to six for companies with 51 full-time employees or more, and to 10 for companies with 101 full-time employees or more. However, it is difficult for small and medium-sized companies to make adjustments related to the number of employees, and there have been cases where intern trainees were counted in the number of full-time employees. Some people point out that the number of trainees that can be received seems to be somewhat limited.

To address this issue, we should review the numbers for admissible trainees so as to set up a system with more detailed number allocation that reflects actual situations. Furthermore, based on an awareness of this issue, additional trainees (approximately double the current number) should be approved for companies and supervising organizations with track records over the past few years which are deemed to qualify because they have appropriate operations and no record of past violations and present no other concerns.

- **Expansion of “Technical Intern Training (ii) Transferable Occupations”**

68 occupations are currently approved as “technical intern training (ii) transferable occupations”, for which intern trainees can receive technical training for more than

two years. In response to requests for expansion in the areas of forestry, food service, and delicatessen preparation, we should consider adding these business categories to the list of approved “technical intern training (ii) transferable occupations”.

- **Response to Technology Innovation and Demand for Multi-Skilled Workers**

With respect to certain “technical intern training (ii) transferable occupations”, there are cases where target occupations or contents of certification tests are out of date due to developments in technology at actual workplaces. For example, although the old turning machines and milling machines have been replaced by NC lathes and machining centers, these new categories have not been set in the TITP.

We should first revise the designation of occupations and the contents of certification tests based on the advancement of technology, and then consider an amendment of the system that will allow for more flexible combinations of related occupations based on the changes occurring in each industry.

- **Review of the Technical Intern Training Evaluation System**

Because technical intern training evaluation tests are currently uniform throughout the country, there are some cases where it is difficult to add new categories for “technical intern training (ii) transferable occupations”. Likewise, admission of trainees may be inhibited by divergence between actual operations at the site and the contents of technical certification tests.

We should modify the current evaluation system into a more flexible and modern evaluation system by: (a) approving detailed contents of technical intern training evaluation tests that are unique to the relevant prefecture, and reflecting aspects of local industries and local products, with the involvement of the respective prefectures; and (b) by reviewing the contents of technical intern training evaluation tests based on the advancement of technological innovations and the actual situation at worksites.

- **Clarifying the Roles of Institutions Operating and Directing TITP, and Enhancement of its Functions and Structure**

In order to solve issues surrounding TITP, it is essential to clarify the roles of the Japan International Training Cooperation Organization (JITCO) - the institution that operates and directs this program - and to enhance its functions and structure. In spite of the fact that this program is operated in a way that transfers to “technical intern training (ii) transferable occupations” are impossible except via JITCO, institutionally JITCO is just a public interest incorporated foundation to which

“Technical Intern Training Program Promotion Business” is outsourced. Its roles within the program are unclear, and it has not been endowed with sufficient legal authorities and governance structures. Some people are even of the opinion that JITCO is not necessary at present.

Therefore, we should change the corporation status of JITCO to that of an juridical person that is authorized pursuant to a specific law, clarify its roles within the program, clarify that the nation bears ultimate supervisory responsibility, and grant to it the right to conduct site inspections under law, as well as enhance its structure and secure necessary budgets and human resources, so that it can cope with the greater workload that will arise from ensuring appropriate operation of the program, along with increases in the number of intern trainees.

In addition, through decisive organizational reform of JITCO, its internal governance should be transformed to governance led by the private sector, whereby staff and executives formerly in the private sector and those with academic experience monitor execution of its operations.

- **Enhancement of Detection Capability and Clarification of Punishment in Case of the Trainee Disappearance in Japan**

Many people believe that the punishments for intern trainees who disappear and commit offenses of illegal residence or illegal work are too light in the current program. It has been reported that there are some groups that tempt intern trainees who will soon return to their countries to disappear, and then make them work illegally by offering them fake passports. The existence of illegal work issues compromises the trust of the citizens not only with regard to TITP but also with respect to the admission of foreigners in a broader sense. It must not be overlooked.

With regard to certain supervising organizations which have been criticized for committing various abuses of the human rights of foreigners under the name of technical intern training at training institutions, we should enhance supervisory and control structures so that these organizations can be promptly and properly punished, and publish the names of the organizations and training institutions that commit improper actions even before they are subject to suspension of their right to receive trainees, in order to focus the activities of this program even more on the high-quality organizations and training institutions.

- **Sharing of Japanese Language and Culture**

In local areas, many cases have been reported where technical intern trainees could not fit in well with the community and became isolated due to a lack of Japanese language ability. Doing nothing about this situation will negatively impact

not only the appropriate operation of TITP, but also the stability of local societies.

To address this issue, we should promote efforts to make it possible for foreigners such as technical intern trainees, and local societies, to live together. The central and local governments should co-host training sessions for foreigners and community events, rather than just leaving supervising organizations and training institutions on their own to attempt to enhance the Japanese language ability of intern trainees and give training about Japanese culture and customs.

- **Promotion of Understanding of Welfare Pension Insurance Application for TITP Trainees**

Health insurance and the public pension that technical intern trainees apply for can benefit those trainees in the event of unexpected accidents just as is the case with Japanese workers, and can provide them with a lump-sum payment in case of withdrawal from pension insurance. However, it is generally thought that the portion of pension insurance premiums that is borne by companies is non-refundable. If the period for TITP were extended, most likely this opinion would become more widespread. Therefore, we should make our maximum efforts to have training institutions understand the purpose and framework of the welfare pension insurance system, including the withdrawal lump-sum payments, in addition to promoting the signing of social security agreements [between nations] so that old-age pensions can be provided.

## ② **Aiming to Become a More Open Nation**

- **Admit Greater Numbers of Highly Skilled Persons**

In addition to reforming the “point system” [for visas] currently under examination in relation to a revision of the Immigration Control Law, the government should actively examine and implement a framework to ensure that Japan does not fall behind in the international competition for the acquisition of excellent and highly-skilled personnel.

As part of this, based on an awareness that preparing the “receiving” side that admits foreigners as residents is important for expanded admission of foreigners, necessary systemic arrangements should be made, including preparing living environment features such as child-raising (including babysitters whom the foreign staff can use) and the [cross-border] aggregation of social security systems.

- **Nation-Wide Discussions for the Future**

Accepting the premise that Japan will face an aging society with fewer children, the

possible use of short-term labor in agricultural and manufacturing sectors and other areas that do not fit with the current TITP system is a topic that we cannot avoid. It is important to raise nationwide discussions and promote integrated measures by the government as a whole based on perspectives such as Japan's mid-term and long-term working population trends. It is also important to eliminate mismatches between workers' skills and needs brought about by changes in industrial structures, while also giving due consideration to the promotion of employment of Japanese workers by means of improving employee management and treatment. In addition, with regard to nursing care, which is currently carried out under the framework of economic partnership agreement(s), and household support, which leads to increased opportunities for women to be involved in society, we should consider these topics based on the premise that unique viewpoints need to be considered, such as quality assurance including Japanese language requirements, because these services relate directly to peoples' lives, bodies, and property.

### **(3) Better Lifestyle through Reform of Defined Contribution Pensions**

It has been 12 years since the introduction of defined contribution (DC) pensions, and the number of enrollees and assets under management have been expanding steadily. The DC system makes possible adjustment to changes of life style including diversification of work styles, mostly through pension portability. In addition, the nation supports the system through tax measures that encourage self-reliance based individual choice. That is, an important system quite different from that of the defined benefit system is taking root.

Considering the shift in employment policy under Abenomics to "support for labor mobility," this change of system is extremely important. However, looking at the reality, in comparison to examples in other countries and the OECD's June 2012 "Roadmap for the Good Design of Defined Contribution Pension Plans," there are many remaining issues. For example, there are restrictions on matching funds, factors that prevent the full use of tax advantages, low returns due to disproportionate asset allocation to principal-guaranteed assets, and other issues.

It is necessary to carry out systemic improvements, increase the DC system substantially, realize a fuller lifestyle based on self-reliance of the population, and at the same time contribute to economic revitalization through capital markets.

#### **● Review of Constraints on Matching Contributions**

Under the current system of corporate DC pensions, the matching contributions (of the enrollee) are limited to "less than those of the employer."

Under the corporate DC system, in the case of employees of firms that do not have

any other corporate pension system, the upper limit for tax-free contributions is Y51,000/mo. (scheduled to rise to Y55,000 in the 2014 reform), and for firms that do have other corporate pension systems, it is Y25,500/mo. (scheduled to rise to Y27,500/mo. in the 2014 reform).

At the moment, the sum of the firm's contribution and the matching contribution (of the enrollee) is limited to the "tax advantaged upper limit," and the matching contribution may not exceed the corporate contribution. As a result under current rules, for example, since the tax advantaged upper limit is Y51,000/mo., if the company contributes Y10,000/mo., then the matching contribution is limited to Y10,000/mo., and the unused portion of the tax advantaged amount is Y31,000/mo.

The corporate DC system is one type of corporate pension system, but it is a system that requires self-responsibility on the part of the enrollee, and the managed assets have the character of belonging to the enrollee. Thus, it is a system of asset formation based on self-reliance in preparation for old age. Eliminating the upper limit on matching contributions would further encourage self-reliance by the population, and support diverse life styles, and thus is consistent with the goals of the system.

In addition, it can be said that young workers at small firms that contribute low amounts are now robbed of the opportunity of fully use the tax-advantaged amount. In order to realize equality of opportunity, consideration should be made to lifting the "less than the company contribution" constraint, while giving adequate attention to striking a balance with the individual contribution system.

- **Diffusion of the Corporate DC System to Employees of Small Firms**

Concerning the corporate DC pension system, some observers have noted that, for small firms, the system design and the heavy administrative burden are reasons that the system has not grown faster. We should promote expansion of the DC system for employees of small firms, using as a reference the example of the simple DC system in the United States.

- **Improving DC System Asset Choice after Exit from Deflation**

Currently, assets managed in the DC system total about Y7 Trillion. Asset selection is handled by the enrollees themselves, but, at the moment, the result is that about 6/10s (59%) are allocated to assets with guaranteed principal, and so returns are not improving.

Looking at the structure of assets managed in the DC system overall, they are allocated much more conservatively than those in the GPIF, which is a public

pension system, with low yields, i.e. not in a way that is necessarily consistent with the goal of pensions. In particular, as the exit from deflation proceeds, there is a concern that the real value of assets in the DC system will fall.

In the DC system, since the enrollee chooses the asset allocation, investor education and improvement of enrollees' financial literacy are essential, must be done immediately, and must be expanded substantially.

At the same time, we observe that among the DC systems in major foreign countries, almost none of them require at least one principal-guaranteed fund to be offered as an alternative. Thus, there is a need to review the state of asset management in light of the appropriate risk profile for pension products in line with lifetime planning. We should also review the state of how easily-understood the explanations of asset management alternatives offered to enrollees are, using foreign cases as examples and using the OECD's "Roadmap for the Good Design of Defined Contribution Pension Plans."

#### **(4) Further Promotion of University Governance Reforms**

"A Nation is its People." Last year's "Interim Proposals" were based on our recognition that reforming university governance is essential in order to redesign universities as organizations capable of training the many persons who support the nation, developing global human resources – people who can lead the world – and conducting world-class research and development. Later, in March of this year, the Japan Economic Revival Headquarters of the LDP prepared "Proposals for University Governance Reform" and recommended ideas for reforms regarding: (a) clarifying the roles of faculty councils; (b) the nomination of presidents (at national university corporations and private universities); (c) the nomination of department chairs; (d) management councils of national university corporations; (e) considering formation of "global university special designated areas" (provisional name)", and other measures.

At the same time, the government's Subcommittee on Universities of the Central Council for Education also discussed governance reform, and compiled the results of the discussions in the "Promotion of University Governance Reform" report in February.

Based on these inputs from the LDP and the Central Council for Education, discussions were deepened at the Japan Economic Revival Headquarters and the Working Group of Education, Culture, Sports, Science and Technology during March and April of this year, and agreement was obtained to revise laws to enact the following reforms, and to address future issues which have been clarified as follows.

- **Clarification of Governance by Defining the Role of Faculty Councils (revision to School Education Act)**

Problems in terms of university governance have been pointed out on various levels. Among others, one important point is the relationship between presidents and faculty councils. It was clarified in discussions within the LDP that “matching authority with responsibilities” is essential for reform.

Paragraph 3 of Article 92 of the School Education Act states: “the president governs school affairs and supervises personnel.” This can be interpreted to mean that the president has full authority and responsibilities with regard to school affairs. However, in actuality, faculty councils sometimes have strong authority and have acted as organizations with authority to virtually “decide” most school affairs without bearing any responsibility. When faculty councils seize control, “university autonomy” prevails over “university operation.” As a result, presidents of many universities have been unable to exercise leadership and boldly implement university reforms.

The cause of this situation is that Article 93 of the same law only stipulates that “a faculty council must be established at each university to discuss important matters”. The law does not clearly specify the role of faculty councils in the context of university governance.

In order to address this issue, based on a series of active discussions within the government and the LDP, the government clarified the role of faculty councils in the draft revision of the School Education Act, as set forth below. That role is to review matters regarding education and research in the fundamental sense of those words; and to provide opinions to the president, etc. upon request. Of course, faculty councils will still be free to review and communicate regarding all matters related to education and research. However, the Ministry of Education, Culture, Sports, Science and Technology should thoroughly communicate to universities and other applicable organizations that the purpose of this revision of the law is to clarify the framework of university governance as being one in which final authority lies with the president.

*(Draft Revision of the School Education Act)*

*Article 93*

*A faculty council shall be established at each university.*

*2. The faculty council shall provide its opinion when the president makes decisions with respect to the following matters:*

- (i) *Admission, graduation, and course completion by/of students*
- (ii) *Granting of degrees*
- (iii) *Matters important for education and research other than the preceding two items, for which the president acknowledges that it is necessary to seek the opinions of the faculty council.*

*3. Faculty councils shall, in addition to the matters specified in the preceding Paragraph, review matters regarding education and research governed by the president and department chairs as well as the heads of other organizations in which a faculty council is established (collectively referred to “president, etc.” in this Paragraph), and may provide opinions upon request from the president, etc. Faculty councils may include associate professors and other employees.*

- **Nomination and Selection of Presidents**

With regard to nomination and final selection of a president, the transparency of the selection process, - for instance by clarifying reasons for selection and the fact that “inclination polling” is nothing but a reference point, - should be thoroughly communicated to each national and public university through law enforcement notifications and other means.

### ***National University Corporations - Revision of the National University Act***

These corporations are operated with the support of tax revenue paid by citizens, such as management expense grants. Therefore their nature is extremely public. However, their presidents are often selected through “inclination polling”, which is essentially “private voting” by internal faculty. (In 63 out of 86 total national universities, the president who was selected is the same candidate whose name arose in such “inclination polling”.)

Article 12 of the draft revision of the National University Corporation Act stipulates that criteria, methods, and reasons for the selection of presidents shall be internally and externally clarified. Further, it is necessary to ensure greater independence of the participants in president selection meetings, and to clearly define the appropriate future vision for national university corporations following university governance reform, and so forth.

Therefore, it being ten years after the initial enforcement of the National University Corporation Act, we should quickly consider reforming the entire national university corporation system, including the points specified in the supplementary provisions to the draft revision, and embark on that reform as a key policy for the revitalization of Japan,.

In particular, when considering the public position of national university corporations, thorough reform of the presidential selection process is a central issue, and should include consideration of measures to require that more than 50% of [those voting at] presidential selection meetings be external members.

As a matter of course, we should fully reexamine all matters, including desirable methods for assessing universities. We should focus on the governance framework - clarifying the roles, structures, and interrelationships between boards of directors, management councils, and education and research councils. We should then take necessary measures, including revising laws.

### ***Private Universities***

Although private universities may aspire to build individual characters pursuant to their respective school philosophies, inasmuch as these universities have been established as school corporations which are “public interest organizations”, they are supported by tax monies paid by citizens and as such they are public entities supervised by the country. Therefore, a review of laws, regulations and operation should be considered, with the purpose of clarifying the qualifications and selection methods of their presidents, who serve as the center of governance in terms of university operation.

- **Selection of Department Chairs by President; President’s Authority to Make Personnel Decisions and Prepare the Budget**

It should be clarified by a ministerial ordinance of the Ministry of Education, Culture, Sports, Science and Technology that the selection methods for department chairs and similar positions at national universities are to be decided by the president. Furthermore, based on the fact that it is specified by law that the president and the board of directors have final say about personnel and budgeting, it should be clarified by enforcement notifications that faculty councils should not make decisions regarding these matters.

- **Majority of External Committee Members Required for Management Councils of National University Corporations**

Paragraph 3 of Article 20 of the National University Corporation Act should be revised to stipulate that “a majority of the management council shall be made up of external committee members.”

- **“Global University Special Designated Areas” (provisional name) Aiming to Establish World-Class, Leading-Edge Universities**

Along with looking into university reform as mentioned above, in order to support

motivated universities that aspire to become cutting-edge universities, we should consider applying special new frameworks [such as the “Area” indicated above] and support measures that make it easier to expand activities globally, in addition to the national strategic special zone system, for universities that have introduced governance structures that go beyond the university governance reform proposals set forth above .

- **Promotion of Asset Management Reform at Universities (re-inserted)**

With regard to asset management of universities, based on the spirit of the proposals submitted in November of last year by the “Expert Panel on Upgrading the Operations and Risk Management of Public and Quasi-Public Funds” (leader: Professor Takatoshi Ito of the Graduate School of the University of Tokyo), methods for upgrading asset management and risk management should be considered and the results should be communicated thoroughly to related parties. This should include the perspective of reforming and enhancing governance structures and increasing returns from surplus funds.

## **4. Bold Financial Reform for Japanese Revival**

The Japanese economy, and its local economies in particular, are heavily dependent on indirect finance, i.e. on bank financing. In last year's "Interim Proposals," as one of the reasons for the low metabolism of the Japanese economy, we pointed out the passive attitude of financial institutions toward credit provision, and that it is essential to shift finance towards an emphasis on corporate revival and support for new business, rather than taking the easy way out. In this set of proposals, as concrete items for implementation, we propose reorganization of regional finance, quick realization of comprehensive securities exchanges, and policies to unify accounting standards under a single internationally recognized standard.

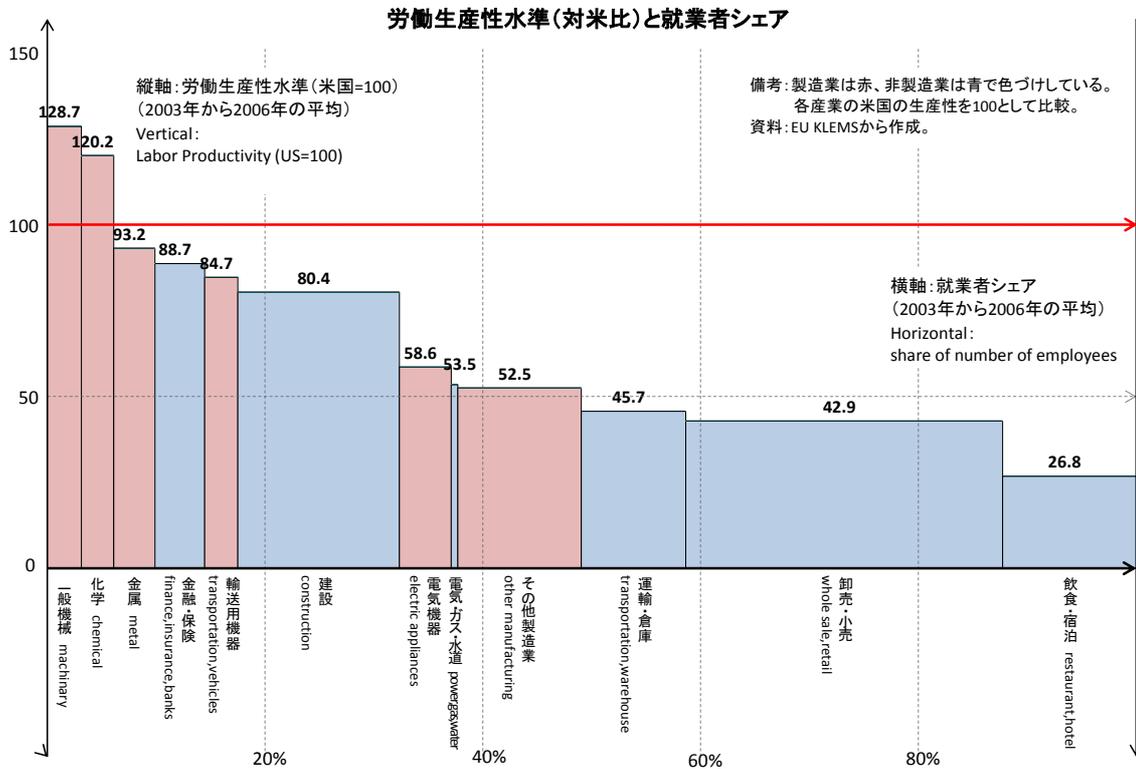
### **(1) Regional Economic Revival through Stronger Regional Finance**

In last year's "Interim Proposals" of the LDP and the Japan Economic Revival Headquarters, we emphasized the importance of financial institutions, especially regional financial institutions, moving their focus more toward corporate revival and new business, and not postponing problems by taking the easy way out. In addition, to that purpose, much can be expected from strengthening the multifaceted functionality of regional financial institutions, with the result that it would be desirable to promote reorganization of regional financial institutions.

In revival of local economies, what is needed from regional finance is ability to finance regional firms at the various stages of risk, and systems to give strong support to management. To that end, discerning judgment, the ability to develop industries, and multifaceted functionality must rise to new levels. However, at the same time, we must never overlook the need to move to a level of risk tolerance that is sufficient for full-fledged corporate and industrial revival, consistent with the promise by Abenomics to double corporate entry (establishment) and exit rates. It is this increase of capital cushions that allow more risk than before that will lead to increased single-year profitability, and thus to capital formation.

Why did the "lost decade" turn into the "lost two decades," with long term growth stagnation, loss of international competitiveness, weak wage growth, and then to lower living standards and economic stagnation? If we look squarely at the facts and the reasons, we come to the grim facts of corporate performance, e.g. the astonishing degradation and stagnation of industrial and corporate-level productivity as seen in the chart below, and, as a result, the degradation of profitability and loss of international competitiveness. In the regional economies in particular, there is strikingly high dependence on wholesale, retail, service, and other non-manufacturing industries with low productivity.

## Labor Productivity Level (to the U.S. ratio) and Employment Share



Source: Ministry of Economy, Trade and Industry

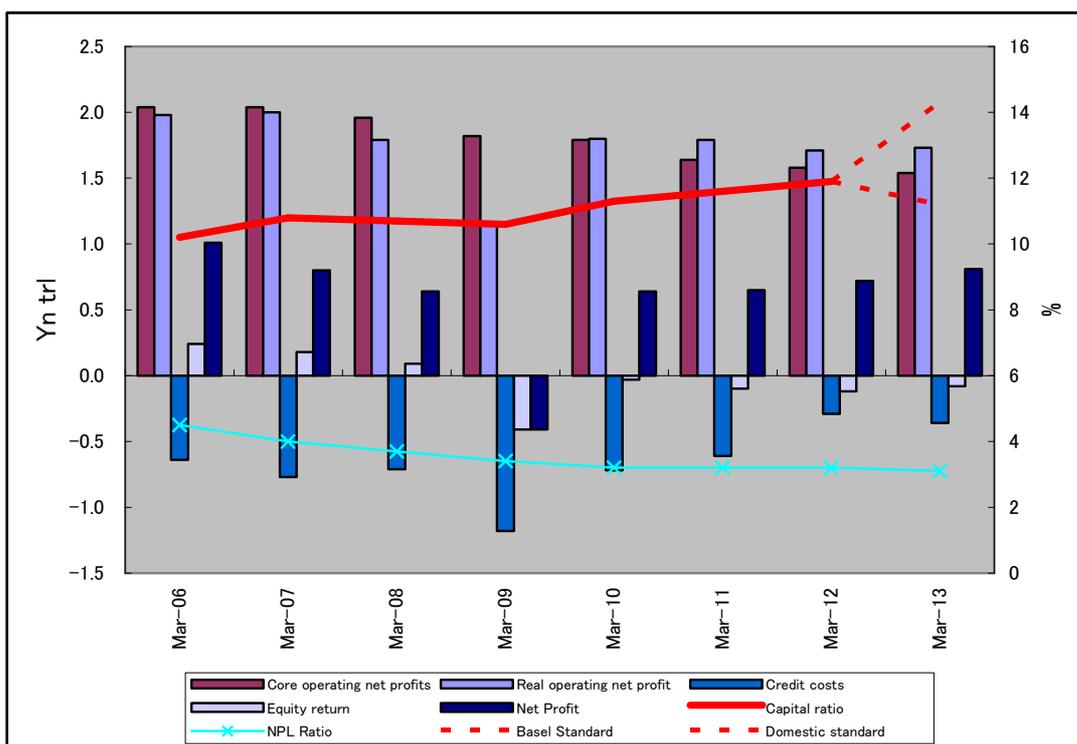
With this deep and fundamental problem in the Japanese economy, and with its very high dependence on indirect finance extended mainly by banks to small firms in regional areas, there is a huge role for financial institutions to play in the revival of the Japanese economy under Abenomics. At the same time, for financial institutions, this matter relates directly to the improvement of productivity and profitability of borrowing firms, and to the growth and profitability of the financial institutions themselves. From this viewpoint, it is necessary for financial institutions themselves to make major, aggressive changes in their stance.

That is, there must be a shift **away** from financial institutions that take the easy route when borrower businesses are weak, postpone fundamental solution of management problems, concentrate on daily cash management, and thus permit the survival of problem firms, and **toward** finance that focuses on corporate revival, on new start-ups that bring new employment and income, and on expansion into foreign markets starting with Asia, i.e. finance that generates sufficient profitability

for the financial institutions themselves, and sufficient risk capital.

Unfortunately, the real state of regional financial institutions now reflects the aftermath of the “one bank per prefecture” system, with many basically keeping their businesses within their home prefecture, but at the same time with overbanking pointed out in some areas, along with competition in a period of low interest rates, adverse impact from government-related financial institutions and credit guarantees, and the like. The result has been continued narrowing of interest margins, and reduced profitability. On top of this, there is much variance in the capital cushions of regional financial institutions, and concerns remain over whether they have sufficient management capability, functionality, and systems to respond to the needs and problems faced today by the regional economies and the Japanese economy, such as struggling firms, the revival of firms, and support of new start-ups.

**Exhibit: March Business Results at Regional Banks**



Notes: (a) Figures from 2004/3-2009/3 on capital ratios exclude the Ashikaga Bank, which was under revitalization at the time. (b) Core operating net profits = real net operating profits – net profit on government bonds etc.

Source: Liberal Democratic Party of Japan.

Financial institutions, while private firms, have a major social responsibility for revival of the Japanese economy and play a public role. In addressing the problems above, regional financial institutions in particular need to strengthen a number of functions, such as basic factors like discerning judgment and the ability to develop industries, but, more important than other factors, greater profitability and the urgent need to secure more risk capital. To do this, individual financial institution efforts are of course needed, starting with operational tie-ups with other financial institutions, based on appropriate business judgment of the financial institutions in each region with broad-region operations in mind. However, another important alternative to consider is mergers to consolidate regional financial institutions.

- **Strengthening Management and Financial Ability to Support Corporate and Industry Revival (Creating “Japan Super Regional Banks”)**

As financial institutions prepare for the revival of the Japanese economy, in addition to independently seeking more capital and profits, planning for enhanced multifaceted functionality to aid corporate revival, and aiming for more individuality in their identities, there is the alternative of realizing the social mission of reviving the Japanese economy.

On the other hand, general company business activities have long ago crossed beyond prefectural borders. For regional financial institutions to catch up with this development, one important alternative would be to consider earnestly, according to local conditions, the idea of forming “Japan Super Regional Banks.” These would be regional banks encompassing larger local areas, created based on the management decisions of each financial institution under strengthened, more open corporate governance, that would span prefectural borders and possibly bring together the functionality, structure and financial ability needed for the coming corporate and industrial revival.

In these cases, it is important that the financial institution, in addition to the ordinary type of lending to local companies, become fundamentally a “financial institution offering strategic development finance to firms,” one that supplies management personnel and capital-like funds that display a commitment based on risk assessment (discerning judgment).

- **Stronger Support of Private Financial Institutions through Increased Functions for REVIC**

The Regional Economy Revitalization Support Organization (REVIC) was empowered by legal revision in March 2013 to expand its activities into the creation and management of funds for corporate revival and regional revitalization, and sending experts into regional financial institutions. Newly proposed legal changes

would add additional functions: (a) increased ability to invest in equity funds, and (b) the purchase and sale of guaranteed claims.

REVIC should function actively as a public institution that supports private sector financial institutions that are transforming into full-fledged “financial institutions that provide strategic development finance to firms,” thus sufficiently fulfilling its role, and promoting corporate metabolism in cooperation and joint operations with successful private sector funds and experts.

- **Stronger Corporate Governance at Banks**

One of the main reasons that there has been little movement yet toward consolidation and reorganization of regional financial institutions, despite the seemingly large merits that would bring to the stockholders of these institutions, is that corporate governance of each institution is not functioning sufficiently. Thus, the following measures to strengthen corporate governance should be pursued.

In order to strengthen corporate governance at banks, in the event that results from increasing the number of independent outside directors are not visible two years from implementation of the revised Corporation Act, we should consider revision of the Banking Act to make mandatory the introduction of multiple independent outside directors. In the meantime, the FSA should strongly encourage exchange-listed financial holding companies and listed banks to introduce at least one, and to the extent possible multiple, independent outside directors. In addition, consideration should be given to introducing independent outside directors even at 100% owned bank subsidiaries.

——— In doing this, we must consider this matter sufficiently in light of the intent of the recent Corporation Act revision, which included a reconsideration clause on the matter of outside directors in two years’ time. In addition, as a basic principle, the social role of financial institutions must be considered sufficiently, in light of (a) their role as exemplars for corporate governance, given their role as mentors for borrowers; (b) their social impact as recipients of protection from the deposit insurance system that presupposes the possibility of public funds injections to protect depositors; and (c) their social responsibility, which exceeds that of ordinary companies in confronting antisocial forces and in other respects.

——— In addition to the social role of banks, in order to avoid conflicts of interest between the bank role as creditor or business counterpart on one hand and its role as general stockholder on the other, it is necessary to consider the state of equity holdings in borrowers that are listed firms or members of a bank’s corporate group, and to seek shrinkage of bank “policy shareholdings.”

——— As a result of elimination of cross shareholding and reduction of policy

shareholding by banks, equities selling in the stock market will increase, bringing the possibility of an impact on share prices. In order to avoid this, there is a need to consider simultaneously a mechanism to make possible off-market sales. In particular, for banks, there is a particularly strong desire to avoid stock price declines of shares of bank borrowers. It is essential to have a pre-planned policy for selling over time, with a bridging institution (including use of the Banks' Shareholding Purchase Corporation, or efforts to raise the attractiveness of the equities sold).

## **(2) Bank Money Transfer System Reform**

On bank money transfers, in foreign countries, decisive reforms have been implemented to allow immediate domestic receipt 24 hours a day, including weekends. In contrast, in Japan, immediate fund receipt is available only on weekdays for seven hours, and thus there is a need for improvement in order to improve convenience in people's lives. In addition, in the industrial world, productivity improvement is being hampered by cumbersome payment operations due to the very small amount of information that can be sent with a money transfer. A radical reform of the bank money transfer system would bring about a dramatic improvement of productivity not only for manufacturing but also for non-manufacturing, which comprises 70% of the Japanese economy, and which has been noted as having extremely low productivity. This would strengthen corporate profitability and international competitiveness, and even bring higher wages.

- **Radical Reform of Bank Transfers Would Raise Convenience and Productivity**

A radical reform of bank money transfers would raise productivity of firms and increase convenience for the populace. In addition, it would spur further international use of the Japanese yen. We encourage the banking sector to create an action plan for radical bank transfer reform within the year, including: (a) introduction of 24 hour immediate fund receipts, including on weekends; and (b) expansion of the quantity of information that is allowed to accompany transfers. This should be done with international standards in mind, and with due consideration of payment security and reliability. In addition, we encourage banks to consider methods for standardizing the attachment to banks transfers of information about commercial transactions that have been conducted at low cost over the internet, and to prepare an implementation plan by next spring. This will require the government and the Bank of Japan to take necessary measures, and to cooperate closely with the financial institutions and the industrial sector.

——— Immediate receipt of transfers 24 hours a day/365 days a year is already available in the UK, Sweden, and Singapore, while Australia (expected in 2016)

and the US are preparing for early implementation.

——— In the Japanese bank money transfer system, only 20 characters are permitted in payment information, and so there are many cases when it is difficult to determine what funds correspond to which purchases or deliveries. If the amount of attach-able data were to increase, then money and goods movements could be processed on a unified basis, and there would be a major increase in the efficiency of funds management and payment clearing operations.

——— In choosing between a currency where the final recipient can receive funds at any time and a currency where it cannot, or between a currency where commercial information can be attached to the transfer and one where it cannot, it is obvious which would be chosen as the currency for clearing funds. Thus, a radical reform of the money transfer system would play a major role in promoting the international use of the yen, and in supporting Japanese companies' and banks' business.

——— A reform of the money transfer system is essential to any full-fledged revamping of corporate and bank information processing systems, and thus policies are needed to encourage necessary IT investment and spending.

——— At one firm, of the 1800 hours per month spent on activities related to funds settlement, 800 are wasted on tracing details of "which transactions relate to which funds transfers." In order to correct this situation, it is necessary to have standardized information processing systems that can process data on the movement of goods together with bank transfers in a unified way. For example, consideration should be given to standardizing message forms across industries, methods for the conversion of different message forms, or methods to communicate web addresses that contain goods transfer data.

### **(3) Increasing the Attractiveness of Financial and Capital Markets (Global #1, in Four Years)**

- **Establish Japan's Reputation as the Best Financial Market in the World within Four Years**

Further improving on the "Interim Proposals" of last year, we should spare no effort to expand the attractiveness of Japanese financial and capital markets, so as to establish, within four years, the reputation of Japan as the best market in the world, a on par with New York and London, and the best market in Asia by far.

#### **(4) Early Implementation of Integrated Exchanges**

At securities exchanges in foreign countries, mergers among firms from different national backgrounds are proceeding rapidly. For derivative transactions, the global standard is to integrate exchanges with no barriers between securities and financial products and commodities. In Japan as well, the revised Financial Instruments and Exchange Act was implemented from March of this year, permitting the creation of such integrated exchanges. We will establish Japan's position as the No. 1 market in Asia, by transforming the Japan Securities Exchange, which accounts for about 80% of derivative transactions in Japan, into a comprehensive exchange. This will allow the expeditious settlement of commodity transactions, strengthen international competitiveness through a broader offering of products, and raise convenience for market participants.

- **Realization of the Integrated Exchange**

In light of the facts that the commodity futures market in Japan is stagnant, and that the Tokyo Commodities Exchange has suffered from continuing operating deficits, the government has decided to direct and encourage the swift realization of an integrated exchange centered on the Japan Exchange Group. Through this, there will be a strengthening of the international competitiveness of the Japanese exchange, and a revitalization of commodity futures trading in Japan.

On the other hand, under current law, listing commodity derivatives on a securities exchange requires prior consent of METI and/or the Ministry of Agriculture, Forestry and Fisheries. In the case that agreement between the two ministries cannot be reached for swift creation of an integrated market, and if there is no decision by the government by the summer, then the LDP will submit a members bill in the next Diet session in order to make possible the swift creation of an integrated exchange, which might include the clause that eliminates said provision from the law. In addition, at that time, due consideration will be given to smooth listings for electricity futures and LNG futures.

- **Creation of Rules of Conduct at Integrated Exchanges**

On the matter of rules of conduct regarding commodity derivatives, the current rules on securities and financial derivatives shall be the basis, under the basic concept of creating a cross product environment by eliminating barriers between securities, financial and commodity derivatives, with due consideration to investor protection.

- **Unified Taxation of Derivatives and Listed Equities**

Concerning the further unification of financial income taxation including derivatives, from the viewpoint of contributing to realization of an integrated exchange that handles financial, securities and commodity derivatives in a unified way, we will continue consideration, keeping in mind sufficiently the need to prevent intentional tax evasion.

#### **(5) Accounting Standards: Internationalization of Firms, Unification Toward International Standard Rules**

Last year's "Japan Revitalization Strategy – Japan Is Back" set the goal of making Japan the world's easiest place to do business, and set a concrete goal of doubling inward direct investment from abroad. In addition, it set a clear policy of testing against global best practices, and thus preventing Japan from becoming an economic Galapagos, by seeking to converge the rules regulating Japanese firms with global standards. Thus, it sought to develop firms and personnel who can conduct business at a global level. It is important to adjust rules on corporate governance, accounting standards, and corporate information disclosure quickly to match global standards.

- **Reconfirming the Clear Commitment to Creation of Single, High Quality International Standards in Accounting**

Japan committed to creation of a "single, high quality international accounting standard" in 2008, in the G20 Leaders Communique just after the Lehman Shock. In order to steadily implement this policy, there is a need for the nations involved to accelerate their efforts further to agree on international standards. In Japan, there is a need to unify accounting standards to a single standard that will be accepted internationally.

In the proposal of the LDP Subcommittee on Corporate Accounting in June last year, we sought a deepening of the debate on the pros and cons of mandatory adoption of IFRS and a time schedule for it, hearing opinions from all sides. The government should soon begin the concrete work needed toward determining a time schedule.

- **Promotion of Expanded Voluntary Adoption of IFRS**

It is essential for there to be "noticeable degree of implementation" of IFRS, in order for Japan to maintain its right to a voice in the creation of the IFRS standards, and for Japan to fulfill its responsibilities as a member after the regular review by the monitoring board of the IFRS Foundation in 2016. In the LDP Corporate Accounting Subcommittee proposals in June of last year, we sought application of IFRS by about 300 firms by the end of 2016. The government should

take all possible measures toward that goal, and, while moving toward implementation, should actively tackle the creation of an environment for it.

- **Approach Firms Included in the JPX-Nikkei 400 Index**

In the “Interim Proposals” of the LDP’s Japanese Economy Revival Headquarters in May of last year, we sought the creation by the Japan Exchange Group of a new index (a “TSE Global 300 Index”) not only to encourage higher ROEs and independent outside directors but also the adoption of IFRS. Based on the efforts of many, the JPX Nikkei 400 Index was created, and both outside directors and adoption of IFRS were included as items for which ranking points could be obtained. However, the actual impact was less than the potential impact, because the introduction of outside directors and IFRS were not pushed forcefully. In the future, companies included in the index should be monitored on whether they have adopted outside directors and IFRS, and, in cases of insufficient progress, the firms should be approached on the matter, and consideration should be given to strengthen promotion policies, such as the weighting of these factors in the ranking process.

- **Promotion of Explanation by Firms of Attitudes Toward IFRS in TSE Listing Rules, and Creation of an “IFRS Usage Report.”**

In Japan, the voluntary adoption of IFRS is permitted, and interest among investors in listed companies’ policies regarding IFRS is high. Under these circumstances, we propose that TSE listing standards include explanation by listed firms to investors of the basic attitudes of firms toward implementation of IFRS (for example, whether a firm is considering IFRS, and if so the stage of consideration). There are now about 40 firms that have voluntarily adopted (or plan to adopt) IFRS. The FSA should publicize an “IFRS Usage Report” in order to promote transition by firms that are considering it, including such matters as how firms that have adopted IFRS have dealt with issues in the transition, what the merits of the adoption were, through investigation and survey of actual circumstances. This report will serve as a reference for firms that are still hesitant with respect to transition to IFRS.

## **5. Becoming a #1 Country for Entrepreneurship**

Even now, it is hard to say that Japan is considered to be a preeminent nation for entrepreneurship, even in the Asian region. Statistics show that companies less than 10 years old are more active in creating employment, and therefore the creation and development of world-class venture companies is an integral part of the vitalization of the Japanese economy. There is a strong need for the government to establish a system to support the private sector in creating social and economic ecosystems where the younger generation can dare to take on new challenges without fear of failure, and where even after experiencing failure they can get up and try again. At the same time, we should prepare necessary policies on our own, and press ahead for their execution by the government with all our energy.

### **(1) Eye-Catching Policies Reflecting Our Seriousness about Becoming a Leading Nation for Entrepreneurship**

- **Establish a “Leading Entrepreneurship Nation Promotion Headquarters” (provisional name) at the Prime Minister’s Office**

On September 25, 2013, Prime Minister Abe said at the New York Stock Exchange, “I would like to transform Japan into a ‘great entrepreneurial nation’, with lots of venture spirit like the U.S.” and clearly stated, “I would like to build up with the U.S. a large, creative free market in this Asian and Pacific region.” Following up on this, we as the entire government should establish a “Leading Entrepreneurship Nation Promotion Headquarters” (provisional name) at the Prime Minister’s Office in order to clearly demonstrate, both internally and externally, our firm resolve and stance to facilitate the birth of both new entrepreneurs and new jobs.

In order for Japan to transform itself into the leading nation for entrepreneurship in Asia, it will be necessary for the government to work on creating social and economic environments where the younger generation can dare to take on new challenges without fear of failure, and where even after experiencing failure they can get up and try again. The companies that create the most new jobs are companies that are three years old or less. Therefore, support for entrepreneurs is effective not only in generating economic growth and tax revenues, but also in creating employment opportunities. For the purposes of unifying and managing policy issues regarding support for entrepreneurs across and between ministries, and enhancing coordination and strategic policymaking functions, the “Leading Entrepreneurship Nation Promotion Headquarters” (provisional name) should be responsible for planning and implementing concrete measures to draw upon the entrepreneurial energy that lies within Japan, under the strong leadership of the

Prime Minister. In addition, with regard to the various entrepreneurship-related policies in areas such as education, human resource development, deregulation, financing, and labor law, we should not implement these policies using the old “separate silos” system of vertically organized bureaucratic groups. Rather, we should execute them in an integrated fashion, under the unifying “Leading Entrepreneurship Nation Promotion Headquarters” (provisional name), organized as an inter-ministerial, coordinated policy package, in order to forcefully promote and achieve transformation into a great entrepreneurship nation.

- **Promote Investment in Venture Businesses by Large Corporations, and M&As**

In order to encourage large companies to procure from, forge business partnerships with, and conduct joint research with venture firms, we should create councils to promote open innovation cooperation between executives of large companies and venture companies, and promote consciousness-raising and educational activities in cooperation with industrial groups.

In addition, as part of our growth strategy, it is extremely important to support M&As by large companies to acquire venture firms with promising new technologies and business models. For this purpose, we need to avoid situations where the corporate accounting standards of Japan inhibit such M&A transactions. Amortization of goodwill is mandatory by current Japanese standards, and this threatens to be problematic for competitiveness when compared with international financial reporting standards (IFRS), which allow companies to *not* amortize goodwill. From the standpoint of growth strategy, we should promote a shift to IFRS and increase the usability of IFRS by examining IFRS within the “IFRS Compliance Policy Council” comprising METI, the FSA, the Accounting Standards Board of Japan (ASBJ), and others, in order to solve this issue at an early stage.

Note: “Goodwill” refers to the amount calculated by deducting the total amount of net assets plus identifiable non-tangible assets of the acquired company from the purchase price of an M&A acquisition.

*Acquisition price – amount of identifiable assets such as net assets = goodwill*

Specifically, goodwill is the implicit value of corporate reputation; networks; brands; technologies under development; experience, capabilities, and dynamics of executives and employees; and premiums arising out of competition for acquisition; and business synergies, etc. In the U.S., many companies such as Google, Oracle, IBM, and Facebook are expanding their businesses based on active M&A strategies. Furthermore, 80% of the “exits” for venture investments arise from M&A

transactions. There are many voices advocating that the amortization of goodwill should not be mandatory from the standpoint of promoting M&As and getting back on an equal footing with U.S. companies.

- **Promote Procurement from Venture Businesses by the Government and Municipalities**

It is extremely difficult for young venture companies to acquire customers because they lack a track record of sales, and an established reputation and creditworthiness. If the central and local governments take the lead in increasing procurement from venture companies, it will contribute to increases in their revenues, while also enhancing their creditworthiness. We should work on measures such as setting up flexible bidding criteria that make it easier for venture companies to participate in [procurement] bidding, and providing venture firms with a wide range of information about the needs of official agencies. In addition, central and local governments should cooperate with each other in order to expand the “trial ordering system” currently being implemented by local governments, and enhance the effectiveness of its operations.

Furthermore, using the SBIR system of the US as a reference example, we should consider measures to take better advantage of the fruits of R&D support (e.g., governmental subsidy) projects by the government.

Note: “Trial ordering” is a system in which local governments procure the products and services of venture companies and others based on certain standards such as accreditation by prefectures. The revision of the enforcement order of the Local Autonomy Act in 2004 made it possible to expand the range of eligibility so as to include voluntary tender contracts, and this system is currently being implemented in many prefectures.

Note: Small Business Innovation Research (SBIR) is a U.S. system for the support of research and development, which mandates that 2.5% of all external-contract R&D expenses of the U.S. government must be allocated to venture firms in order to promote R&D by them, and/or to bring developed technologies into practical use by introducing them to private VCs or by means of governmental procurement. (The Department of Defense and others actively pursue procurement under this system).

## **(2) Revolutionary Increase in the Number People Who Dare to Take on New Challenges**

- **Creation of “Entrepreneurship Awards” (provisional name; Prime Minister Awards)**

One of the reasons why the number of entrepreneurs in Japan is small, is the absence of “heroes” who have succeeded in starting their own businesses. In order to increase the number of entrepreneurs, we need to praise heroes and improve the social position of entrepreneurs. To this end, we should grant “Entrepreneurship Awards” (provisional wording) in the name of the Prime Minister to business founders who have made large contributions to activating the economy and creating innovations, and publicize their success to society as a whole. (We should carefully design the awards system, for example by recognizing multiple winners, or focusing on young entrepreneurs).

- **Promotion of Career Education and Entrepreneurship Education**

In order to transform Japan into a great entrepreneurship nation and produce world-class entrepreneurs, we need to appeal to young generations. We should promote career education and entrepreneurship education so that “founding one’s own company” will be included by young people as an option in their career paths.

Specifically, the Ministry of Education, Culture, Sports, Science and Technology and METI should cooperate to promote the use of external personnel [lecturers] at educational institutions, for instance by dispatching business founders to schools to talk about the positive aspects of entrepreneurship on Saturdays, and by offering more practical learning opportunities such as networking events between entrepreneurs and students, internships at venture companies, and business plan competitions.

Note: Career education should help young generations realize that they can live life in an independent way, be passionate and proactive, and choose their own careers. Founding a business should be an option in their array of career choices. We should educate young generations to respect those who aspire to do what they want while cherishing their own feelings of inner excitement, and encourage them to practice this way of living on their own. In addition, we should nurture the ability to get up again even after failure or in the face of difficulties – the ability that is often called “resilience”. Furthermore, opportunities should be created for parents and children to learn together about ways to live life to its fullest by taking on risks and challenges and becoming the best that they can be. What is important for entrepreneur education is that we not end up only providing education, but that we also create opportunities in

which students *want* to learn. For example, we should promote the formation of entrepreneurship clubs, not only in universities but also in elementary schools, junior high schools, and high schools, and let students engage in activities such as visiting emerging companies in each local area, inviting business founders to their schools, making presentations about business plans they have created to these business founders, and actually conducting small businesses on a trial basis. From the standpoint of continuing education, we should also create opportunities for young business people to have access to entrepreneurs and emerging companies, and to experience (at no risk) what it is like to found one's own business, by means of "startup weekends," for example.

- **Expanding the Cultivation and Nurturing of "Genius IT Personnel"**

In the IT industry, the success of one unusual genius can create a large market. In the "Undiscovered IT Human Resources Recruiting and Development project" (commonly called "the Undiscovered Human Resources project"), project managers with good performance records recruit and develop young innovators who have ideas in "undiscovered" areas which no one has ever explored. This project had been highly valued in the IT industry, but its funding was reduced several times during budget screenings carried out by the DPJ's government. We should expand this project, and to recruit and develop world-class super innovators, while promoting the founding of businesses by graduates of this project, we should establish a support system offered by experienced founders to enhance support for startups.

Note: The Undiscovered Human Resource Project is a project implemented by the Information Technology Promotion Agency (IPA) for the purpose of training people who will create innovations using IT technologies. With a focus on recruiting and developing young human resources, this project has trained more than 1,500 innovators so far.

- **Securing Labor Mobility / Designing Systems for Highly Predictable Dispute Settlements**

In order to make "job switching without unemployment" feasible and promote the mobility of labor that is needed by venture companies, large companies, small and medium-sized companies, and VCs, we should review regulations throughout the entire working cycle including employment, labor management, and changing jobs. Especially, by advancing research on the resolution of dispute cases in Japan, and research on the framework and operation of foreign dispute resolution systems, we should accelerate consideration of the establishment of a dispute resolution system that is highly predictable in advance, and is suited to actual circumstances in

Japan.

- **Improvement of the Safety Net for New Businesses**

Promoting side businesses, short-term-businesses, and temporary retirement in order to found ventures, are ways to reduce risk with regard to startups. As part of the government's efforts to aid entrepreneurs, we should have the Prime Minister or other high level officials ask economic and industrial groups to ease working regulations at large companies, such as the prohibition of side-businesses and part-time businesses. In addition, we should promote the "Guidelines for Personal Guarantees by Business Owners", in order to change Japan's common practice whereby executives extend personal guarantees of the company's liabilities. We should also promote utilization of the small-scale enterprise mutual aid system, which is a retirement benefit system for executives of small-scale companies, and propagate knowledge of these programs so that they are well known among entrepreneurs. Furthermore, we should consider a system that will make it easy for people who quit their companies aiming to found a business to receive unemployment insurance benefits.

Note: The "Guidelines for Personal Guarantees by Business Owners" stipulate that no guarantee by managers should be required if certain conditions are met, such as a clear separation between corporate assets and personal assets.

Note: The small-scale enterprise mutual aid system has advantages such as "a 1% per annum implicit [assumed] interest rate is guaranteed", "the right to receive mutual aid payments is protected, as being exempted from attachment", and "large tax advantages". This system allows executives to ensure that they can pay living expenses after retirement, and will have some funds to try again, even after closure of the current business.

### **(3) New Structures for Raising Capital**

- **Fortify Policy to Increase Supporters of Entrepreneurs (Drastic Reform of the "Angel Tax System")**

It is important to increase the number of "angel investors" who fund venture companies as supporters of entrepreneurs. (In the US, as much as 2 trillion yen is invested by angel investors, - the same amount as total investments from VCs). However, currently the Angel Tax system, which was established in order to increase the number of these angel investors, is not widely utilized. The reason for this is the complexity of the procedures, such as too many application forms. We

should fix these issues and drastically reform the system, so as to create an Angels Taxation System that is easy to use.

Specifically, METI should simplify documents pertaining to procedures, and take measures to expand the base of investors, such as providing templates for agreements between investors and invested companies, and forming networks to share necessary investing knowledge, so that many more people can begin making angel investments. In addition, methods for investee firms to make themselves more attractive, should be considered.

Note: A U.S. foundation intended to cultivate and educate new entrepreneurs called the Kauffman Foundation has created manuals for angel investors and model agreements, and has actively fostered networking opportunities such as lectures for investors.

- **Expanding the Range of New Financing Methods Such as “Crowdfunding”**

Now that equity-type crowdfunding has become possible as a result of a revision to the Financial Instruments and Exchange Act, METI and the FSA should cooperate with each other to promote utilization of crowdfunding as a means for fundraising that will complement finance from banks and funds. In combination with conventional partnership (*tokumei kumiai*) agreements, we should promote the spread of crowdfunding while preventing misuse, by providing business manuals and templates for investment agreements for equity-type crowdfunding, and by setting up consultation desks. In particular, it has not been easy for venture companies aspiring for regional development or to contribute to society to raise funds, and we should support them by means of introducing successful cases to them, and so on.

- **Enhancement of Funds of Funds and Matching Funds**

We should channel funds of public-private investment funds not only to direct venture investments but to private VC funds as well, and investigate new matching fund systems while further strengthening fund of funds /matching funds systems that increase investments to many more companies. In doing this, we should be careful that the investments in leading-edge technology development venture companies are diversified, and that funds actually reach a broad range of emerging companies of various types. (For example, Japanese robot venture companies continue to be acquired by Google). Furthermore, based on an understanding that Japan critically lacks sufficient numbers of venture capitalists who are qualified to provide hands-on support to venture companies, we should also take measures to develop such capitalists by implementing training projects and inviting foreign experts.

Note: In response to the “Interim Proposals” we submitted in May of last year, the Innovation Network Corporation has already committed to investing 30 billion yen in funds-of-funds that aspire to support the development of technologies, the formation of partnerships with large companies, or expansion overseas. Meanwhile, the Organization for Small & Medium Enterprises and Regional Innovation is supporting the formation of venture funds in the amount of more than 130 billion yen, by matching investments with private money. We need to further accelerate these activities.

- **Strengthening Capability to Supply Risk Money, Especially Smooth Bridge Financing**

The government should create a financing environment that is appropriate for the Abe Cabinet, which aspires for Japan to become “the most business-friendly country in the world,” and should consider all measures to increase the “entry rate” [the rate of establishment of new companies] and enhance the capability to supply risk money necessary for promoting business start-ups, which contribute to economic metabolism.

In particular, venture companies that receive government subsidies for technology development tend to have difficulty securing bridge financing until such time as they receive their subsidy at the end of the year based on actual results. The government and others should eliminate this bottleneck by revising the timing of payment of subsidies (or other measures), and by suppressing the need for bridge financing to the extent possible, while considering measures to facilitate smooth bridge financing from private financial institutions and to utilize governmental financial institutions such as the Japanese Finance Corporation to complement such financing from private financial institutions.

- **Greater Facilitation of the Use of Stock Options and Different Classes of Stock**

Although the stock option system and the classified stock system were introduced to enhance incentives for executives and employees of venture companies and make financing more flexible, these systems are not widely utilized. With regard to the stock option system, we should investigate the current status of usage of this system and consider [making desirable changes to] structural requirements such as for the eligible recipients of stock options, annual exercisable amounts, and limitations to the exercise period for these rights. Also, with regard to the classified stock system, we should create standard models and review inflexible aspects of this system, such as rules for registration and statutory classified stockholder meetings, so that both investors and venture companies can benefit. In addition, in

order to be able to better facilitate “exits” via M&A, we should work to clarify the legal basis of preferential rights to receive dividends in the case of deemed liquidations, so as secure protection of those rights.

Note: As a way to utilize classified stocks, a method to implement large-sized financing while securing the voting rights [and controlling position] of business founders by setting up large price differentials between common stock and preferred stock (approximately 1:10) has become common in the US. However, in practice, such schemes pose issues in Japan, such as the inability allow large price differentials (e.g., beyond approximately 1:1.2).

#### **(4) Assisting Forward-Looking Approaches**

- **Establishment of a “Flagship Special Zone for a Leading Entrepreneurship Nation” (provisional name)**

As a variation of the national strategic special zones, a “Flagship Special Zone for a Leading Entrepreneurship Nation” (provisional name)” shall be established, to create an ecosystem for entrepreneurship that is superior to competing regions in Asia such as Singapore and Hong Kong, based on multifaceted comparison with such regions. Especially, with regard to utilization of the latest technologies, we should promote the introduction of a variety of technological innovations through deregulation, in order to establish leading-edge “future communities”.

Note: The “Special Flagship Zone for a Leading Entrepreneurship Nation” (provisional name) anticipates the selection of particularly forward-looking cities that can play flagship roles for Japan as a great nation of entrepreneurship.

- **Legislation for a New Corporate Form: “Social Business Corporation”**

There are many entrepreneurs (in the broad sense) who establish non-profit organizations (NPOs) to provide solutions to social issues, regarding matters such as the environment, welfare, education, energy, and public order. However, it is difficult for many NPOs to secure stable fiscal resources, and they face challenges in attaining financial sustainability. To address this problem, it is necessary to pass laws permitting “social business corporations (provisional name)” as organizational entities that are positioned between stock corporations and NPOs. Social business corporations would be identical to stock corporations in the sense that they would generate the funds necessary for business operations out of their own revenues. On the other hand, the difference between corporations established pursuant to the Company Law and social business corporations would be that the latter would limit

the amount of dividends that can be paid to shareholders and compensation payable to executives, and profits would have to be re-circulated and used for the purpose of solving social problems.

By considering social business corporations as a new form of organization and immediately drafting legislation to allow their establishment, and by setting the stage for them in other ways (including various types of preferential measures), we should promote a kind of “social entrepreneurship” that contributes to finding solutions to various social problems, and generates employment and pays taxes at the same time.

## **6. Promotion of Involvement by Active Women**

Women who work actively in society and “shine” not only fundamentally energize Japan, but are essential to increasing productivity and revitalizing the Japanese economy. However, we are still only mid-course on the road to increasing the workforce participation rate and the number of employed women, and we need to patiently enact measures that combine many different policies. At the Japan Economic Revival Headquarters of the LDP, we believe that “increasing options” is the key to expanding “women power” and supporting women so that they can actively work and flourish in society. We propose to develop infrastructure and environments that support women in balancing work with child-raising and nursing/elderly care, from all points of view.

### **(1) Systems that Provide Women with Options to “Shine”**

- **Consider a New Format for the Spousal Tax Deduction**

In order to break down the “walls” that impede women’s working styles, and in order to increase their labor force participation rate, it is necessary to consider a new format for the spousal tax deduction.

To this end, we should consider designing tax systems that are based on the concept of a family, but allow women as spouses to choose whether or not to work depending on their stage in life. Based on this approach, instead of abolishing the spousal tax deduction, we should explore the use of a framework that, for example, equalizes the total amount of “basic tax deduction” received by married couples and allows the husband to use the portion of basic deduction not used by the wife, irrespective of the working style of the wife – i.e., regardless of whether she is a full-time housewife or has her own income. The idea is that husbands and wives should share their basic tax deduction.

## Overview of Tax Burden and Net Actual Household Income, Depending on Income of Spouse

- Husband (36 years old) and wife (34 years old) with two children (4 years old and 2 years old)
- Income of husband: 5 million yen. ("Actual household incomes for Household 3 ~ 6 decrease because it is assumed that these households are ineligible for spouse allowances.)

		Household 1	Household 2	Household 3	Household 4	Household 5	Household 6
<b>Assumptions</b>	Income of wife	Full-time housewife	Annual income: 1 million yen	Annual income: 1.2 million yen	Annual income: 1.3 million yen	Annual income: 1.6 million yen	Annual income: 2 million yen
	Social insurance	Class 3 dependent	Class 3 dependent	Class 3 dependent	Welfare pension and health insurance	Welfare pension and health insurance	Welfare pension and health insurance
	Spouse exemption	Eligible	Eligible	Eligible	Ineligible	Ineligible	Ineligible
	Child education	Private kindergarten for the first child	Private kindergarten and authorized child care center	Authorized child care center for both children			
		Burden ratio for Income A (%)	Burden ratio for Income A (%)	Burden ratio for Income A (%)	Burden ratio for Income A (%)	Burden ratio for Income A (%)	Burden ratio for Income A (%)
	Husband	500.0	500.0	488.0	488.0	488.0	488.0
	Wife	0.0	100.0	120.0	130.0	160.0	200.0
	<b>Income A (household income)</b>	500.0	600.0	608.0	618.0	648.0	688.0
Husband	Social insurance premium	66.6	66.6	66.6	66.6	66.6	66.6
	Income tax	10.6	10.6	11.3	12.3	13.4	13.4
	Residence tax	21.5	21.5	21.7	22.7	23.8	23.8
Wife	Social insurance premium	0	0	0	17.9	21.8	27.6
	Income tax	0	0	0.9	0.5	1.8	2.8
	Residence tax	0	0	2.4	1.6	4.2	6.3
<b>Tax and social insurance premium</b>		98.7	98.7	102.9	121.6	131.6	140.6
<b>Child care / nurturing expenses</b>		24.6	51.3	69.9	69.9	69.9	79.8
<b>Expenditure B (household exp.)</b>		120.3	150.0	172.8	191.5	201.5	220.4
<b>Actual income (A - B)</b>		376.7	450.0	435.2	426.5	446.5	467.6

*Note 1:* For purposes of simplification, this material assumes a case where the husband works and the wife is a dependent; however, these roles could be reversed in actuality because the tax system does not treat men and women differently.

*Note 2:* These calculations are made based on certain assumptions, and actual amounts of expenditure, etc. may differ depending on factors such as application of other tax exemptions and allowances paid by the company of the husband. In particular, child care expenses differ between private and public institutions, and depending on the amount of child care fees set by municipalities.

*Source:* Created based on materials prepared by the Cabinet Office.

- **Discuss a “Neutral” Social Security System, Including Review of the “1.3 Million Yen Ceiling”**

In recent years, the number of non-regular workers has been increasing, and the percentage of women among part-time workers (15.68 million in 2013) is especially high (approximately 68%). Application of employee insurance is scheduled to be expanded in part so as to cover part-time (non-regular) workers who work for 20 hours or more per week, whose annual income is 1.06 million yen or more from October 2016.

Expansion of the coverage of employee insurance was also highlighted as an issue by the Social Security System Reform Program Act enacted last year. The current situation, in which the burden of pensions, medical insurances, and other forms of social security differ largely depending on the number of working hours, decreases the willingness of employers to employ regular employees, and incentivizes workers to stop working once they earn a certain amount, thereby causing a distortion in the labor market. Therefore, drastic reforms are necessary, with the intention to create a framework that is neutral for both employers and employees and ensures necessary social security.

- **Review of Pension Systems to Cope with Life-Style Changes Arising from the Longevity of Women**

In order to promote the full utilization of women, whose lifestyles change significantly depending on their stage in life such as child-bearing, child-raising, career development, and nursing/elderly care, and who tend to live longer than men, it is necessary to establish a pension system that women can join on their own, based on their lifestyles. While addressing the issue that Class 3 dependents such as housewives who are exempted from payment of public pension premiums, we should consider establishing a portable pension system that is responsive to flexible lifestyles, while at the same time reviewing the entire public pension system including the “three-story” structure (i.e. revising the law).

This topic should also be considered from the angle of potential support from family members, so that elderly people who live alone will not be disadvantaged, especially in the local regions where jobs are scarce.

- **More Options in the Medical and Nursing Care Fields**

With regard to medical care supporting the health of women, who tend to live longer than men and whose lifestyles are diverse, we should consider and define the attributes of a medical care system that can provide citizens with necessary medical treatment that is safe and effective, while not increasing the burdens imposed on subsequent generations. Specifically, while maintaining the universal

health-care system as a precondition, we should accelerate and streamline the review processes for “assessment care treatments,” which are intended to be listed as covered by health insurance, while also working to establish a framework to review and expand the range of “selected care treatments,” for which patients select how they wish to be treated and bear special expenses.

In addition, with regard to promotion of home medical care, the current situation in which no compensation for nursing care by family members can be received, thus making it economically advantageous to send elderly people to nursing homes, is reducing the role of nursing care by family members. To address this issue, we should consider utilizing nursing care insurance to support family members who are giving nursing care at home, giving due consideration to mid-term and long-term financial burdens, and to the point made by some that such support may inhibit women’s participation in society.

- **Examine Assistance Measures Including Tax Breaks for Child and Nursing Care (the so-called “Tax System for Domestic Work Assistance”)**

“Tax breaks for child-raising and nursing care” (the so-called “Tax System for Domestic Work assistance”) is a system widely adopted in other developed nations, which provides tax credits and other tax benefits to households such as low double-income households and others, with respect to expenditures for in-home workers who help out with domestic work such as babysitters, housekeepers, and caregivers to the elderly.

However, in Japan, expenses for child-raising and nursing/elderly care are considered to be “disposal of income”, according to a report of the Government Tax Commission as of June 2000. Considering the fact that lifestyles of women have also diversified in Japan, and that utilization of “women power” will make a large contribution to the revitalization of the Japanese economy, some are of the opinion that that it is necessary to consider further reform of the tax system with respect to expenses for the various types of support that women need in order to work and do child-raising and/or nursing at the same time.

Introduction of “tax breaks for child-raising and nursing care” is expected to give more options to women – who tend to be forced to give up working in society due to the burdens of domestic work and child-raising – so that they do not need to give up their own careers if they use domestic labor services. We should strive to consider measures to secure both the necessary personnel and quality with regard to assistance for child-raising and nursing care, and to decrease the financial burdens of users of these services.

In addition, if the number of users of domestic labor services such as babysitters increases, it is expected that stable demand for employment will be created. We

should, not only for women alone, consider building a system that will support the creation of employment within working households, based on compatibility with other existing systems of Japan. In doing so, we should refer to the examples offered by various foreign countries. Our review should include consideration of the necessary financial resources.

## Tax Systems to Support Domestic Work in Other Countries

As of January, 2013

		<b>US</b> [Tax break for child-raising]	<b>UK</b> [Addition to working tax credit]	<b>Germany</b> [Tax break re domestic services]	<b>France</b> [Tax break for domestic workers]
<b>Target households</b>		<ul style="list-style-type: none"> <li>● Single mothers, etc.</li> <li>● Double-income households</li> </ul>	<ul style="list-style-type: none"> <li>● Single mothers, etc.</li> <li>● Double-income households</li> </ul>	All households	All households
<b>(upper limit for child's age)</b>		13 years old	16 years old	-	-
<b>Eligible expenses</b>		<ul style="list-style-type: none"> <li>● Babysitters</li> <li>● Housekeepers</li> <li>● Childminders, day-care centers, etc.</li> </ul>	<ul style="list-style-type: none"> <li>● Childminders</li> <li>● Day-care centers, etc., (including help at home)</li> </ul>	<ul style="list-style-type: none"> <li>● Babysitters</li> <li>● Housekeepers, etc.</li> </ul>	<ul style="list-style-type: none"> <li>● Babysitters</li> <li>● Housekeepers, etc.</li> </ul>
<b>Tax deduction</b>	<b>Rate</b>	<b>20 ~ 35%</b>	<b>70%</b>	<b>20%</b>	<b>50%</b>
	<b>Upper limit</b>	<b>210,000 yen</b>	<b>1,660,000 yen</b>	<b>520,000 yen</b>	<b>980,000 yen</b>
<b>Decreased tax revenues (including benefits)</b>		<b>333.2 billion yen</b>	<b>209.8 billion yen</b>	<b>254.8 billion yen</b>	<b>477.1 billion yen</b>

*Note:* Monetary amounts are based on average values of real foreign exchange rates as of August 2013 (1 dollar = 98 yen, 1 pound = 152 yen, 1 euro = 130 yen).

*Source:* Created based on materials prepared by the Tax Bureau of the Ministry of Finance.

## **(2) Making the Status of Female Advancement More “Visible”**

- **Expansion of Items for Measuring Female Advancement (requested)**

Currently, alongside consideration of the steps noted above, the Cabinet Office and the MHLW have published maternal leave and child-care leave usage status, short-time work system usage status, annual leave usage status, the number of actual working hours, and so on, as items relating to labor and working status and work-life balance, in addition to basic information such as the number of employees.

However, in order to further improve social environments for the utilization of “women power”, we should add data items that are more “visible”, such as job descriptions by sex (sales, technology, retail, planning, administration, etc.); support for shortening the distance between work and home (housing allowances, etc.); the nursing care leave usage rate; the usage status of systems beyond those required by law (child-care leave, temporary retirement for nursing care, short-time working programs, exemption for off-hours work, medical nursing leave, exemption for late-night work, and so on); different flexible working styles (telework introduction rate, flex-time systems, staggered working hours systems, spouse accompaniment programs, and so on); child-raising support (in-office day-care centers, subsidy for child-care expenses, and so on); career support, support for returning to work, awareness-raising and education activities for managers and male/female employees, and the child-care leave usage rate of non-regular employees.

- **Building a Framework to Promote Independent Information Disclosure by Corporations (requested)**

Currently, the MHLW and the Cabinet Office are working on the aforementioned ways to raise “visibility”. However, the number of companies that disclose relevant data is small, and many companies disclose only some data, because disclosure is not mandatory. In addition, the vagueness of the definitions of data is also an issue.

As a first step to enhance disclosure, we should encourage companies to include female executive ratios in securities reports regulated under the Financial Instruments and Exchange Act, and to include female manager ratios in corporate governance reports, in order to promote the appointment of women to managerial positions. Such disclosure in securities reports will not only encourage the appointment of women to these positions, but also contribute to the protection of investors, who have great interest in these reports. However, Japan lacks awareness of the positive influence of the activation of women on corporate performance, and it is difficult to change the present situation because of concerns about the practical impact on operations at companies.

Therefore, the government should communicate more widely to the entire society about the [positive] impact on corporate performance of activating and involving women, and set up clear milestones and take comprehensive measures, by submitting related draft bills by the next diet session.

In addition, if the greater utilization of women is to be promoted as a national strategy, rules regarding the disclosure of data such as female manager ratios and director ratios, and the implementation status of efforts to appoint women in these positions, should be included in the rules of the Tokyo Stock Exchange relating to information disclosure by listed companies.

- **Leverage Disclosure as a Tool that Gives Working Women More Options**

The effort to attain greater “visibility” should not only be a tool for increasing transparency at working environments, but also a tool for creating more “options” for women. That is, websites that allow women to simulate their life stages when looking for a job should be integrated and created in a comprehensive and cross-sectional manner that spans the borders of ministries. It is hoped that companies viewing information on these websites will then help women to choose companies where they can realize their potential to the maximum extent.

Furthermore, if, with the aid of these websites, proper “visibility” conducted by companies with environments that support women contributes to their ability to hire better staff, this will be an incentive for further disclosure.

### **(3) Review of Systems Related to Child Care and Nursing Care Leaves and Short-Time Employment**

- **Enlightening Corporate Mindsets (administrative guidance)**

In recent years, it has become clear that companies with a high female regular employee ratio and female manager ratio tend to enjoy higher margins. One possible reason for this is the fact that people who all have the same characteristics can more easily make errors in judgment, but the sense of balance of a company can be improved if the firm draws upon diverse viewpoints, including those of women.

From this standpoint, it is necessary to communicate the advantages of supporting and maintaining the employment of women to employers.

- **Promotion of Child-Care Leave by Non-Regular Employees (administrative guidance)**

Companies that have a child-care leave policy for non-regular employees that is easy to use enjoy a higher return-to-employment rate. (The return-to-employment rate after first childbirth is 60% according to “the 8<sup>th</sup> Longitudinal Survey of Adults in the 21st Century” implemented by the MHLW in November 2009.) Although the Act for Welfare and Leave, etc. Regarding Workers Who Care for Children or Other Family Members, etc. (referred to here as the “Child Care and Family Care Leave Act”) allows non-regular employees to be given the right to take child-care leave if certain requirements are met, many workers do not know this.

In order to promote the use of child-care leave by non-regular workers, we should disseminate clearer explanations about the granting of child-care leave to non-regular workers, by means of notifications from the MHLW, for example. Furthermore, for the sake of both employers and employees, we should encourage employers to have a child-care leave system for non-regular employees. (Among all employers, 37.5% have this system, according to the same survey).

- **Relaxation of Requirements for the Payment of Childcare Leave Benefits (revision of ministerial ordinance)**

Japan’s current child-care leave system operates on a full-day leave basis and stipulates that “the number of working days must be 10 days or less within each unit period (1 month)”. Under this system, even working for just one hour is still counted as one working day. This is an obstacle for women to return to work.

Although this rule is scheduled to be revised to “10 days or less per month (80 hours or less if this number exceeds 10 days)” in the future, we should promote the introduction of a “partner- employee system”, which would change the position of women who wish to reduce working hours or work burdens due to child-raising or nursing care to that of part-timers, but allow them to return to the position of full-time employee later.

- **Review of the Family Care Leave System**

It is said that currently 2.18 million employees are working and providing nursing care at the same time. Although the number of workers who use nursing care leave is gradually growing, the percentage of these people is very small. (The percentage of workers who have used nursing care leave out among all regular workers was only 0.06% in 2008, according to the “2012 Basic Survey Regarding the Equal Employment Opportunity Act” implemented by the MHLW.) The persons giving nursing care are mainly women (79.5% are female vs. 20.5% are male, according to the same survey), and in recent years, each year approximately 80,000 people have quit their jobs due to the need to do nursing care. Therefore, it is urgently necessary to review the nursing care leave system, in order to prevent

women from resigning from their positions. We must gain a thorough grasp of the actual situation, in order to proceed with a review and make more flexible working styles possible.

- **Promotion of the Use of Short-Day/Time Policies**

The Child Care and Family Care Leave Act requires employers to offer a “short-day” (or selected days/time, etc.) working system to employees who are raising a child younger than three years old if they so request. However, the use of this system has not gained momentum, for reasons such as insufficient communication about it to female workers, and the accompanying decrease in their income. (The recognition rate among women (non-regular employees) regarding short-day work programs is only 16.8%, according to the “2011 Survey and Research for Understanding of Actual Situations Regarding Child-Care Leave Systems”, according to research contracted by the MHLW ).

As a solution, we should create easy-to-understand websites and the like, and promote their use, while further educating and edifying people about short-time work policies and promoting use of these programs by encouraging companies to include usage of these programs as criteria in personnel evaluations.

- **Extensive Use of Women in Public Administration**

We should evolve “visibility” not only in the private sector, but also the public sector. For this purpose, it is important to make changes in the working styles of the men and women in each ministry, which [collectively] form the foundation guiding the design of administrative systems in Japan. For example, promoting no-overtime days and greater transparency about overtime would be effective in cultivating a no-overtime culture. In addition, one aspect that has a significant impact on the working styles of public officials is Diet Question Notices. Publishing the name of all lawmakers who give Diet Question Notices past noon on the preceding day, should probably be required.

#### **(4) Raising Awareness Among Men**

- **“Visibility” About the Way Men Work (administrative guidance)**

As the first step to change men’s working styles, we propose enhancing awareness of the working styles of men themselves. The current facts and situation regarding the working styles of men should be published, using numbers selected for the purpose of improving working styles in Japanese companies (which are said to be very conscious of how they stack up against other similar firms), and mobilizing this improvement to establish a society in which it is easy for women to work. The items

for which this greater visibility is desirable, are similar to those for women as listed above, such as maternal leave and child-care leave usage status, short-time work system usage status, annual leave usage status, and the number of actual working hours.

- **Promotion of Child-Care Leave Taken by Men (administrative guidance)**

While for women, the child-care leave usage rate exceeds 80%, the same rate for men hovers at a level as low as 1.89%. In order to make it possible for women to balance work and family and promote participation of women in society, we should first raise the child-care leave usage rate for men by 50% from the current 1.89%.

In addition, each ministry in charge of administration of the country should consider doubling its child-care leave usage rate for men, by means such as introducing “child-raising father points” (e.g., allocation to non-desired department: +2 points, use of child-care leave: +2 points, achievement of targeted use of annual leave +2 points, and so on).

## **(5) Develop the Environment to Support Child Care and Nursing**

- **Infrastructure Development (administrative guidance)**

As a measure to prepare environments that support working women, it is important to develop an infrastructure that facilitates child-raising and nursing care by shortening the distance between work and home. In addition to reducing the burdens of commuting from home to work, the physical usability of child-raising and nursing care is also an important aspect of the social resource infrastructure for the utilization of women. For example, we should consider use of the MHLW’s “kurumin accreditation”. (If a company meets certain requirements such as establishing action plans and achieving targets specified in these plans, this company can apply to be accredited as a “child-raising supporter company” by the MHLW (the labor department manager of each prefecture is entrusted to give this accreditation). Accredited companies could affix a next generation accreditation mark (nicknamed “kurumin”) on their products, advertisements, recruiting advertisements, etc. to highlight that they are “child-raising supporter companies”.) This could serve not only the original purpose of accrediting those companies where it is easy for women to work, but could also be used for accrediting regions, homes, and the like. Accreditation criteria for these “kurumin-accredited” regions should include the time required to access child-care institutions and nursing care day centers, whether a teleworking environment has been prepared, and so on. In order to promote the preparation of environments where it is easier to telework, we should consider detailed support measures such as offering consultation services for companies and expanding subsidies for companies that have adopted

teleworking, to promote the formation of residential environments with child-raising support measures that make it easier to balance child-raising and work.

With regard to the “New Children/Child-Raising Support System,” it is important to raise current targets and carry out benchmarking to compare actual results - in terms of facilitating the raising of pre-school children, school children, sick children, and recovered children - with achievement targets set for municipal governments. By encouraging each municipal government to confirm its own position by carrying out benchmarking (comparison and analysis) against other municipal governments at the target-setting stage, it is possible to promote the establishment of local environments where people in the age groups that need child-raising and nursing/elderly care will choose to live.

- **Diffusion and Expansion of Stay-at- Home Work, Including Telework**

There used to be high expectations for stay-at-home work such as teleworking as a working style with no dependence on place or time that would reduce the burdens on employees who also do child-raising and nursing care. However, this working style has been rarely adopted despite the fact that the government has been promoting its adoption for a long time. Concern about information security, and difficulties in personnel and labor management have been given as reasons for this low adoption rate. In order to address these issues, we should actively promote the spread and expansion of teleworking by establishing and disseminating know-how for its introduction, as well as supporting companies and industry organizations that introduce teleworking.

- **Drastic Improvement of Child Care Support**

With regard to child care centers, although elimination of the problem of children on waiting lists has been discussed, from the viewpoint of supporting working women, we should continue to support employers that establish in-office childcare centers. At present, companies are currently obligated to make an effort to set up such centers.

In addition, in order to solve the chronic scarcity of childminders, we should consider increasing the frequency of certification tests carried out in each prefecture from the current one time per year to several times per year, and also examine the requirements for obtaining certification.

- **Significant Improvement of After School Care Programs**

With regard to after-school care programs, we have addressed both the “first grade ceiling” problem (the problem that it becomes impossible for parents to continue the same working styles when their child enters elementary school due to the

absence of childcare centers to leave the child in, or changes to conditions for leaving children) and the “fourth grade ceiling” problem (the problem that mothers are forced to quit their jobs when their children reach the fourth grade because the eligibility age for after-school care clubs is usually set at the age of 10 years old or younger (90% of the registered children are in first to the third grade) and there are no longer any places to leave them). This has been done by deleting the phrase “mostly 10 years old or younger” in the revision of the Child Welfare Act, and clarifying that the upper limit of the eligible age at school care clubs is the sixth grade. In accordance with the “New Children/Child-Raising Support System” to be started on April 2015, we need to work to make it possible for children who need after-school care clubs to join these clubs.

Furthermore, for the safety of children, we need to actively consider raising the provision rate of after-school care programs inside schools from the current 52% (currently, the number of schools where after-school care programs are implemented using empty classrooms: 6,044 accounting for 28% of total, and the number of schools where after-school care programs are implemented on the premises: 5,185 accounting for 24% of total). To this end, we should re-review the definition of empty classrooms (currently vague depending on each education committee, such as whether temporarily unused classrooms should be included or not) and the approach of education committees to determining the usage of empty classrooms (such as whether avoidance of responsibility is prioritized, or advantages for children are prioritized). It is also necessary to resolve issues such as securing personnel such as after-school care program workers, and their quality (salaries are low and no qualification training system has been established).

- **Care for Sick and Recovered Children**

It is necessary to solve the issues of the number and quality of care centers for sick children and recovered children, and the burden on parents. Although increasing the number of care centers is essential, flexible operations must be considered for certain regions, while giving top priority to child safety.

## **(6) Assisting Female Employment and Re-Employment**

- **Employment Assistance for Single Mothers**

While mothers at approximately 80% of about the 1.24 million single mother households in Japan are employed, approximately 10% are welfare recipients. Approximately 50% of the employed mothers are non-regular employees such as part-timers and their average annual working income is 1.25 million yen. The economic foundation of single mother households is extremely weak. Based on the fact that the relative poverty rate of single-parent households is as high as 50.8%,

it is necessary to further enhance employment support by giving special consideration to make it possible for mothers in single mother households to be employed as regular employees, offering financial support, and requesting cooperation from the business community.

- **Promotion of Utilization of Human Resources Development Agencies**

We should promote the usage of public vocational training provided by organizations such as the vocational ability development promotion centers (polytechnic centers) operated by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers, in cooperation with unemployment offices, in order to support the re-acquisition of vocational skills.

- **Development and Greater Utilization of the Vocational Ability Assessment System**

Currently, the vocational ability evaluation criteria established by the Japan Vocational Ability Development Association are not sufficiently utilized. (These are criteria in which the “knowledge” and “technologies and skills” necessary to perform a job as well as “examples of working actions that can achieve positive results (job performance ability)” are organized for each business category, each job category, and each job duty.) For the future, it is important to make it possible to objectively confirm skills required by companies and skills mastered by job seekers, to make it easier to match these against one another, so as to promote reemployment. We should create a vocational ability evaluation system including these criteria that will become widespread in society and utilized not only internally by companies but also for matching between job seekers and employers, and in training.

## **7. Achievement and Perceived Sense of Growth in Local Economies**

At present, it is essential above all for people in regional areas to feel a real sense of economic growth. Local regions possess a unique strength in that their community and regional pride and devotion generate many goods and services, and that regional potential must be boosted with concomitant respect for the regional culture. Moreover, various support measures that consider local companies' specific needs and characteristics are necessary, and it is of paramount importance for the government to develop these various measures as comprehensive and cross-cutting policies that closely link the relevant implementing ministries and agencies.

### **(1) Collaboration Between Government Efforts**

- **Enhancing Inter-Ministerial Information-Sharing Functions through the Regional Revitalization Bureau**

The revival of local economies is an urgent issue for the revitalization of the Japanese economy as a whole. Based on the Japan Revitalization Strategy and with the aim of reviving local economies, a Regional Industrial Competitiveness Council has been established in each regional bloc to develop a regional economic growth strategy that unifies the efforts of the central government, local governments, and businesses. Moreover, because the issues being addressed by the Ministry of Internal Affairs and Communication's "Headquarters for the Creation of Regional Vitality" are important, bureaus for developing relevant countermeasures are being established in each ministry, and there is still room for improvement from the standpoint of information sharing and the formulation of policy packages.

Accordingly, with the aim of enhancing the functions of the Cabinet Secretariat's Regional Revitalization Bureau and based on regional growth strategies, the government is strengthening linkages and cooperation between the "Headquarters for the Creation of Regional Vitality" and other relevant ministry bureaus, to enable these bureaus to collect and share information among ministries regarding the successful cases compiled by each ministry and the expansion of these good practices nationwide, as well as overseas expansion by private companies, and to develop and implement intensive measures.

For example, rather than each ministry soliciting information from the public separately on progressive successful cases that can contribute to regional revitalization, it should be done jointly, and the cases collected by individual

ministries should be shared among all of them. The “Comprehensive Information on Regional Revitalization Website” has been set up to allow searches of the regional revitalization measures carried out by each ministry. The site makes it possible to search according to particular themes for regional revitalization. In addition to the information provided by central government ministries, measures will also be worked out to add information on measures being taken by prefectural and municipal governments based on requests from local governments. Moreover, the “Comprehensive Information on Regional Revitalization Website” will be improved as a search platform for regional measures for users interested in the activities of private companies. These companies will be divided according to whether they are small- or medium-sized enterprises [SMEs] and their type of business. The aim will be to improve the convenience for users. These kinds of measures will allow for more efficient utilization of limited policy resources entrusted by citizens and steady progress toward regional revitalization.

- **Promotion of Procurement by the National and Local Governments from Small-and Medium-Sized Local Companies**

Currently, the eligibility qualifications for bidding and the evaluation criteria for the comprehensive evaluation of bids for public procurement are extremely limited in the evaluation of “regionality,” “sociality,” and “policy significance.” However, the central government and regional governments should take the initiative in increasing procurement from SMEs. Doing so will contribute to raising the overall level of regional and community economies and strengthening their linkages. Reforms will be carried out to ensure that this consideration of regionality is included in bid eligibility qualifications and evaluation criteria. The government will also promote efforts to more widely publicize government and public bid offerings.

## **(2) Activation of PPP/PFI Projects Utilizing the Public Facility Concession System**

The utilization of PFI projects based on the concession system is an opportunity for regional enterprises, which are the backbone of the Japanese economy, to work on new projects. This can lead to the strengthening of the competitiveness of Japanese companies in overseas markets for the export of infrastructure.

- **Promotion of PFI Projects Utilizing the Concession System**

The government’s Action Plan stipulates that the numerical goal for the scope of PFI projects utilizing the concession system should reach two to three trillion yen by 2022. Under the revised Japan Revitalization Strategy, this target has been moved forward, and the Cabinet Office will reset the target for PFI projects utilizing the concession system to two to three trillion yen within a concentrated period over

the next three years. The relevant ministries will set targets for the number of projects covering this target amount.

- **Systemic Reforms for the Promotion of PFI Projects Utilizing the Concession System**

The government will prepare the legal basis to enable the regular dispatch of national and regional civil servants to remove barriers to PFI projects utilizing the concession system. The government will provide notification on the status of procedures and transfers under the current system, including the relationship between similar procedures in local government laws and PFI laws and possible long-term transfers of civil servants under the current system. Revisions in the guidelines and procedures reflecting these items will be made by the summer of 2014.

- **Study of Accounting Standards and Interpretation**

The Cabinet Office and relevant ministries will reach a prompt decision regarding the treatment of accounting rules that can impede the higher valuation of concessions, and develop measures that will be implemented in fiscal 2015. Moreover, measures will be put in place in the fiscal 2015 budget to provide assistance for the formulation of measures to support project formulation by local governments.

- **Strengthening of Support for the Utilization of PPP/PFI by Local Companies**

The government will accelerate linkages between regional enterprises and the Private Finance Initiative Promotion Corporation of Japan (public-private infrastructure fund) and strengthen assistance for PPP/PFI efforts by regional enterprises. The Cabinet Office and the Ministry of Land, Infrastructure, Transport and Tourism and other ministries will build up a system of support so that the concession system can become an opportunity for regional enterprises and companies to develop new projects.

### **(3) Revitalization of Local Economies through the Promotion of Community and Regional Spirit**

- **Revitalization of Local Economies by Forming 16 Professional Baseball Teams**

Professional baseball has long enjoyed popularity among the Japanese public. A panel of experts has recommended a reform plan to the LDP that calls for the

expansion of the number of professional baseball teams from the current 12 teams to 16 teams and the creation of a two-league, four-region system.

There have been 12 teams in Japanese professional baseball for the past 55 years, but in the United States, although there were 16 teams 55 years ago, new teams have been established one after another in regional cities, and there are now 30 teams in American professional baseball. The teams are all being successfully run as businesses rooted in their respective communities. The prosperity of the teams that are based in regional areas has elevated regional awareness and created a substantial economic impact. The successive establishment of professional baseball teams in regional cities in America has expanded the professional baseball market and, as a result, contributed to the revival of those regions.

At the same time, the days when baseball players from the United States and other countries used to come to Japan to play because the salaries were relatively high have changed significantly, and now promising players from Japan are going to the United States. The LDP finds it difficult to sit idly by and watch this development.

There are regions in Japan, such as Shizuoka Prefecture, the northern Shinetsu region, Shikoku, and Okinawa Prefecture, which do not have professional baseball teams. The professional baseball market in Japan can still be expanded, and regions can be revitalized through such expansion. In response to a recommendation from experts, the LDP established a committee to further study the linkage between the expansion of the number of baseball teams and regional revitalization, and to consider measures for supporting such an expansion with the aim of revitalizing regions through the realization of the LDP's "Plan for 16 Professional Baseball Teams." In particular, with regard to Okinawa, discussions will be intensified on what kind of support measures are necessary for establishing a team there from the standpoint of the development and promotion of Okinawa. Moreover, the LDP will request that the government further study the relationship between the expansion of the number of baseball teams and regional invigoration and the kinds of support measures the government can provide.

- **Transmission of Japan's Culture and Traditions and the Revitalization of Regions through the Creation of "Japanese Heritage" (provisional name)**

Japan's culture and traditions are a "Japanese brand" that should have a proud place in the world. The transmission of this cultural "brand" to the world is also very meaningful for the revitalization of the Japanese economy. In order to convey Japan's culture and traditions, individual but related cultural assets should be packaged, certified as "Japanese Heritage" (provisional name) independently from World Heritage status, and provided with integrated support for their preparation, utilization, and dissemination. This will in turn lead to the revitalization of

communities and regions where they are located.

- **Relaxation of Regulations for Promoting the Utilization of Cultural Assets and Historic Buildings**

The revitalization of regions through tourism is a very important policy issue. In particular, the flexible management of regulations, such as the Building Standards Act and the Fire Service Act, is important for promoting the utilization of the National Strategic Special Zones and the Preservation Districts for Groups of Traditional Buildings and the cultural assets and historic buildings they contain.

Since a considerable number of years have passed since many historic buildings were first constructed, in many cases these buildings, although they met the building regulations and laws in force at the time of their construction, do not satisfy current regulations, which have been revised due to the development of surrounding urban areas. Moreover, if current regulations and laws are blindly applied for the rebuilding of these historic buildings, wooden construction and traditional building methods will be rendered non-usable due to the requirement for fireproofing. As a result, there is a danger that the value of these buildings will not be able to be maintained as cultural assets.

In Europe and the United States, laws must of course be observed as a general rule, but with regard to historic buildings, laws stipulate that the performance efficiency of such buildings should be ensured through means other than usual methods. For example, 1) weak areas in a building should be compensated for by other areas that can be strengthened (for example, the installation of sprinklers in areas where there are many combustible materials), and 2) regulations can be partially eased regarding building utilization methods and restrictions on the number of users, etc. (for example, lights leading to emergency exits do not always need to be permanently installed; instead, only at times when an unspecified large number of visitors is expected, guide lights to emergency exits can be projected on the wall with a projector).

Progressive local governments in Japan have enacted ordinances that provide exemptions for historic buildings like traditional wooden townhouses called *machiya* (permitted by Article 3-1-3 of the Building Standards Act). For example Kyoto City has enacted an ordinance regarding the utilization and preservation of traditional wooden buildings. When granting exemptions to the Building Standards Act, Kyoto City makes sure that measures have been put in place to improve safety in case of earthquakes, set limits on areas where fire can be used, prepare an appropriate maintenance and operation system with maintenance manuals for preventing fires, and so on. Considering not only “hardware” aspects but also “software” aspects like proper evacuation guidance, Kyoto City has developed rules and regulations that allow both “historical value” and “safety” to coexist.

These measures, which can serve as a model for the entire nation, should be made widely known to other local governments.

In regards to exemption measures under “Ordinances for Exemptions” (Article 3-1-3 of the Building Standards Act), agreement from a Building Plan Review Board is required. However, except for some large urban cities, many municipalities and towns face the problem of having no resident experts who can properly evaluate historic buildings. The concept for the National Strategic Special Zones calls for “establishing committees of experts in cities, towns, and villages,” but the problem will arise that small local governments will not be able to secure resident experts. In order to respond to this problem, efforts will be studied for establishing, for example, committees of experts in prefectural associations of architects and building engineers and then allowing local governments to commission experts from these committees.

#### **(4) Boosting Regional “Metabolism”**

- **Strengthening Support for Business Recovery, New Business Start-Ups, Second Business Chances**

In collaboration with regional financial organizations, the Enterprise Turnaround Initiative Corporation of Japan (ETIC) will consider setting up a framework for matching specialists with rich business experience (former corporate executives, etc.) in urban areas with regional companies aiming to revive their businesses or hoping to start up and run new business ventures utilizing local funds. Moreover, ETIC will lay the groundwork for strengthening support for businesses seeking a second chance, including those hoping to smoothly change or discontinue their business through the promotion of the utilization of the Guidelines for Personal Guarantees by Business Owners.

- **Promotion of Prompt Business Recovery by Applying the Majority Vote Principle**

It has been pointed out that one reason for the delay in voluntary liquidation proceedings, including Business Revitalization ADR [alternative dispute resolution], is the necessity for agreement by all financial creditors for the initiation of such proceedings. Accordingly, new frameworks will be studied for promoting prompt business recoveries by developing requirements and methods for voluntary liquidation, utilizing as reference the systems and practices used in various other countries.

- **“Matchmaking” Support for Promotion of Smooth Third-Party Succession**

There has been an increase in the number of cases of regional companies, which had been run under family management, having difficulty with the succession of the management of the business within the family. In order to promote smooth third-party succession, which has been increasing in recent years, Chambers of Commerce and Chambers of Commerce and Industry and Business Succession Support Centers will match persons with strong business motivation with small- and medium-sized companies that have succession needs, as well as providing long-term follow-up so that many years of service at a company will lead to internal promotions. Databases will also be compiled focusing on participants in entrepreneurship schools organized by implementing organizations selected through public offerings to apply in regions throughout Japan, and persons in these databases are matched with SMEs considering succession issues.

- **Information Sharing with Parties Considering or Desiring Discontinuation of Business**

The government will strengthen its efforts to provide more basic information to company owners considering or desiring a change or discontinuation of their business by issuing its Guidelines for Personal Guarantees by Business Owners (in effect from February 2014) and other measures. This is intended to reduce as much as possible owners' uncertainty and unease regarding their livelihood after discontinuing their business, the plight of their employees, debts, and so on.

The government will also support telephone counseling services by lawyers, accountants, and other specialists to business owners hoping to discontinue their business, giving consideration to these business owners' desire for anonymity. More specifically, Chambers of Commerce and Chambers of Commerce and Industry and Business Succession Support Centers will provide telephone counseling services by contracted specialists, and the central and local governments will support these services by promoting the sharing of information among existing inquiry or information desks and other measures.

- **Promotion of Lending Not Dependent on Land Collateral and Personal Guarantees**

In order to further embed financing practices that measure risk by carefully and expertly appraising potential borrowers without depending solely on land collateral or personal guarantees, the government will enhance financing methods that do not depend on ABL (asset-based lending) and other mortgage loans, and is promoting efforts for broadening and deepening lending practices based on the Guidelines for Personal Guarantees by Business Owners.

## **(5) Support for Regional and Global Market Expansion**

- **Support to Small-Scale Businesses for Market Development in Local Economies**

The government will promote “Local Economic Innovation Cycles,” which utilize regional resources and capital, and support the establishment of as many community-based enterprises that have large employment absorption capacity as possible (10,000 “local innovation” companies), as well as providing these companies with detailed and specific support for market development. Specifically, based on plans for supporting the establishment of new businesses formulated by municipalities and towns, initial investment support will be provided by local governments, and support will also be given for individual business advice by management consultants from Chambers of Commerce and Chambers of Commerce and Industry by providing them with training at the national level.

- **Market Development Support to SMEs Aiming for National and Global Markets**

With regional companies around Japan striving to be more global, the government will provide market development support to SMEs attempting to broaden their sales channels nationally and globally. In concrete terms, the government will enhance training for management consultants from Chambers of Commerce and Chambers of Commerce and Industry across the nation, and provide assistance for developing markets in Japan and abroad through Internet marketing. With the assumption of future tie-ups, the government will provide support for technical and product development in order for local governments and other entities to guide tie-ups between medium-sized companies in Japan and large corporations in Japan and overseas.

- **Broadening Appeal of Japanese Food Overseas Leading to the Fostering of Local Industries**

A systematic approach will be taken to the popularization overseas of Japanese food, including *washoku* — traditional Japanese cuisine, which has been added to UNESCO’s Intangible Cultural Heritage list — and the Japanese government will support the maintenance of the quality of Japanese food preparation by cultivating human resources in Japan and abroad, and promote the popularization of Japanese food overseas. Moreover, by strengthening its collaboration with the private sector, the government will support restaurants overseas that are making active efforts to introduce Japanese food and spread Japanese food and Japanese food culture in their communities.

## **(6) Support for the Creation of Industrial Clusters and the Fostering of Innovation**

### **● Creating Regional Innovation from SMEs' Core Technology**

The central and local governments will work together to carry out the following kinds of projects supporting the packaging of applied technological and product development with market development in new fields, centering on parts and component technology, which is the core of regional industry (core companies including SMEs).

- Multi-year projects proposed collaboratively by prefectural public research organizations possessing extensive knowledge about regional enterprises' core technology, aiming for realization over a five-year period.
- Projects formulated through utilization of existing national, prefectural, or municipal "implementation measures maps." (For example, first to third years: utilization of prefectural subsidies for projects requiring new investment or subsidies to support the advancement of strategic core technologies [supporting industries]; fourth to fifth years: support activities for market development, including overseas marketing development, prefectural technical and business exhibitions, etc.)
- Regarding affiliates of core companies, application of financial assistance to supporting industries based on the Law for the Enhancement of SME Manufacturing, and subsidies based on business plans for collaboration among specially designated subcontractors that are based on the Subcontracting SMEs Promotion Act.
- Concerning exit strategies for individual projects, prefectures will propose projects with prospects for the commercialization of products as targets for investment by the Innovation Network Corporation of Japan.

### **● Promotion of Regional Innovation through Industrial Clusters**

In order to create a virtuous cycle of innovation and the development of new businesses, the government will support the creation of broad-based networks of core regional companies and SMEs, universities, and public research organizations through the intermediation of specialist coordinators for the joint research and development of prototype products, market development, and so on. More specifically, secretariats will be established in prefectural industrial promotion centers, which will function as core players, industrial cluster managers will be assigned to these secretariats, and prefecture-wide networks created to foster

regional innovation.

## **(7) Support for Education for the Fostering of Future Local Business Leaders**

- **Promotion of the International Baccalaureate Program in Local Economies**

The government will support the introduction of the international baccalaureate program in regional schools, including public schools, from the viewpoint of fostering human resources and promoting internationalization. The government will carry out measures to hire and train teachers with the capability to provide international baccalaureate education at local schools, as well as make efforts to deepen understanding of the educational principles and methodology of the international baccalaureate program.

- **Promoting Accounting Education to Foster an Entrepreneurial Spirit**

Knowledge of accounting is very useful for enabling people to function in many branches of society. Moreover, since it is important to widen the scope of entrepreneurial activity, the government will take measures to promote accounting education, including considering making accounting a subject in the high school curriculum.

- **Developing Future Leaders in Local Industries through Exchanges with Business leaders**

It is important to nurture children's love of their hometowns and communities so that they develop pride and confidence in them and to foster specialists who can support and lead their communities in the future. For this, opportunities will be created in elementary and junior high school lessons for students to meet entrepreneurs in their areas and other business leaders to deepen their understanding of industries in their communities and regions. The government will foster specialist personnel who will play leading roles in local industries in the future by supporting research collaboratively carried out by universities, research organizations, and companies together with specialized upper secondary schools and by promoting practical education through the collaboration of professional training colleges, universities, companies, and industry groups.

## **(8) Developing Capabilities to Support the Future of Local Communities**

- **Establishing “Human Resource Banks” and Promoting the “Plan for the Creation of Regional Vitality”**

Based on the “Plan for the Creation of Regional Vitality,” the government will promote projects for setting up “human resource banks,” such as the “Entrepreneur Recruitment and Human Resource Cycle Project,” which dispatch personnel with rich business experience in large cities for fixed periods to regional companies. Since the invigoration of regions cannot be sustained unless the creation of regional power is linked to actual demand, these projects will register and provide human resources with individual expertise from a wide range of sectors, such as businesses in core markets such as Tokyo, universities, research institutes, and so on. Cooperating companies will receive financial assistance to cover a portion of the personnel expenses as an incentive when these registered personnel are dispatched to them. Baby-boom generation seniors and others will be registered at these human resources banks, and their personnel expenses will be decided by direct arrangements with the receiving organizations.

### **(9) Comprehensive Support Measures for Industries to Enhance Regional Strength**

- **Supporting the Acquisition, Protection, and Utilization of Intellectual Property Contributing to Regional Industries**

Securing patents and other intellectual property is an important tool for regional businesses whose management foundation is weak, but the financial and capacity burdens are heavy. Because of that, the government, regarding the revitalization of regional industries as an important asset of the nation, will promote the acquisition, protection, and utilization of intellectual property by regional industries through the utilization of the Intellectual Property Comprehensive Support Desks established at 57 locations nationwide. Specifically, the government will enhance the counseling provided at these centers on patenting and maintaining the secrecy of advanced technology (as trade secrets) and assistance for the encryption of such technology.

The government will also strengthen its comprehensive support for protecting intellectual property from the conceptual stage to commercialization, including measures against counterfeit products to protect against design and trademark infringements. Regarding unused patents held by universities and companies, the government will consider strengthening bridging functions, including utilizing regional industrial technology institutes, in order to promote the use and commercialization of unused patents by SMEs and other companies.

**Liberal Democratic Party of Japan  
Japan Economic Revival Headquarters**

**~ Meetings (Presentations) ~**

1. August 6 Takatoshi Ito, Professor, Graduate School of Economics, Faculty of Economics, The University of Tokyo
2. September 19 Seiji Ogishima, Managing Director, Fiduciary Management Department, Nomura Securities Co., Ltd.
3. October 4 Tatsuo Hatta, Chairman, The Integrated Headquarters for Regional Revitalization, Working Group to Design National Strategic Economic Growth Areas
4. October 4 Ken Chan Chien-Wei, Representative Director, GIC Real Estate International Japan K.K.
5. October 10 Regional Revitalization Bureau of Cabinet Secretariat
6. October 17 Arne Walther, Royal Norwegian ambassador to Japan
7. October 18 Financial Services Agency
8. October 25 Regional Revitalization Bureau of Cabinet Secretariat
9. October 29 Regional Revitalization Bureau of Cabinet Secretariat
10. November 7 Takatoshi Ito, Professor, Graduate School of Economics, Faculty of Economics, The University of Tokyo
11. November 28 Kyoji Fukao, Professor, The Institute of Economic Research, Hitotsubashi University
12. December 12 Takatoshi Ito, Professor, Graduate School of Economics, Faculty of Economics, The University of Tokyo
13. December 19 Ministry of Education, Culture, Sports, Science and Technology in Japan
14. January 20 Japan's Economic Revitalization General Bureau of Cabinet Secretariat
15. January 22 Tatsuo Hatta, Chairman, The Integrated Headquarters for Regional Revitalization, Working Group to Design National Strategic Economic Zones
16. January 23 Tsutomu Miyagawa, Professor, Gakushuin University

17. January 28 Kakutaro Kitashiro, Chair of the Board of Trustees, International Christian University  
Kensaku Aoki, Chair of the Board of Trustees, Meiji Gakuin University  
Jun Itoigawa, Chair of the Board of Trustees, Rikkyo Gakuin  
Junichi Ujiie, Chair of the Board of Trustees, Tokyo Woman's Christian University  
Teisuke Kitayama, Chair, National University Corporation Evaluation Committee  
Kazuo Tsukuda, Chair of the Board of Trustees, Seikei Gakuen  
Shotaro Watanabe, Auditor, Waseda University
18. January 30 Robert Feldman, Managing Director, Morgan Stanley MUFG Securities
19. February 6 Nicholas Benes, Representative Director, The Board Director Training Institute of Japan
20. February 7 Regional Revitalization Bureau of Cabinet Secretariat
21. February 17 Regional Revitalization Bureau of Cabinet Secretariat
22. February 20 Nobuyuki Kinoshita, Executive Director, Bank of Japan
23. March 4 Takatoshi Ito, Professor, Graduate School of Economics, Faculty of Economics, The University of Tokyo
24. March 4 Yuichiro Anzai, President, Japan Society for the Promotion of Science
25. March 5 Hidetaka Kawakita, Professor, Graduate School of Economics and Faculty of Economics, Kyoto University
26. March 6 Yuri Okina, Counselor, The Japan Research Institute, Limited
27. March 11 Ryutaro Kono, Chief Economist Japan, BNP Paribas
28. March 12 Tokuo Iwaisako, Professor. Institute of Economic Research, Hitotsubashi University
29. March 14 Tsutomu Watanabe, Professor, Graduate School of Economics, University of Tokyo
30. March 18 Kazuhito Ikee, Professor, Keio University
31. March 18 Takeshi Kadota, Representative Director, Institute of

32. March 19 Corporate Governance Japan  
Regional Revitalization Bureau of Cabinet Secretariat
33. March 20 Soichiro Kozuka, Professor, Gakushuin University
34. April 1 Kazuhiko Toyama, CEO, Industrial Growth Platform, Inc.
35. April 8 Atsushi Kaneko; Group Chief Information Officer, AEON Co.,Ltd.;  
Representative Director, Aeon Integrated Business Service Co., Ltd.
36. April 9 Financial Services Agency
37. April 9 Sadakazu Oosaki, Nomura Research Institute, Ltd.  
Hiroyuki Takai, Representative Director, Sumitomo Corporation Global Research Co. Ltd.
38. April 16 Ryo Kambayashi, Associate Professor, Institute of Economic Research, Hitotsubashi University
39. April 18 Seijun Ninomiya, Sports Journalist
40. April 18 Regional Revitalization Bureau of Cabinet Secretariat
41. April 18 Financial Services Agency, Ministry of Health, Labor, and Welfare, Nomura Securities Co., Ltd.
42. April 23 Katsuhito Sasajima, Financial Analyst
43. April 24 Eiji Hirano, Executive Vice President, Toyota Financial Services Corporation

**Liberal Democratic Party of Japan  
Japan Economic Revival Headquarters**

~ List of Members ~

<b>Advisors</b>	Masahiko Koumura	Yuya Niwa	Fukushiro Nukaga
	Takeshi Noda	Nobutaka Machimura	
<b>Chair</b>	Sanae Takaichi	(Chairman, Policy Research Council)	
<b>Acting Chair</b>	Yasuhisa Shiozaki	(Acting Chairman, Policy Research Council)	(Chairman, Research Commission on the Finance and Banking Systems)
<b>Vice-Chairs</b>	Tatsuya Ito	(Chairman, Research Commission on Small and Medium-Sized Enterprise and Small Business)	
	Kozo Yamamoto	(Chairman, Research Commission for the Establishment of a Tourism Oriented Nation)	
	Kazuyoshi Kaneko	(Chairman, Research Commission on Housing and Land Policy)	
	Jiro Kawasaki	(Chairman, Research Commission on info-Communications Strategy)	
	Ryu Shionoya	(Chairman, Research Commission on Science, Technology and Innovation Strategy)	
	Gen Nakatani	(Chairman, Research Commission on Agriculture, Forestry and Fisheries Strategy)	
	Toshihiro Nikai	(Chairman, Comprehensive Research Commission on the Establishment of the Disaster Resilient Japan)	
	Takeshi Noda	(Chairman, Research Commission on the Tax System)	
	Yoshiaki Harada	(Chairman, Research Commission on Market Competitiveness Policy)	

	Kazuaki Miyaji	(Chairman, Research Commission on Regional Rejuvenation Strategy)
	Eisuke Mori	(Chairman, Research Commission on Employment Issues)
	Okiharu Yasuoka	(Chairman, Research Commission on Intellectual Property Strategy)
	Koichi Yamamoto	(Chairman, Research Commission on Environment and Global Warming Countermeasures)
	Taku Yamamoto	(Chairman, Research Commission on Natural Resources and Energy Strategy)
	Yuji Yamamoto	(Chairman, Research Commission for the Promotion of Intelligent Transport Systems (ITS) and Highways)
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<b>Chief Secretary</b>	Kozo Yamamoto	

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**~ Sub-Groups Covering Key Themes ~**

(1) Promotion of Large Entrepreneurship Nation Group

Head: Masaaki Taira

Assistant: Gaku Hasegawa (House of Councillors of Japan)

(2) Financial Market and Corporate Governance Reform Group

Head: Masahiko Shibayama

Assistant: Keisuke Suzuki

(3) Enhancement of Labor Force and Improvement of Productivity Group

Head: Yasuhisa Shiozaki

Assistant: Tomohiro Yamamoto

(4) Women's Advancement Group

Head: Toshiko Abe

Assistant: Yoshitaka Ito

(5) Reinforcement of Regional Potential Group

Head: Kenta Wakabayashi (House of Councillors of Japan)

Assistant: Shigeki Iwai (House of Councillors of Japan)