

Toward the “Global Financial City OSAKA”

<Purpose of this document>

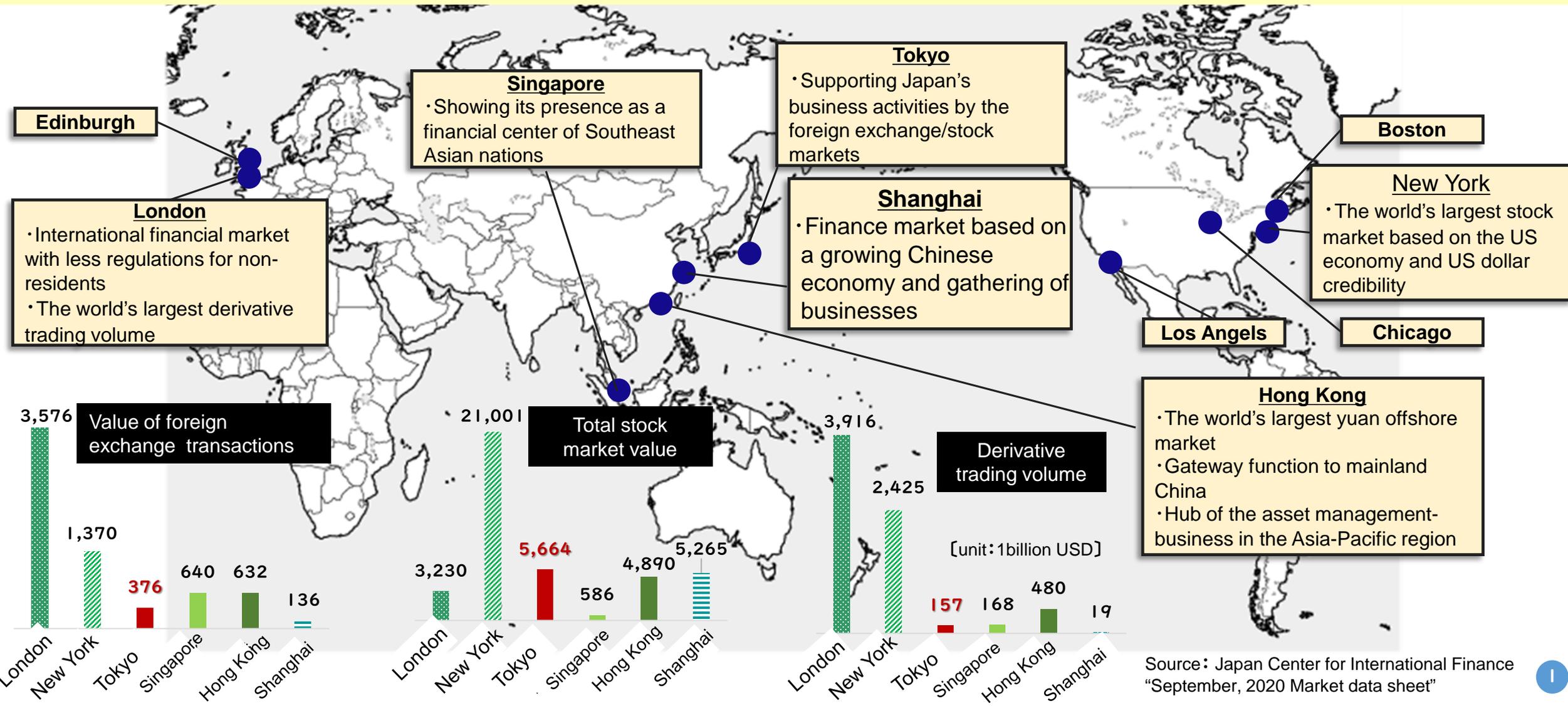
This is a summary of my scheme at this point as one of the proposers of the Promotion Committee, as the draft of proposal for our future discussion.

December 23, 2020

**Yoshimura Hirofumi
Governor of Osaka Prefecture**

World Situation Around International Finance

- ◆ A global financial city means a hub of international financial trading, with headquarters of global banks, stock brokerage firms, etc
- ◆ The most renowned cities of its kind are New York and London, which have headquarters of prestigious financial institutes.
- ◆ The international financial situation shows a sign of change amid increasing geopolitical risks such as Brexit and enforcement of the National Security Law in Hong Kong.



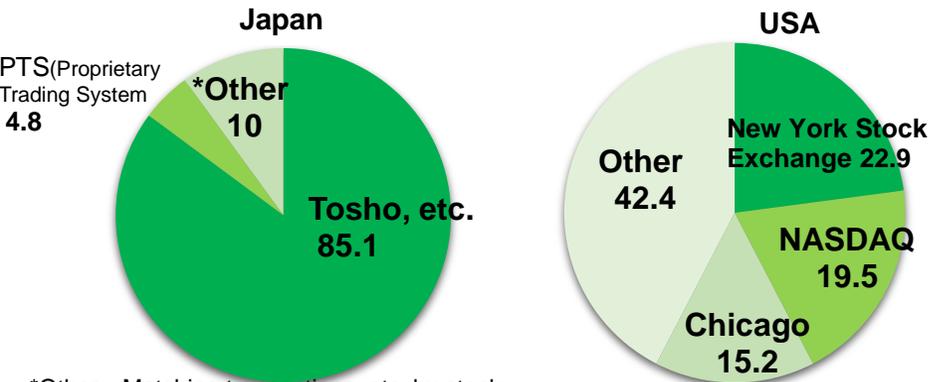
Japan's Current Situation of International Finance

- ◆ Japan's transactions are concentrated in the Tokyo Stock Exchange (Tosho), but the COVID-19 pandemic has visualized the risk of overconcentration in Tokyo at the time of crisis.
- ◆ Looking around the world, every major country contains several financial cities with different functions.
- ◆ Amid global inter-city competition, Japan needs other internationally-competitive financial cities adding to Tokyo, to strengthen its growth.

Japan's current situation

▽ Transactions are concentrated in Tosho ▽ The negative impact of unipolar concentration in Tokyo

[Ratio of markets in stock exchanges]



PTS (Proprietary Trading System) 4.8

*Other... Matching transactions, etc. by stock brokerage firms
NASDAQ... a stock exchange market for emerging companies in the US

Source: Nikkei shimbun (Oct. 2, 2020)
Japan: Japan Securities Dealers Association
US: Chicago Board Options Exchange

- Estimated maximum damage when an earthquake hits directly Tokyo metropolitan area → Approx. 95 trillion yen
- Natural Disasters Risk Index of world big cities → Tokyo-Yokohama is the worst among the major big cities in the world

Source: Cabinet Office, final report by Working Group on the earthquake centered directly under the capital (2013)
Munich Reinsurance Company Annual Report (March, 2003)

[Global Financial Centre Index]

	September, 2020	
1st	New York	USA
2nd	London	UK
3rd	Shanghai	China
4th	Tokyo	Japan
5th	Hong Kong	China
6th	Singapore	Singapore
-	-	-
13th	Edinburgh	UK
-	-	-
20th	Chicago	USA
-	Osaka (39th)	Japan

Financial cities with different functions

USA	New York	World's largest stock market
	Chicago	World's largest derivative exchange
UK	London	Financial market with the world's largest stock exchange volume
	Edinburgh	Home to international asset management businesses

【Assessment items】

- ① Business environment
- ② Human resources
- ③ Infrastructure
- ④ Development level in the financial field
- ⑤ International evaluation

Source: UK Think-Tank Z/Yen Research

Trend of the National Government to Realize a Global Financial City

- ◆ Changes in the world situation including COVID-19 are making Japan's trend toward realization of a global financial city more active this year.
- ◆ Along with the change from an "over-concentrated global financial city" to the "multi-polarized ones with collaboration," the national government announced the importance of competition and complement among each city while having its own characteristics

Major activities of the national government (in 2020)

July	Basic Policy on Economic and Fiscal Management and Reform 2020	"Aim to establish international financial cities that will serve as international financial hubs for Asia and the world"
Aug.	Financial Service Agency 2020 Financial policy	"It is likely that an international financial city moves on to the multi-polarized type from the over-concentrated one. It is important that each core city compete and complement one another while having its own characteristics." "We will comprehensively consider specific measures to improve the environment to accept overseas financial institutions, etc."
Oct.	Newspaper interview remarks by Prime Minister Suga	"I hope Tokyo's further development, but I would like to create an environment where financial functions can be enhanced in other regions as well. The entire government will swiftly tackle the issues such as taxation measures, administrative English service, and status of residence."
	Policy speech by Prime Minister Suga	"We will accept overseas financial personnel and aim to become an international financial center in Asia and even in the world. We will swiftly proceed with discussion about the tax system for that purpose, administrative English services, and relaxation of status of residence requirements."
Dec.	Action plan (Growth strategy meeting)	"Japan has room to further expand market. In order to accept overseas financial businesses, we will proceed with the improvement of an environment for foreigners to easily start or open businesses and lead comfortable lives."
	Comprehensive economic measures for peace and ease to protect people's lives and livelihoods	Toward the realization of a global financial center open to the world, measures such as simplifying procedures for overseas asset management businesses to enter the market, strengthening English response ability in financial administration, and relaxing the status of residence requirements were announced.
	FY 2021 Large package of tax revision	Measures for corporate tax, inheritance tax, and personal income tax were announced from the viewpoint of attracting businesses, human resources, and funds from overseas.

Revision of Tax and Status of Residence by the National Government

- ◆ The national government's initiatives to attract businesses, human resources, and funds from overseas are in progress, aiming to establish Japan's position as a global financial center.
- ◆ The government has reviewed corporate, inheritance, and income taxes which were major barriers for overseas businesses to enter the Japanese market, and relaxed the status of residence requirements

Tax policy revision (FY 2021 large package of tax revisions)

	Current status
Corporate tax	Performance-based compensation of directors Listed companies: Deductible Private companies: NOT deductible
Inheritance tax	Foreign residents such as a fund manager Living in Japan over 10 years: Heirs living outside Japan are imposed inheritance tax for worldwide assets
income tax	Carried interests - distribution allocated returns in excess of their capital contribution ratio: Unclear if it is a capital gain or not

After revision
Private, non-family companies which mainly operate asset management business, etc. should be able to deduct its performance-based compensation if certain conditions are met.
Assets outside Japan that a foreign national who entered Japan for working holds should be exempt from Japanese inheritance tax regardless of his/her years of residence in Japan.
When a profit distribution of a carried interest has an economic rationality, that profit should be taxed as a capital gains tax(20%)

Relax residence status requirements (the Comprehensive Economic Measures December, 2020)

	Current status
Short-stay	When a foreigner entered Japan with a "short-stay visa" to prepare for company setup: Required to return to his/her home country before starting business.
Domestic helpers/nannies	You can hire a domestic helper only when he/she is a highly-skilled professional; or you can accompany from overseas only one domestic helper.

After revision
They are enabled to obtain residential status without returning to their home country before starting business under certain conditions
You can hire a domestic helper; and the maximum number you can accompany from overseas should be increased from one to two.

Osaka's Strengths and Potential as an International Hub

- ◆ Osaka is a commercial metropolis, also known as the “nation’s kitchen.”
- ◆ It developed by people’s independent activities and unique ideas, and the world’s first futures contract was traded here. Full of new business chances, it’s an attractive place for both domestic and foreign entrepreneurs and investors.
- ◆ Utilize the impact of Expo 2025, a national project joined by people throughout the world, to realize a global financial city.

Osaka's Strengths

1. Historical background

- ▽ Birthplace of the futures trading (derivatives)

2. Well-organized urban infrastructure

- ▽ The only general exchange market that deals with derivatives
- ▽ Developed transportation network and an international trading port
- ▽ Higher education facilities and life science-related industries

Osaka's Potential

1. Developing big projects that attract investments from Japan and the world

- ▽ 2025 Expo Osaka-Kansai
- ▽ The highest level growth in the world

2. Acting as home to new innovation

- ▽ Promoting a smart city and a super city
- ▽ Creating a global hub for startup-ecosystem
- ▽ Creating Umekita II and an international hub for the future of medical care (Nakanoshima)

How to utilize the impact of Expo 2025

<Expo 2025 Osaka-Kansai aims to:>

- Demonstrate new technologies and systems as a “people’s living lab for future society“
- Present the world what a carbon-free society should be through innovative technologies.
- Showcase a new style of the World Expo fully using the digital technology
- Co-create solutions with people worldwide to achieve SDGs in 2030 and to construct a society vision thereafter.
- Showcase the world how Japan is finding solutions to challenges, accelerating development and innovation of Japan’s advantageous technologies.

<The World Expo encourages to:>

- Promote various people’s exchanges, including excellent human resources, from around the world by its attractions and transmitting capacity.
- Create innovation by collaboration of various human resources in Japan and the world

Processes of holding Expo 2025 and making Osaka a global financial city have a lot in common, and synergistic effects can be also expected.

Osaka's Vision for the Global Financial City (Images)

Make Osaka a cutting-edge global financial city that has different identity and functions from Tokyo, utilizing Osaka's strengths, potential, and the impact of holding Expo 2025.

Thus, Osaka will lead Japan's entire economic growth

Global Financial City that Osaka Aims for (Image)

Innovative Financial City OSAKA

- ▽ Promote ※ESG investment to achieve SDGs with entirety of Osaka, as the venue of Expo 2025
- ▽ Realize an innovative financial city home to operating funds and financial human resources from Japan and throughout the world, by the drastic deregulation
- ▽ Conduct social implementation of cutting-edge technology in the financial business and create a new market by financial digital transformation

※ESG investment: The investment that has Environmental, Social and Governance elements, which means investments seeking positive returns and long-term impact on society

Asian Derivative City OSAKA

- ▽ Create the leading hub of the Asian derivative market to take in the growth of derivative transactions

Significance and Positive Impact of Aiming for a Global Financial City

- ◆ It is crucial for Osaka to aim for a global financial city, in order to further develop and to win global intercity competition
- ◆ The realization of a global financial city is deemed to have a great impact on the revitalization and growth of the Osaka economy.

Significance of aiming for a global financial city

- ▽ While the situation around international finance has been drastically changing, the national government's movement aiming to establish a global financial city has gained momentum
- ▽ Enhancing financial functions, which are called the "blood of the economy," will be one of the new factors to inspire the revitalization and growth of Osaka toward the post COVID-19 world.
- ▽ In Japan many financial facilities are concentrated in Tokyo. Making Osaka a global financial city is a key policy of great significance to soften the economic centralization to Tokyo.
- ▽ Processes of holding Expo 2025 and making Osaka a global financial city have a lot in common, and synergistic effects can be also expected.
- ▽ Osaka will encourage its further development by **making Osaka an advanced global financial city** utilizing Osaka's strengths and potential, and by attracting investment throughout the world to create business opportunities.

Realize a city that has functions of an international financial hub in the world and Asia



Positive impact of realization of a global financial city

- ▽ Attract excellent human resources, funds, and information from Japan and overseas, which lead to:
 - Raise motivation to invest in the fields of Osaka's strengths such as health and medical-related industries
 - Supply funds to startups in the prefecture.
- ▽ Together with the above, ripple effects such as employment creation in the related industries can be expected, which will have a great impact on the revitalization and growth of the Osaka economy.

Osaka's economic vitalization by vigorous investment

Creation of employment in the related industries

Residents' asset management and formation

Realizing "Second Capital Osaka" to lead Japan's growth

Specific Initiatives in Osaka (Draft Proposal)

- ◆ Collaboration between the local governments and energetic private businesses is essential to realize a global financial city
- ◆ Public and private sectors will promote together this project by calling on private businesses, which agree to our purpose, for their participation, utilizing the network between Osaka Prefecture/City and the economic community

Projects conducted by the Promotion Committee (image)

- ▽ Each participant in the promotion organization proceed with initiatives according to their respective role to realize the goal
- ▽ The Committee will propose further revision of the taxation system and regulations as necessary, based on the opinions from the Committee members



<p>Promote to improve business and living environments in Osaka</p>	<p><Business></p> <ul style="list-style-type: none"> ○Grant various incentives to companies expanding their business into Osaka ○Make a system aiming to promote ESG investment, etc. ○Issue digital securities (security tokens) using the blockchain technology and create a secondary market ○Strengthen exchange functions (ex. transfer energy-related products to Osaka, support to develop private exchanges, cooperate with overseas exchanges, etc.) <p><Daily lives></p> <ul style="list-style-type: none"> ○Attract international schools (Number of international baccalaureate-designated schools : as of June, 2020: Tokyo 21, Osaka 7) ○Secure medical institutions where English is available (Number of medical institutions accepting international patients: as of the end of June, 2020; Tokyo: 392, Osaka: 70) ○Increase railway/road English signs, etc.
<p>Attract/develop those who participate in the market</p>	<ul style="list-style-type: none"> ○Set up a promotion organization comprised of the public and private sectors (promotion activities to attract overseas businesses, etc.) ○Establish a one-stop support center (concierge function to support procedures for overseas businesses to expand into the prefecture), etc. ○Develop highly-skilled financial human resources, promotion of financial literacy education ○Public relations of Osaka through issuance of the Green Bond, etc.

Future Schedule

◆ Considering the current international situation, etc., we will start to implement feasible policies in sequence toward the post COVID-19 world, while calling on private businesses which agree to our intent, for participation

FY2020	<p>[November]</p> <ul style="list-style-type: none"> -Announce our decision to challenge ourselves to “Make Osaka a Global Financial City” -Position this policy as the “key area” amid the “New strategies toward Osaka’s revitalization and growth” <p>[December]</p> <ul style="list-style-type: none"> · <u>Hold a preparatory session to establish the promotion organization by Osaka Prefecture, Osaka City and economic groups</u> · Call on private businesses, which agree to our intent, for participation
	<p>[Within the fiscal year]</p> <ul style="list-style-type: none"> -Set up a promotion organization comprised of the public and private sectors, an advisory board, etc. -Start to implement feasible policies in sequence
After FY2021	<p>Public and private sectors will work together to implement following activities:</p> <ul style="list-style-type: none"> -Attract more domestic and overseas financial-related businesses -Develop financial human resources -Promote ESG investment -Consider creation of a new market through financial digital transformation.
By 2025	Realize the “Global Financial City OSAKA”

※Specific performance indexes, etc. are to be set based on the opinions of private businesses and financial experts in the public-private joint promotion organization scheduled to be established within this fiscal year.

-Reference Materials-

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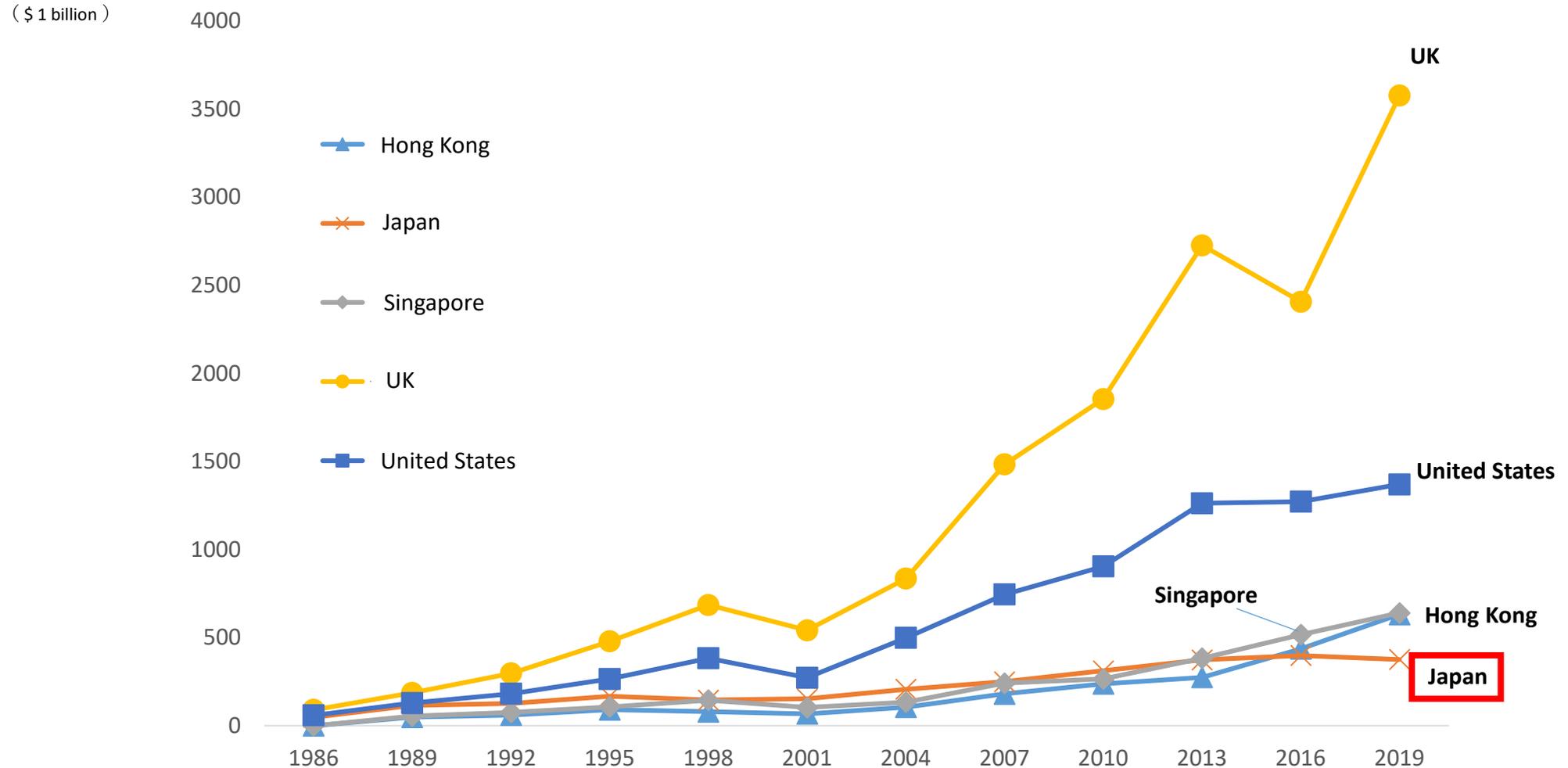
1 Ranking by the Global Financial Centre

● Tokyo ranked 4th , Osaka 39th in the latest ranking by the Global Financial Centre

	September 2019	March 2020	September 2020
1 st	New York	New York	New York
2 nd	London	London	London
3 rd	Hong Kong	Tokyo	Shanghai
4 th	Singapore	Shanghai	Tokyo
5 th	Shanghai	Singapore	Hong Kong
6 th	Tokyo	Hong Kong	Singapore
7th	Beijing	Beijing	Beijing
8th	Dubai	San Francisco	San Francisco
9th	Shenzhen	Geneva	Shenzhen
10th	Sydney	Los Angeles	Zurich
11th	Toronto	Shenzhen	Los Angeles
12th	San Francisco	Dubai	Luxembourg
13th	Los Angeles	Frankfurt	Edinburgh
14th	Zurich	Zurich	Geneva
15th	Frankfurt	Paris	Boston
16th	Chikago	Chikago	Frankfurt
~	Osaka (27th)	Osaka (59th)	Osaka (39th)

2 Volume of Exchange Transactions a Day

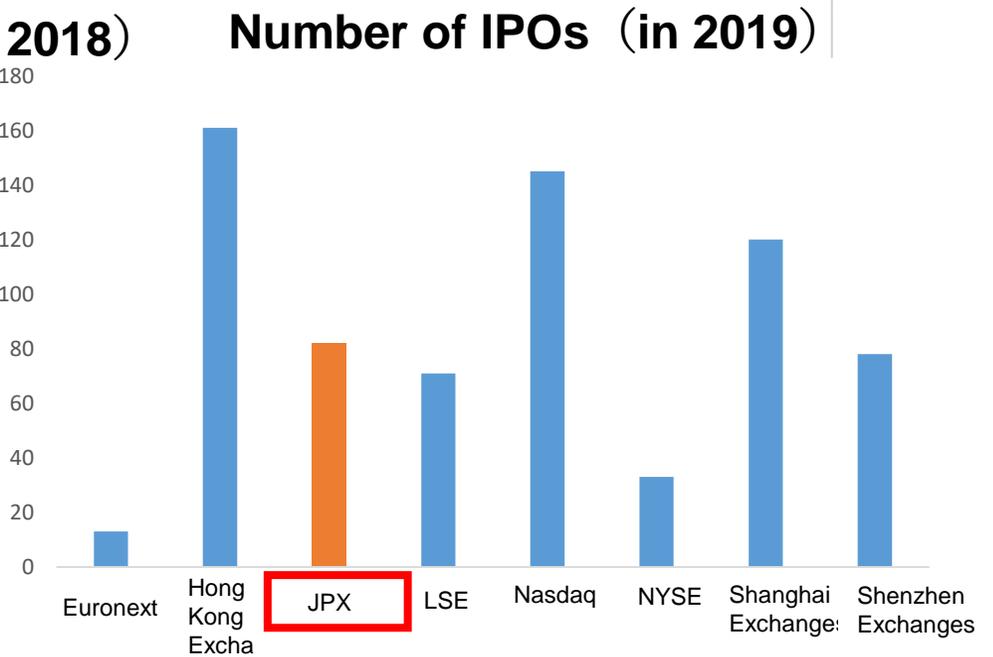
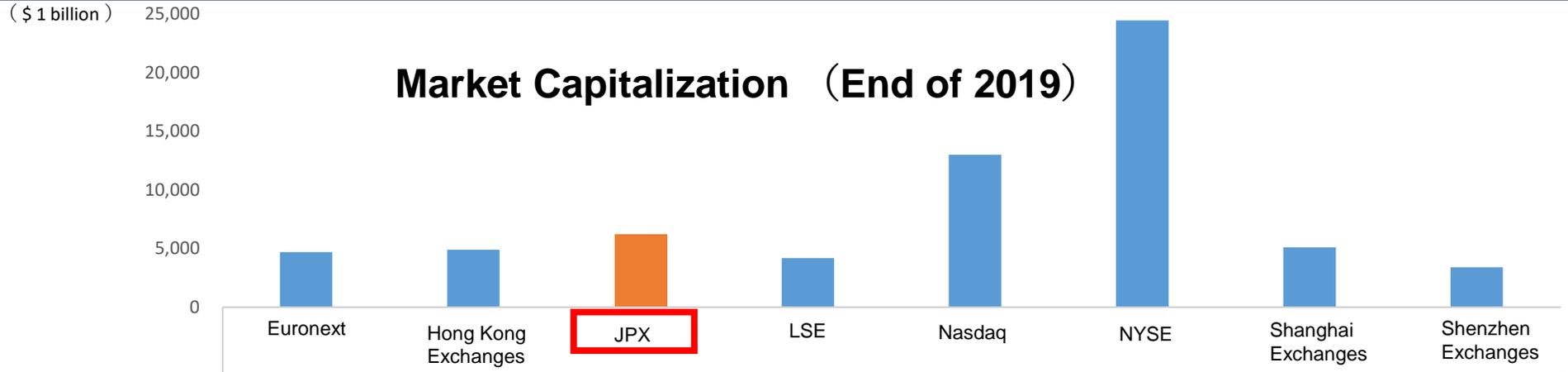
- The UK has by far the largest exchange transaction volume, followed by the United States. Japan, Singapore, and Hong Kong are competing at even lower levels.
- Japan's exchange transaction volume has been sluggish, being surpassed by Singapore and Hong Kong in recent years.



Source: Made by Osaka Prefecture based on the "Bank for International Settlements"

3 Stock Market (market capitalization, number of listed companies, number of IPOs)

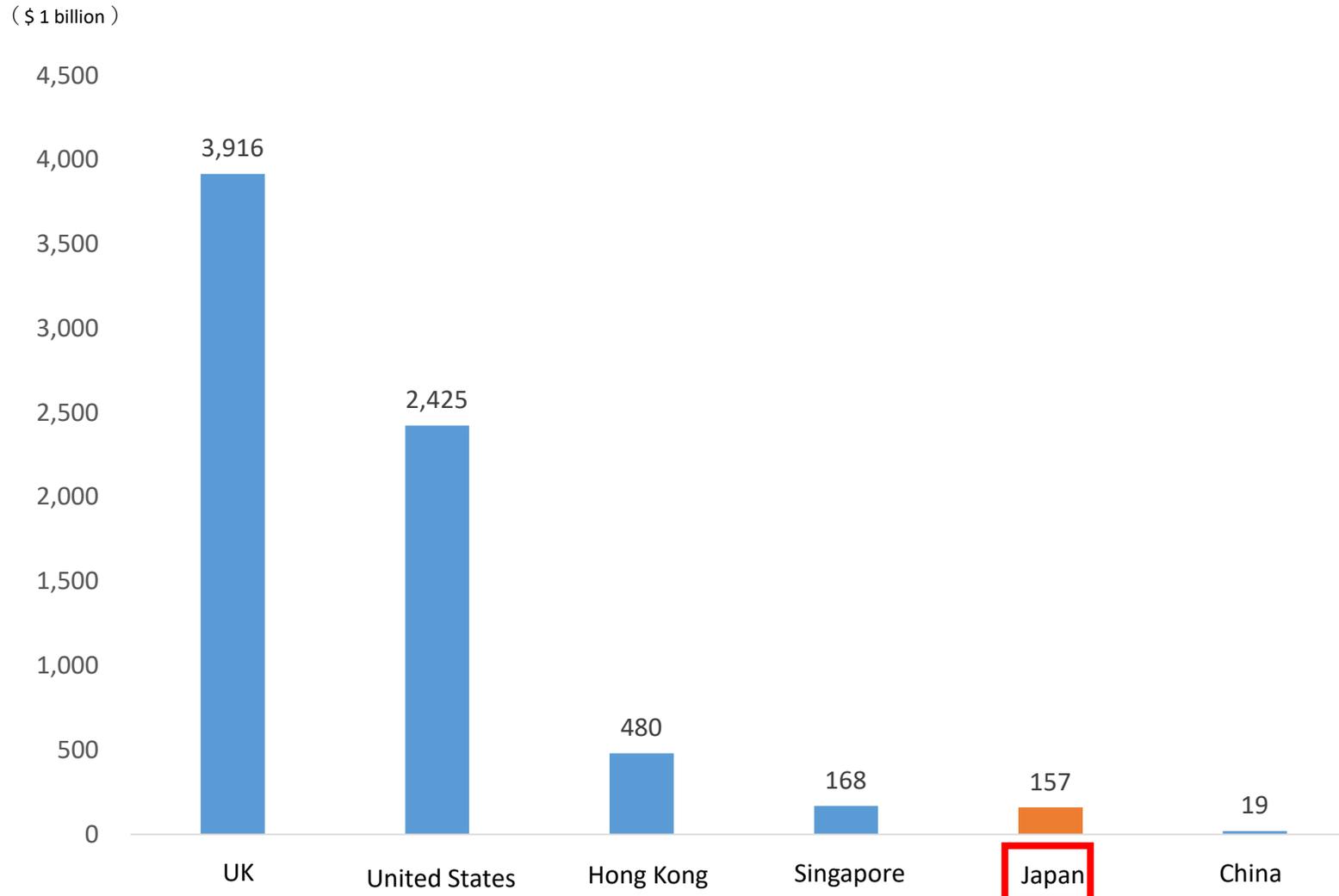
- The New York Stock Exchange (NYSE) and Nasdaq (US stock market for start-ups) stand out regarding the market capitalization.
- Japan has a large number of listed companies, among which the domestic ones account for most of them while the number of foreign companies is small. In the UK and the US, the number of foreign companies account for 10% to 20% of listed companies.
- IPO (Initial Public Offering) at Hong Kong Exchanges & Clearing Ltd. is ranked the first in the world not only in terms of the number but also in the fundraised amount (2019)



Source: Made by Osaka Prefecture based on the "world Federation Exchange"

4 Amount of Over-the-Counter Derivative Transactions (one-day average) (in 2019)

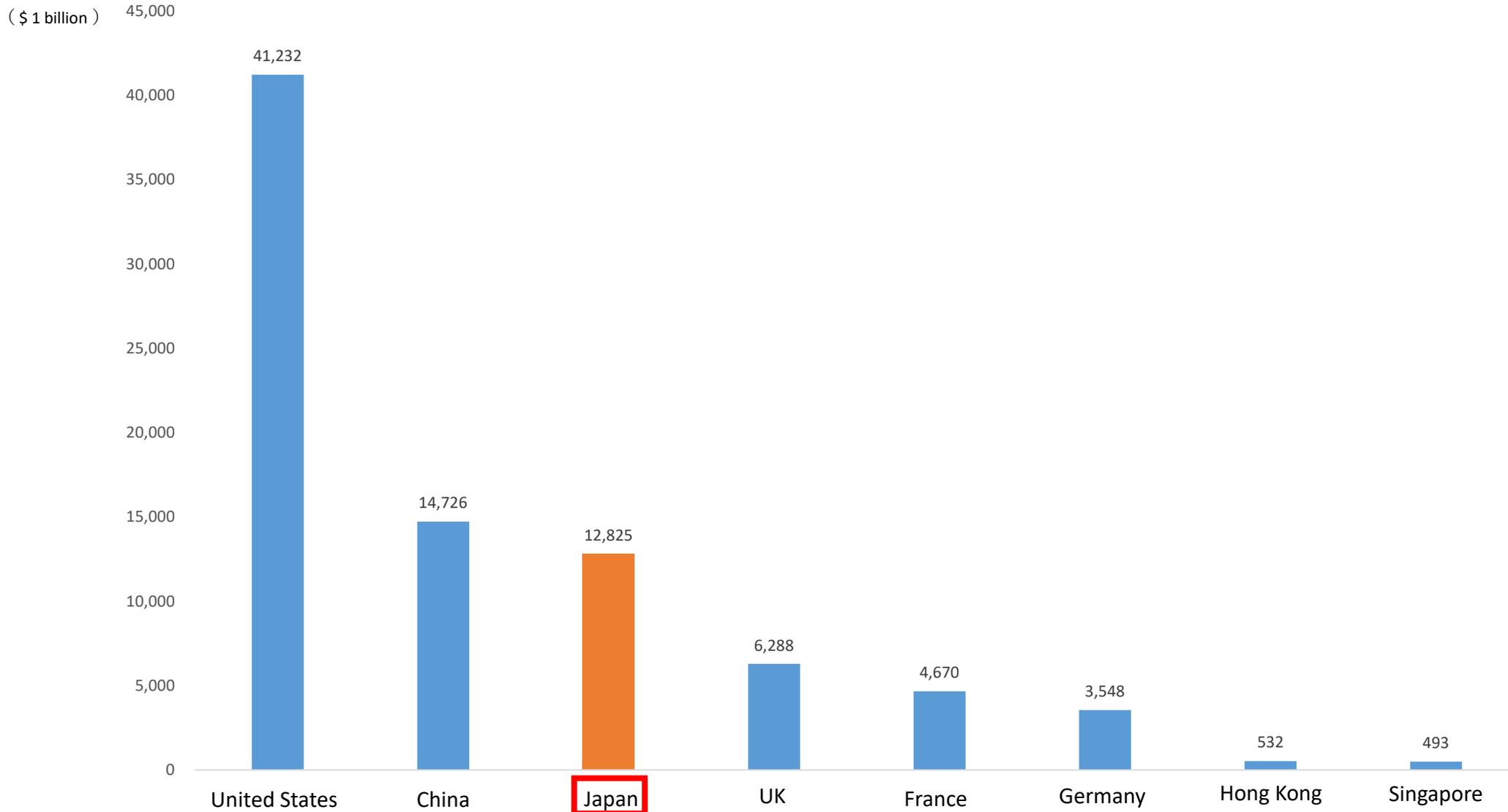
○The UK has the largest amount of over-the-counter derivative transactions, followed by the United States. In Asia, Hong Kong's amount is the largest.



Source: Made by Osaka Prefecture based on the "Bank for International Settlements"

5 Outstanding debt securities in major countries (as of the end of 2019)

- The debt securities market in the United States is overwhelmingly large in terms of the size (outstanding debt securities) in the world.
- The size of debt securities market is large in China and Japan in Asia; and very small in Hong Kong and Singapore.



Source: Made by Osaka Prefecture based on the "Bank for International Settlement"

6 Tax Rate in Each Country

● Japan's tax rates (corporate tax, income tax, inheritance tax) are higher than those of major Asian financial cities such as in Hong Kong and Singapore.

Tax category		Japan	Hong Kong	Singapore	Shanghai (China)	USA	UK
Corporate tax		29.74%	16.5% (8.25% up to profit of 2 million HKD)	17%	25%	27.98%	19.0%
Income tax※ ₁		5 - 45%	2 - 17%	0 - 22%	3 - 45%	10 - 37%	20 - 45%
Finance-related tax ※ ₂	capital gain	20%				0 - 20%	10 - 20%
	dividend	10 - 55%	No tax	No tax	20%	0 - 20%	7.5 - 38.1%
	interest	20%				10 - 37%	10~45%
Inheritance tax		10 - 55%	No tax ※Abolished in 2006	No tax ※Abolished in 2008	No tax	18 - 40%	40%

※1: Some countries impose local taxes (resident tax, etc.) in addition to the stated taxes.

※2: In some countries local taxes are included in the listed tax rates; or local taxes are imposed separately.

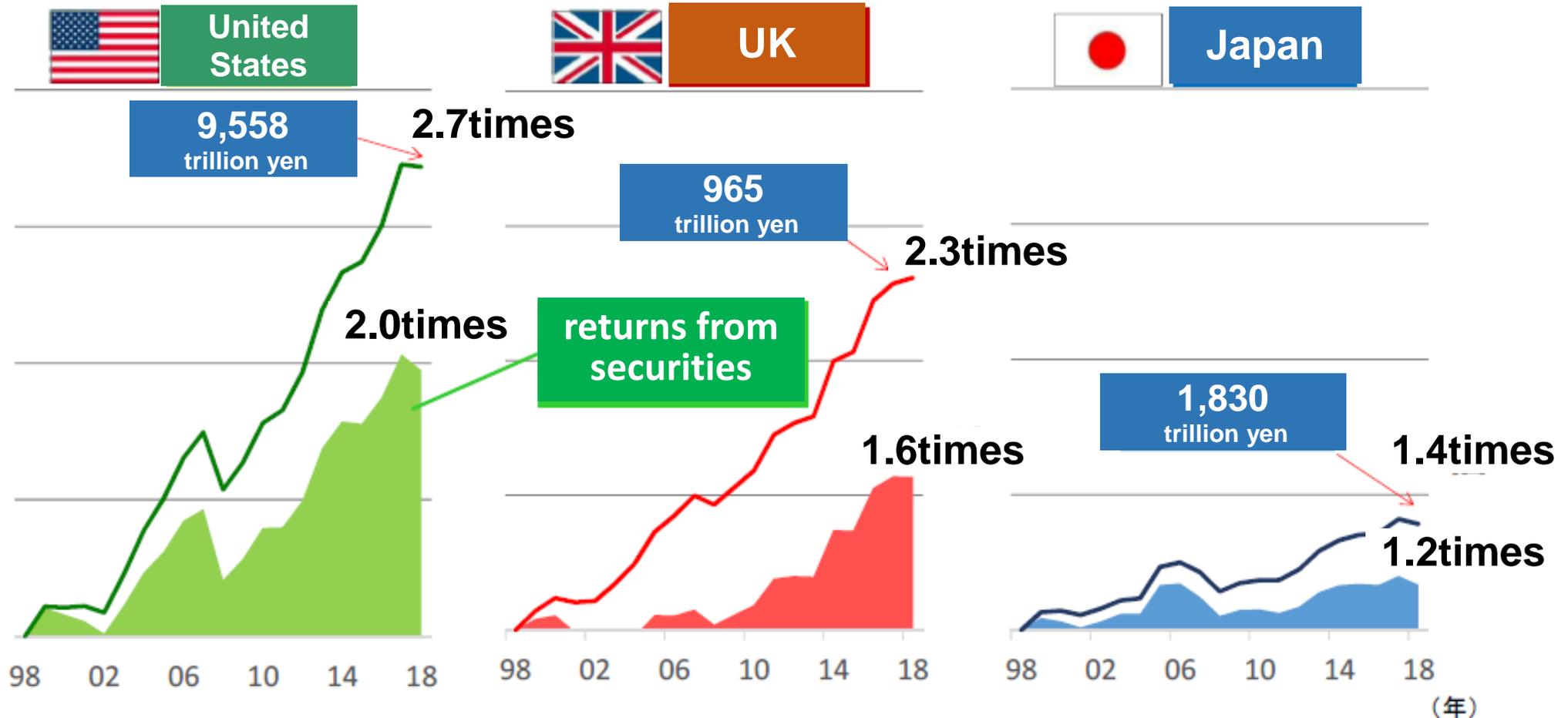
Note: The above figures are just extracted from those which are posted on the websites of each related organization, and cannot be unconditionally compared.

Source : Websites of relevant organizations (Ministry of Finance, National Tax Agency, Japan External Trade Organization, etc., as of Dec., 2020)

7 Characteristics of personal financial assets

● In the 20 years since 1998, household financial assets in a macro level have increased by 2.7 times and by 2.3 times in the US and in the UK respectively, but only by 1.4 times in Japan. The increasing rate of returns from securities, etc., also remains low in Japan compared to the US and the UK.

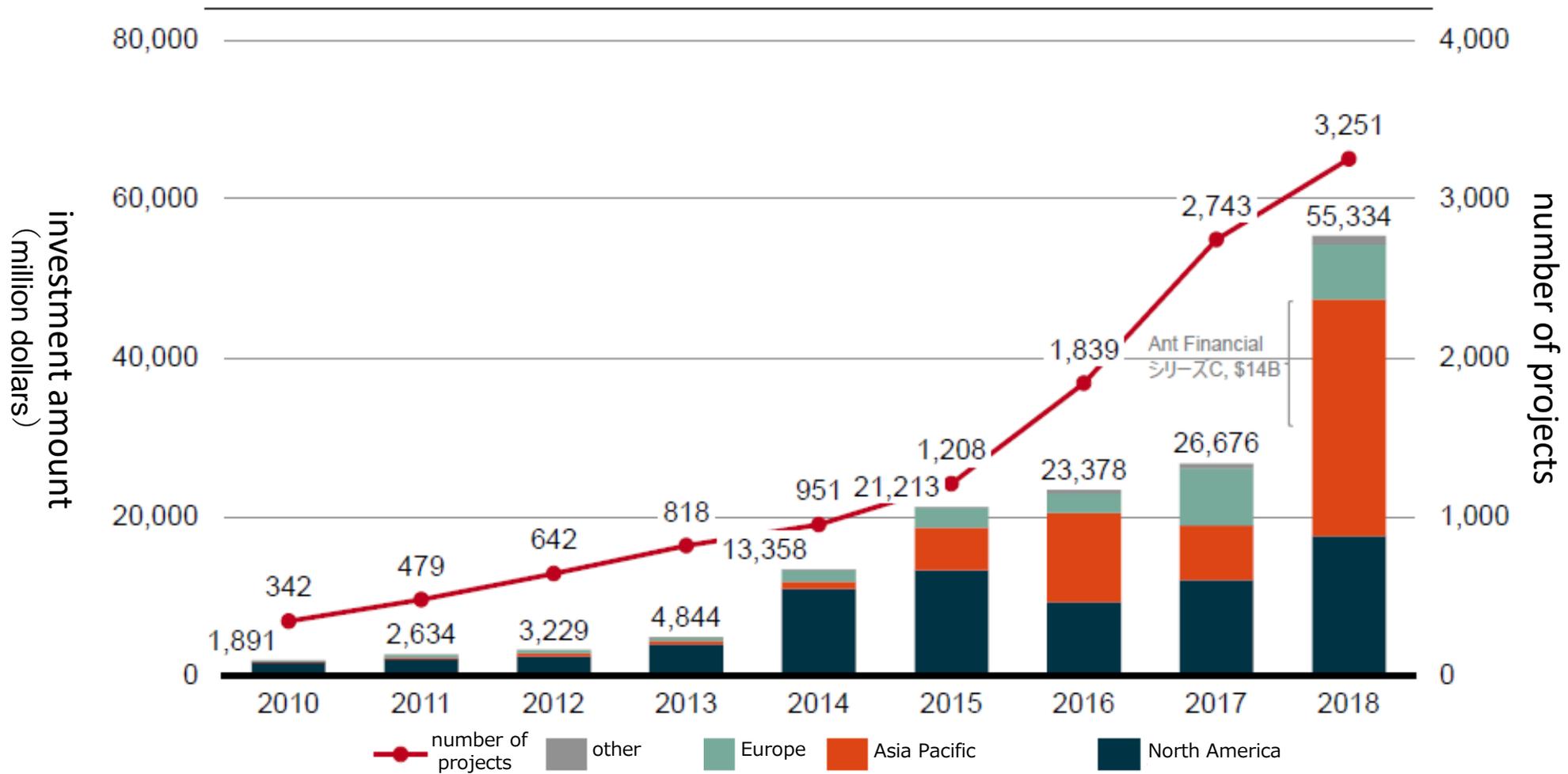
Trend in the household financial assets (comparison between Japan, US, and Europe)



Source: Made by the Financial Services Agency, based on the materials of FRB, BOE, and Bank of Japan

8 Trend in FinTech investment

● FinTech investment is accelerating in "Asia Pacific," "North America," and "Europe."



Source: Analysis of CB Insights data by Accenture

9 City ranking in terms of Fin Tech

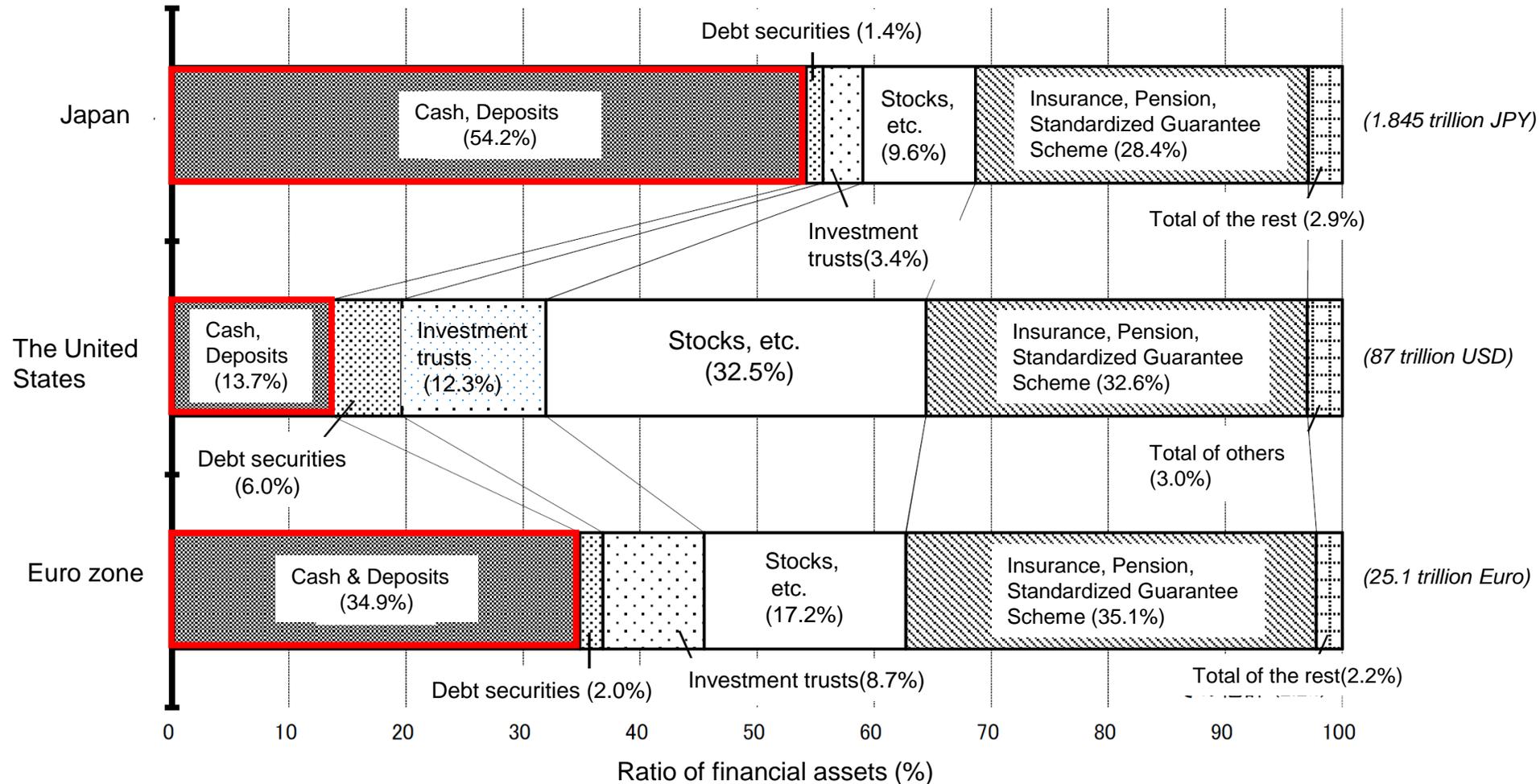
● San Francisco, which is ranked the 8th in the world by the Global Financial Centre ranking, has Silicon Valley in its region and is ranked the first in the FinTech city ranking.

Rank	City
1	San Francisco (USA)
2	London(UK)
3	New York (USA)
4	Singapore (Singapore)
5	Sao Paulo (Brazil)
6	Los Angels (USA)
7	Bengaluru (India)
8	Boston (USA)
9	Berlin (Germany)
10	Mumbai (India)
11	Hong Kong
12	Toronto (Canada)
13	Sidney (Australia)
14	Chicago (USA)
15	Paris (France)
16	New Delhi (India)
17	Tokyo
※Out of ranking	Osaka

10 Personal Financial Assets in Japan

○ In Japan, cash and deposits account for the majority of household financial assets while the ratio of investment trusts and stocks is low compared to that of Europe and the US.

Comparison of household financial asset composition between Japan, the US and Europe (as of the end of March, 2020)



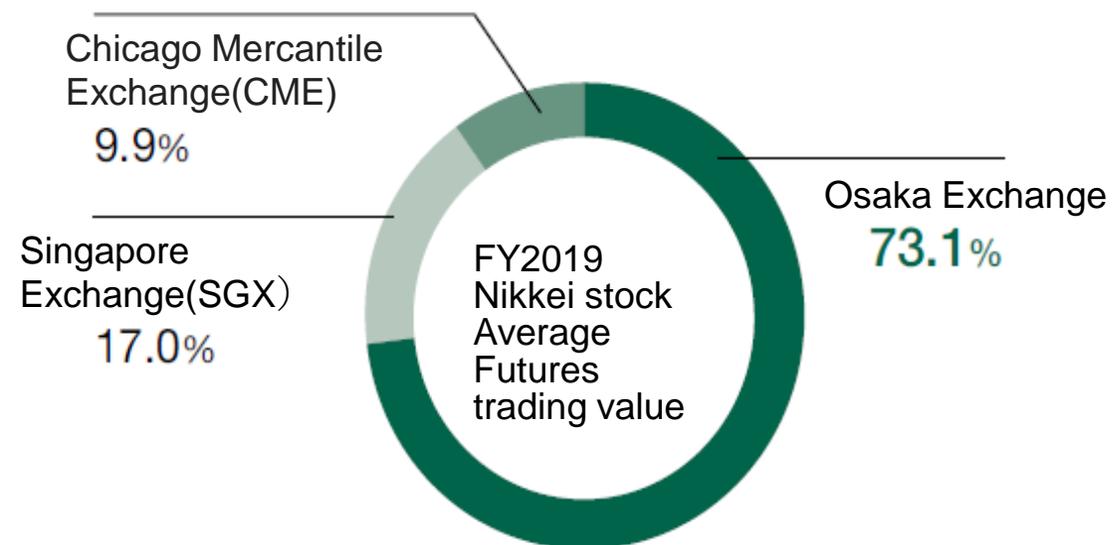
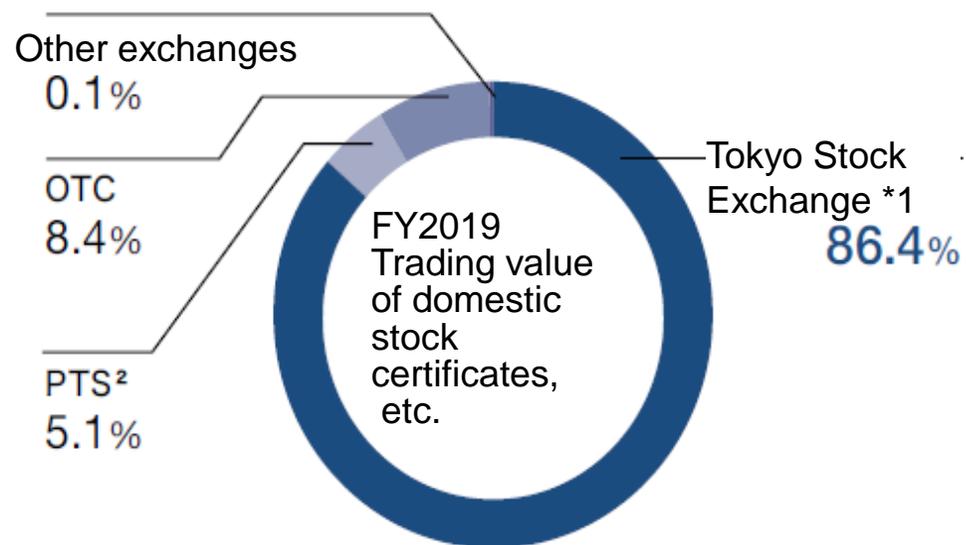
Total of the rest: the amount deducting "cash & deposits," "debt securities," "investment trusts," "stocks," and "insurance, pension, standardized guarantee scheme" from the total of financial assets

Source: August, 2020 Bank of Japan "Comparison of Flow of Funds between Japan, Europe and the US by Bank of Japan

11 Competitive Situation of Main Financial Commodities

● Domestic stock transactions are concentrated in the Tokyo Stock Exchange while Nikkei stock average futures trading in the Osaka Exchange.

Competitive Situation of Main Financial Commodities



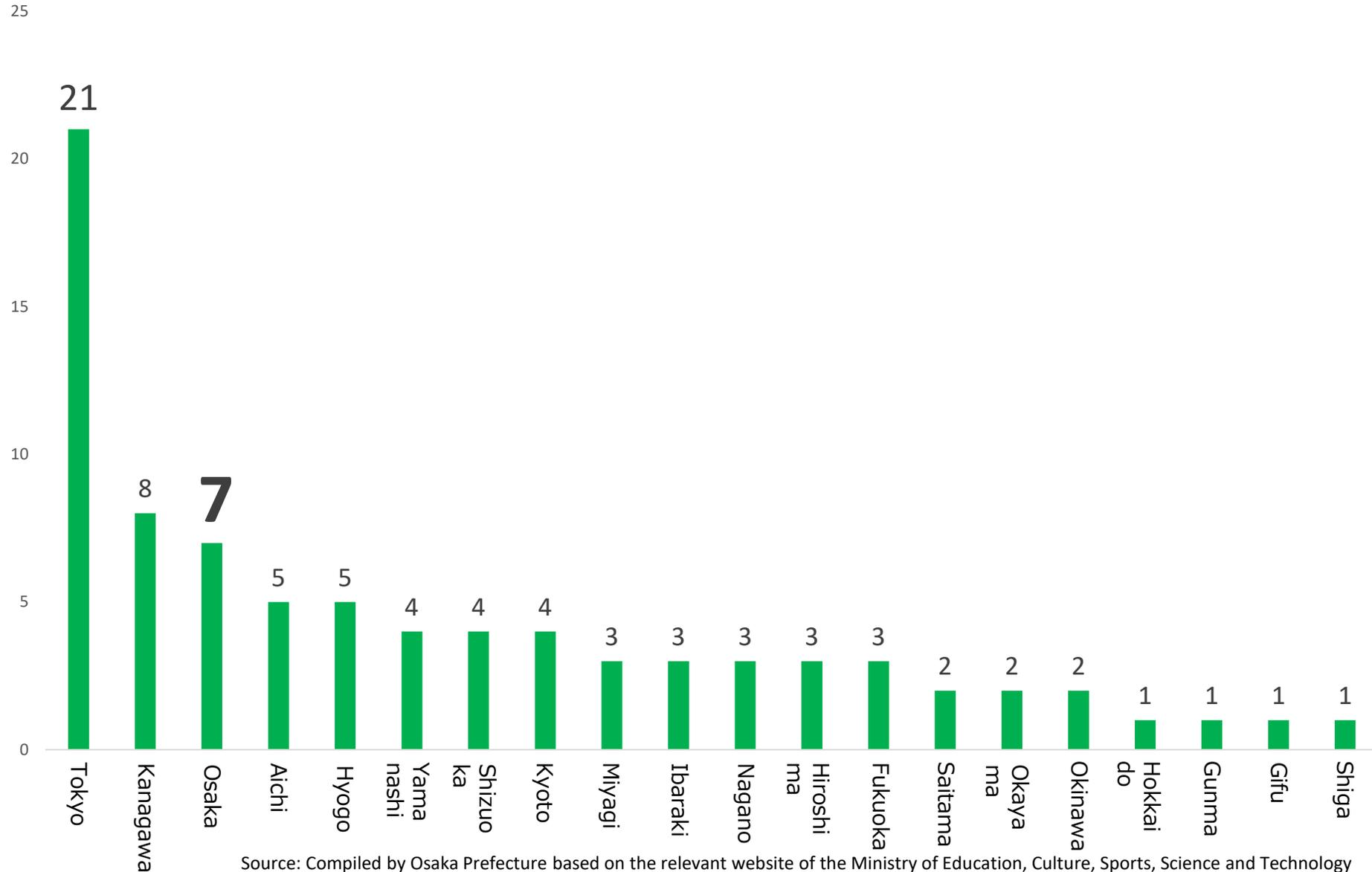
*1. Total trading value of common stock, on-floor and off-floor trading such as ETF, ETN/REIT at the First Section and the Second Section of the Tokyo Stock Exchange, Mothers, JASDAQ, and TOKYO PRO Market
 2 . PTS: Total of SBI Japannext Co., Ltd. and Chi-X Japan Limited.

(Note) Mini of the Osaka Exchange : 1/10, SGX Large (including denominated in USD): 1/2, mini: 1/10
 CME: Both USD and JPY are converted to 1/2

※OTC... done directly between two parties, without the supervision of an exchange

12 Number of International Schools (International baccalaureate-designated schools in Japan; as of June 30, 2020)

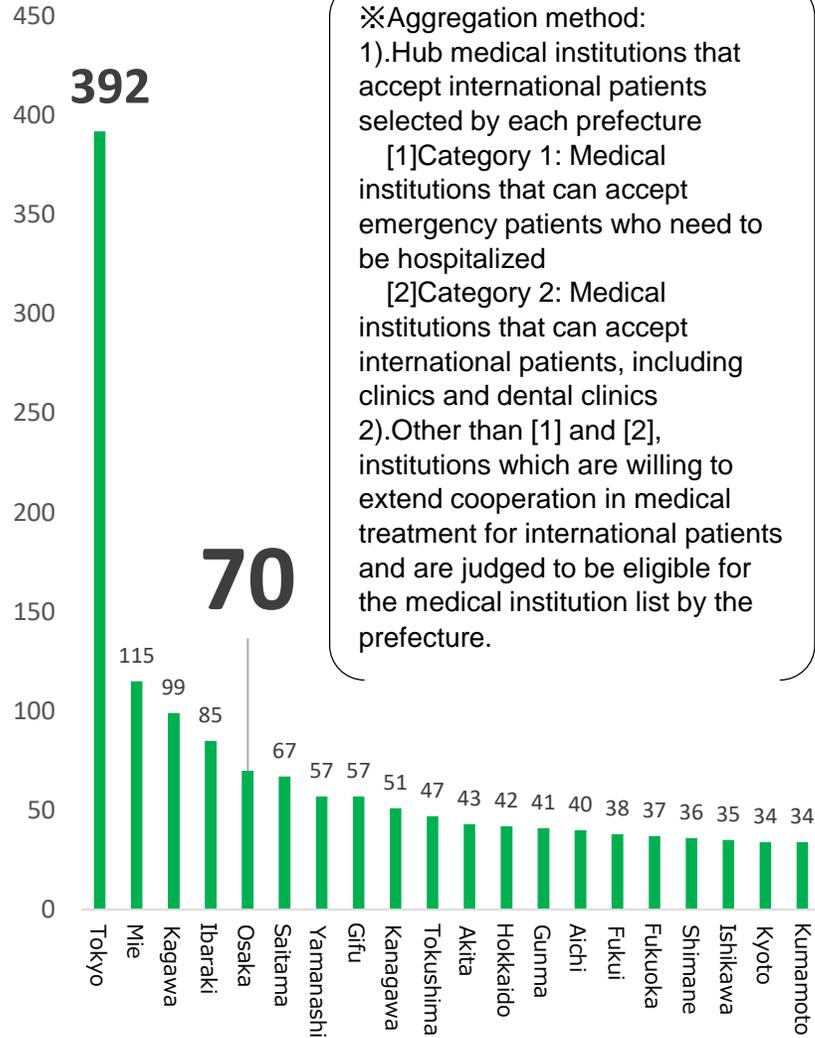
● The number of international schools: 21 in Tokyo, 7 in Osaka



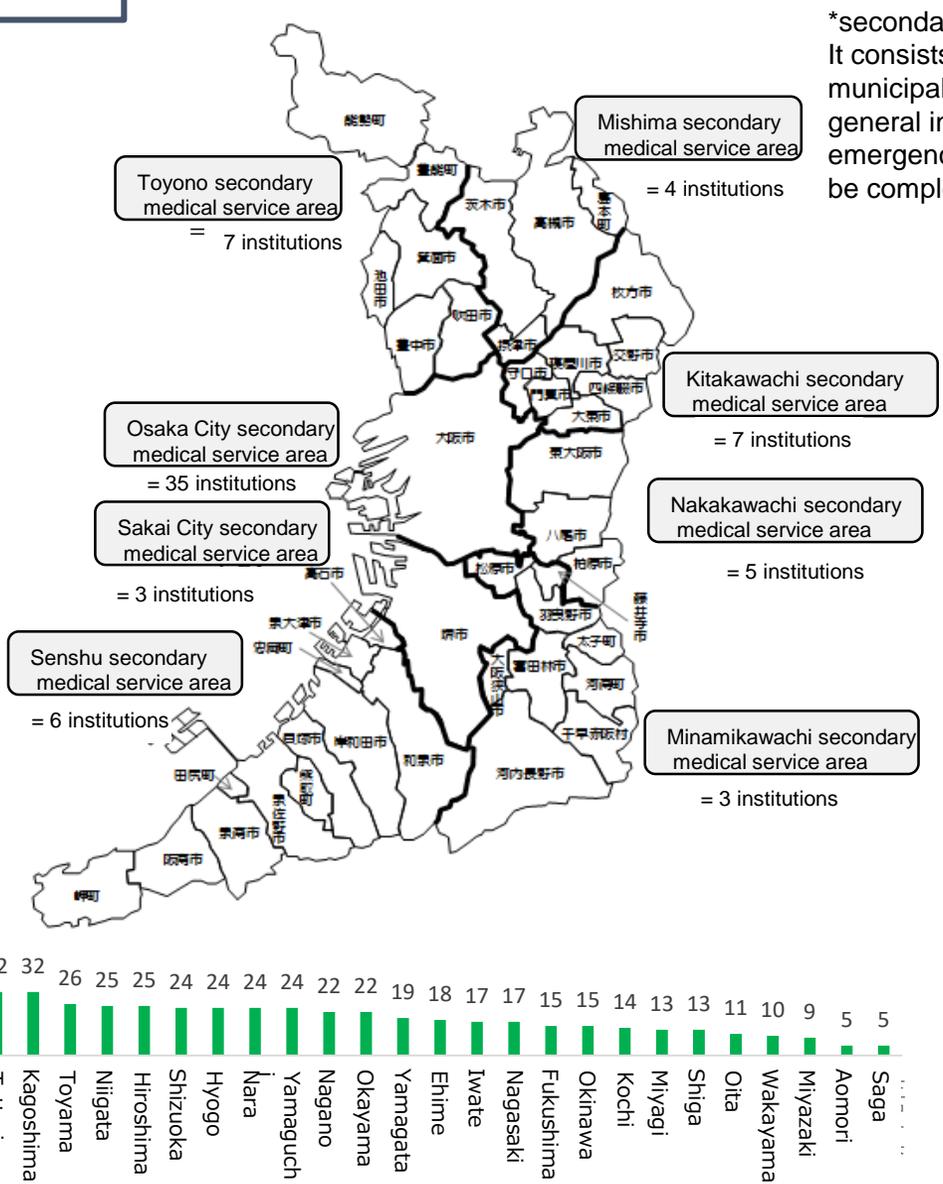
Source: Compiled by Osaka Prefecture based on the relevant website of the Ministry of Education, Culture, Sports, Science and Technology

13 Number of Medical Institutions Accepting International Patients (※) (as of June 30, 2020)

●Tokyo: 392 institutions; Osaka: 70 institutions



※Aggregation method:
 1).Hub medical institutions that accept international patients selected by each prefecture
 [1]Category 1: Medical institutions that can accept emergency patients who need to be hospitalized
 [2]Category 2: Medical institutions that can accept international patients, including clinics and dental clinics
 2).Other than [1] and [2], institutions which are willing to extend cooperation in medical treatment for international patients and are judged to be eligible for the medical institution list by the prefecture.



*secondary medical service area:
 It consists of multiple municipalities and provides general inpatient treatment, including emergency medical care, which can be completed within the region.