

Cabinet Office
Office for the Promotion of Regional Revitalization
In charge of Proposals for the National Strategic Zone

Dear sir/madam,

We are pleased, once again, to include the IBA Japan response to the 'Tokku' request. We attach in the template two specific regulations that we believe should be repealed: the foreign bank agency business regime and the ban on information sharing under the Firewalls regime. We outline the specific regulations and also attach supplementary papers to back up our position.

We also believe there are a range of other regulations that we believe should be reconsidered. We have outlined these in more generic terms below.

Labour Market Issues:

There are a range of labour market and tax regulations that affect firms' abilities to recruit a range of staff and also for firms to grow their business in Japan.

The current tax system incentivises people (often women) not to work or to work only for a small number of hours part time as the tax allowance system makes it a rational economic decision. We would encourage a change to this situation that would incentivise people (especially women) who would like to work for longer hours. This would expand the pool of labour available and would be firmly in line with the government's 'womanomics' agenda.

The experiences of foreign firms (and also domestic companies) is that the legal framework very much favours individual workers in any dispute with their employer. Whilst we are very much in favour of the protection of rights of employees the framework appears to be tilted against the employer. When an international firm is thinking about where to place additional jobs and capital they often feel disincentivised from placing this additional labour in Japan because of what appears to be a greater long-term labour market liability. International firms also note some of the issues associated with overtime requirements for professional staff are burdensome and significantly different to other countries.

Tax issues:

There are several tax issues the solution of which we believe would help promote Tokyo as a financial centre and incentivise the economy.

Currently financial institutions sometimes book repos involving Japanese Government Bonds in other countries for a range of reasons. But there are changes in the wider environment including the lower rating of Japanese Sovereign debt which means firms may have to pay a premium (e.g. in the UK) for booking JGBs in other countries. Even if they want to book JGBs in Japan to avoid this premium, with-holding tax would be levied in Japan on repos booked between a financial institution in Japan and a non-financial institution overseas. We believe the Japanese tax system

should incentivise the use of JGBs for cross-border repo transactions by exempting overseas non-financial institution counterparties to repo transactions booked in Japan from with-holding tax; this would help promote the internationalisation of the Yen and JGBs.

The recent change to inheritance tax in Japan which broadened the scope of tax liability to cover a significantly broader range of non-resident and non-Japanese heirs of non-Japanese decedents is disincentivising non-Japanese nationals from moving to Japan and incentivising some non-Japanese nationals to leave Japan. These skilled workers could and, in some cases have played important roles in promoting Tokyo as financial centre and the vitalisation of the Japanese economy. An inheritance tax regime that is out of line with the experiences of skilled workers in their home countries and also in neighbouring and competing countries to Japan is likely to discourage the further internationalisation of the Japanese economy. We would urge a consideration and re-evaluation of the current regime to make sure the tax regime matches the aspirations of the government's growth agenda.

IBA Japan is a strong supporter of the vitalisation of the Japanese economy and the promotion of Tokyo as a financial centre. We believe the regulatory reforms we have outlined will help to encourage this vitalisation. If you have any queries about any of the attached, please do not hesitate to contact me or my colleagues.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Hunter', with a long, sweeping flourish extending to the right.

Paul Hunter
Secretary General