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Subcommittee 1: Strengthening the Investment Chain to Drive the Growth Trajectory

1. Introduction

(1) Background and Assessment of Current Status

Japan has continued to establish a range of policy and governance frameworks to support its goal to become a leading asset management center. Key initiatives include the adoption of the Asset Owner Principles¹, revisions to Japan's Corporate Governance Code², and the publication of the Guidance for Growth Investment³. At the same time, the shift to inflation and a positive interest rate environment, together with persistent labor shortages, calls for the constituents of the investment chain, which are asset owners, asset managers, and Japanese companies, to adapt to a new set of conditions.

On the other hand, as noted in the Guidance for Growth Investment, Japanese companies have improved shareholder returns and earnings power, but weakness in growth investment persists due to factors within companies themselves. In addition, there is also room to strengthen asset owners' investment frameworks and asset managers' perspectives on engagement with companies, as discussed below. The investment chain, through which assets entrusted by asset owners support corporate growth and ultimately deliver returns to end beneficiaries, is not yet functioning to its full potential to drive the growth trajectory. Against this backdrop, Subcommittee 1 (the "Subcommittee") was convened.

(2) Purpose and Approach of the Subcommittee

The Subcommittee's objective is to drive the growth trajectory through the investment chain and ultimately further strengthen Japan's position as a leading asset management center. In pursuit of this objective, the Subcommittee sought to identify and recommend directions for each constituent of the investment chain to further strengthen its capabilities and fulfill its role.

Where themes overlapped with other subcommittees, detailed considerations were left to the relevant subcommittees, allowing the Subcommittee to focus on setting out directions from the perspective of the investment chain as a whole. The recommendations were designed to align with initiatives undertaken by the relevant

¹ Cabinet Secretariat, *Asset Owner Principles*, August 2024
(<https://public-comment.e-gov.go.jp/pcm/download?seqNo=0000279194>)

² Financial Services Agency and Tokyo Stock Exchange, Inc, *Japan's Corporate Governance Code (July 2026 Revision)*, July 2026 (<https://www.jpx.co.jp/english/corporate/news/news-releases/1020/vk0khi000001xys3-att/vk0khi000001xyv1.pdf>)

³ Ministry of Economy, Trade and Industry, *Guidance for Growth Investment*, July 2026
(https://www.meti.go.jp/shingikai/sankoshin/shin_kijiku/value_creation/pdf/20260721_guidance_01.pdf)

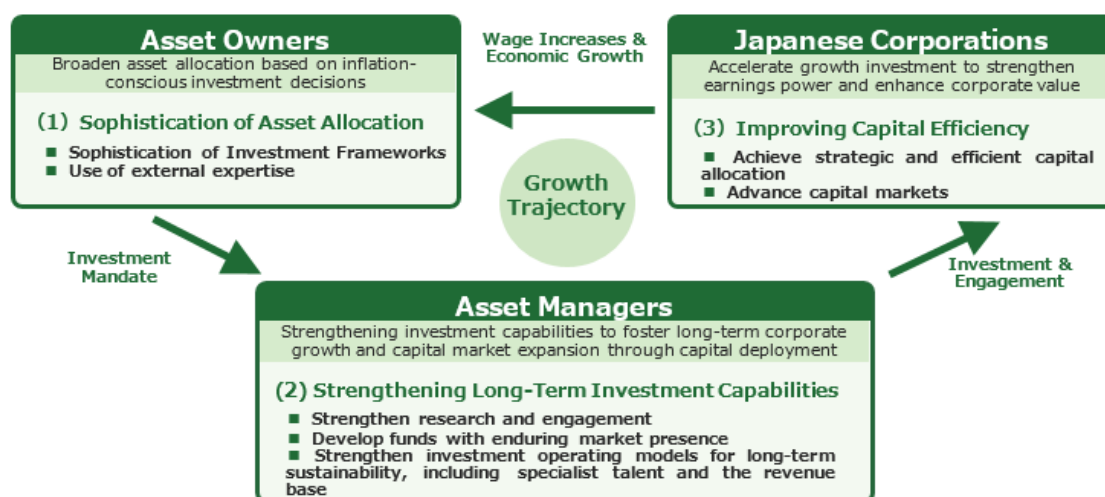
authorities, while seeking to support such initiatives as an industry, and highlighting priority issues in the recommendations.

(3) Discussion Themes and Structure

The Subcommittee structured its discussions around the flow of the investment chain: investment mandates from asset owners to asset managers; investment in and engagement with Japanese companies by asset managers; and wage increases and economic growth through enhanced corporate value. The themes set out in Figure 1 below were discussed for each constituent in the investment chain.

The discussions involved three leadership team companies (the “Leadership Team”) and eleven discussion member companies (the “Discussion Members”) through a series of regular meetings held during 2026. At the first regular meeting on April 21, comments were consolidated on the preliminary recommendations by the Leadership Team. At the second regular meeting on June 15, panel discussions were held on four themes: (i) the use of external expertise by asset owners; (ii) enhancing the value delivered by asset managers; (iii) greater flexibility in improving fund features, including material changes to fund terms; and (iv) growth strategies aligned with the corporate lifecycle. The draft recommendations were presented at the third regular meeting on September 9 and subsequently finalized by the Leadership Team, factoring in the feedback provided by Discussion Members and participants.

Figure 1. Themes of the Subcommittee



2. Challenges and Recommendations to Strengthen the Investment Chain

This section identifies the challenges faced by each constituent and, drawing on discussions at the regular meetings and panel discussions, considers the roles each constituent should fulfill. The conclusions are set out in seven recommendations: two for asset owners, three for asset managers, and two for Japanese companies. The

capabilities of each constituent are closely interconnected, and progress across all three constituents is essential for the investment chain as a whole, to function effectively and drive the growth trajectory.

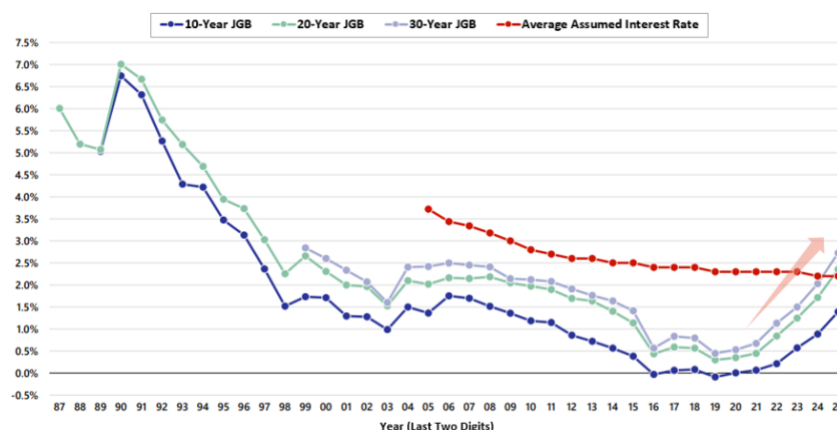
(1) Asset Owners: Sophistication of Asset Allocation

[Underlying Challenges]

■ Review of Investment Objectives in Response to Changes in the Economic and Market Landscape

It is essential for asset owners to periodically review the alignment among assumed interest rates, investment objectives and strategic asset allocations, considering changes in the economic and market environment, including inflation and higher interest rates, to protect beneficiaries' interests and ensure benefit obligations are met. Corporate defined benefit (DB) pension plans have seen a long-term decline in assumed interest rates and have remained broadly unchanged even after the end of the negative interest rate policy (Figure 2). While assumed interest rates serve a different purpose from investment objectives, as they are used as the basis for calculating contributions and other items, elevated expected returns across various income-generating assets provide an opportunity to reassess these assumptions.

Figure 2. Historical Long-Term Interest Rates and Average Assumed Interest Rate



Source: Japan Asset Management Forum research based on Mizuho Trust & Banking Co., Ltd., "FY2025 Second Half Mizuho Asset Management Seminar: Looking Ahead to the Future of Corporate Pensions and Moving toward Implementation: Practical Approaches to Benefit Enhancement"

■ Limited Specialist Resources and Potential for Expanded Disclosure

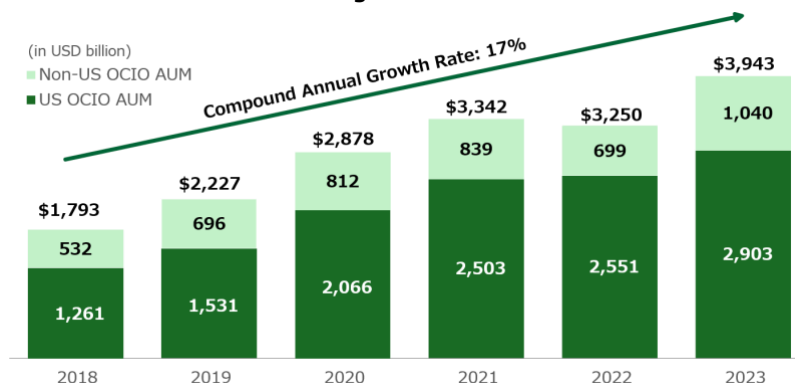
Most corporate pension investment professionals also hold responsibilities in other areas, and relatively few organizations specifically appoint individuals with investment expertise. The establishment of a structured organizational framework therefore

remains a recognized challenge⁴. There is also room to expand disclosure to beneficiaries and other stakeholders, as set out in the Asset Owner Principles. While corporate pension business reports are planned to be digitalized and consolidated by the Ministry of Health, Labour and Welfare⁵, further disclosure by other asset owners remains an area for development⁶.

■ Limited Use of External Expertise

The United States and Europe have led the adoption of external resources, including Outsourced Chief Investment Officer (“OCIO”) services. An estimated 40% of U.S. corporate DB pension plans outsource asset management, with OCIO assets under management growing at an annual rate of 17%, from approximately US\$1.8 trillion in 2018 to approximately US\$3.9 trillion in 2023 (Figure 3). In Japan, external expertise is utilized to some extent through pension service providers and investment consultants, while there remains room for broader use of OCIO and similar services. OCIO is often perceived as a binary choice between full outsourcing and no outsourcing, which may contribute to the perception of high barriers to adoption. Educational institutions also face challenges in securing specialist talent and establishing appropriate investment and operating frameworks. The Guidebook for Promoting and Advancing University Asset Management cites the use of external expertise, including OCIO services, as one of the available options.

Figure 3. Growth in OCIO Assets Under Management



Source: Goldman Sachs Asset Management research based on Cerulli Associates, “U.S. Outsourced Chief Investment Officer Function 2024”, the Board of Governors of the Federal Reserve System, and the U.S. Department of Labor

⁴ KPMG AZSA LLC, *Survey on Pension Investment Governance 2024*, December 2024 (<https://assets.kpmg.com/content/dam/kpmgsites/jp/pdf/2024/jp-pension-governance-2024.pdf.coredownload.inline.pdf>)

⁵ Ministry of Health, Labour and Welfare, *Materials for the First Meeting of the Study Group on Enhancing the Visibility of Corporate Pension Investment for Plan Participants*, October 2025 (<https://www.mhlw.go.jp/content/10600000/001575025.pdf>)

⁶ Ministry of Education, Culture, Sports, Science and Technology and Ministry of Economy, Trade and Industry, *Guidebook for Promoting and Advancing University Asset Management*, July 2026 (https://www.mext.go.jp/content/20260722-mxt_sigsanji-000051051_2.pdf)

[Overview of Discussions and Recommendations]

■ Overview of Discussions

At the panel discussion on “Asset Owners’ Use of External Expertise,” held as part of the second regular meeting on June 15, participants noted that while such external expertise is already utilized to some extent through pension service providers and investment consultants, there is potential for broader use given generational shifts in investment personnel and increased sophistication and complexity of investment management. It was also emphasized that external expertise is a means rather than a goal, and that asset owners should retain the ultimate responsibility for fulfilling their fiduciary duties even when OCIO services are utilized. Based on these discussions, the Subcommittee developed the following two recommendations to support asset owners in proactively incorporating external expertise from a range of available options.

Recommendation 1: Sophistication of Investment Frameworks

- Considering changes in the economic and market environment, including inflation and higher interest rates, asset owners should periodically review whether their required rates of return, investment objectives and policies continue to be appropriate, against their mandate, liability and expenditure structures, financial condition and risk tolerance. Where appropriate, the outcome should be reflected in the assumed interest rates and strategic asset allocations, with investment in risk assets determined accordingly. This can help strengthen pension finances while protecting beneficiaries’ interests and may provide greater flexibility to consider future reductions in contributions or improved benefit levels.
- Asset owners should proactively recruit specialist talent with expertise in risk asset investment. This can support sustainable operations and enable timely and appropriate reviews of investment objectives and policies.
- To fulfill their accountability to beneficiaries and other stakeholders, asset owners should disclose information on (i) the mandate, investment objectives and policies, including strategic asset allocations; (ii) governance and investment frameworks; (iii) investment performance; (iv) appointed asset managers and fees; and (v) risk management. Where direct disclosure by asset owners is not practicable, consolidated disclosure by the relevant authorities could be considered for other asset owners as well, drawing on the approach taken by the Ministry of Health, Labour and Welfare for corporate pension plans. This would also allow stakeholders, including asset managers, to use such information to enhance investment management, ultimately contributing to improved outcomes for beneficiaries.

Recommendation 2: Use of External Expertise

- Asset owners should retain ultimate responsibility and maintain their decision-making and monitoring functions, while leveraging external expertise to build sustainable and sophisticated investment frameworks and reduce key-person dependency. This can enhance objectivity in investment decisions, strengthen responsiveness to changing market conditions and risk management across the overall portfolio, and foster internal knowledge transfer and talent development.
- Asset owners should select the most appropriate form of external support based on their mandate, investment objectives, organizational structure, specific needs, accountability obligations and cost effectiveness. Options for such external support include pension service providers, investment consultants and asset managers offering OCIO, gatekeeper and multi-asset solutions. OCIO arrangements can take various forms, including comprehensive, partial and phased approaches, enabling asset owners to identify the functions for which external support is required and ultimately build a sustainable investment framework.
- Educational institutions have significant room to leverage external expertise, including OCIO services, as noted in the Guidebook for Promoting and Advancing University Asset Management. Support from OCIO and similar service providers can enhance the entire investment framework as an integrated process, from the formulation of investment policies through implementation and monitoring to the preparation of explanatory materials, ultimately contributing to a sustainable investment framework.

(2) Asset Managers: Strengthening Long-Term Investment Capabilities

[Underlying Challenges]

■ Limited Depth and Effectiveness of Corporate Engagement and Resource Shortage

Engagement with investee companies is becoming increasingly important. However, investee companies identify key challenges in engagement by investors (asset managers), notably insufficient understanding based on in-depth company analysis and dialogue driven primarily by short-term perspectives or themes⁷. Asset managers themselves also recognize limited resources and talent for conducting engagement as a challenge. Empirical research⁸ indicates that continued engagement with investee

⁷ April 2024, The Life Insurance Association of Japan, "FY2024 Survey Results on Initiatives to Enhance Corporate Value" (https://www.seiho.or.jp/activity/sdgs/esg/pdf/20250418_3_5.pdf)

⁸ Hidaka et al. (2021), "Motivations and Effects of Engagement by Institutional Investors" (RIETI Discussion Paper Series, 21-J-036); Takeda and Seki (2025), "Measuring the Effects of ESG Engagement by Japanese Institutional Investors" (Securities Analysts Journal, 63(11), 115–128)

companies leads to enhanced corporate value through changes in corporate behavior, demonstrating the significant potential of such engagement.

■ Expansion of Passive Investing and Growing Engagement Burden

The growing prevalence of passive investing is increasing the importance of engagement aimed at strengthening the market as a whole. For example, passive strategies accounted for 95% of GPIF's domestic equity portfolio in FY2024, up from 82% in FY2015⁹. Requiring uniformly in-depth dialogue grounded in a thorough understanding of each investee company, however, entails significant costs, while collaborative engagement raises concerns over free riding. While methods to assess and disclose engagement progress and outcomes continue to evolve, demands for bespoke reporting by asset owners are becoming increasingly common, adding to the reporting burden on asset managers.

■ Challenges in Fund Development and Flexibility in Product Enhancements

For a fund to achieve enduring market presence, it must consistently deliver value to beneficiaries, earn investor support over the medium to long term and translate that support into asset growth. Japanese retail funds, however, tend to reach peak AUM shortly after launch and decline thereafter. Compared with the US, funds with track records of 16 years or more represent a smaller proportion of active fund AUM in Japan. This indicates further room to develop a business model in which long-term performance and a proven track record drive asset growth.

Disclosures on funds and product features remain focused primarily on risk and return, providing asset owners with limited insight into investment strategies and their potential role in portfolio construction. As asset owners diversify and expand their allocations to risk assets, investment managers have room to broaden their capabilities across a wider range of asset classes, including private assets. This applies particularly to managers whose capabilities are centered around traditional asset classes.

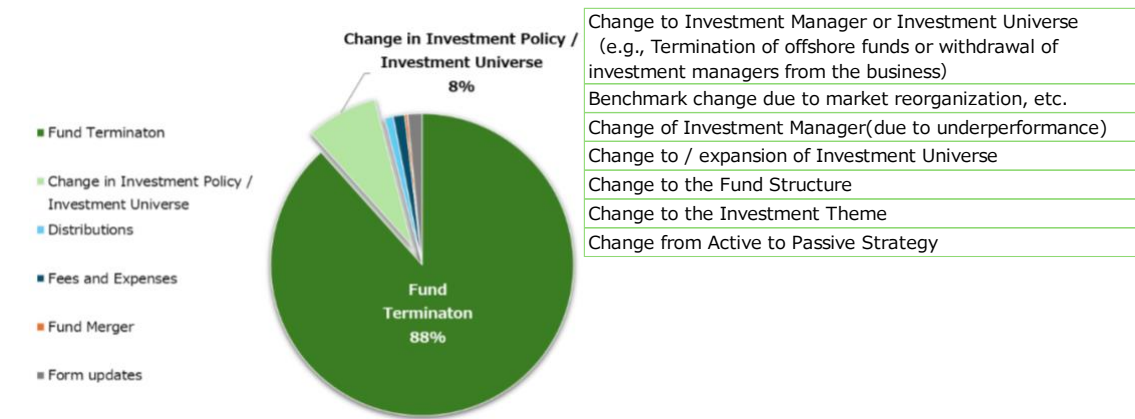
Delivering value over the medium to long term requires funds to evolve as market conditions change, with product features and investment management methods reviewed and refined accordingly. Out of approximately 320 written resolutions and related procedures undertaken by major asset managers for the period from January 2016 to January 2026, around 90% involved fund terminations, while the remaining 10% involved changes to investment policies or invested assets¹⁰. Most of these changes were prompted by external factors.

⁹ Government Pension Investment Fund (GPIF) (<https://www.gpif.go.jp/operation/state/>)

¹⁰ Japan Asset Management Forum research based on information published on the websites of selected asset managers with significant active fund assets. The research covers the period from January 2016 to January 2026. The asset managers surveyed include Nomura Asset Management Co. Ltd., Daiwa Asset Management Co. Ltd., Amova Asset Management Co. Ltd., FIL Investments (Japan) Limited, AllianceBernstein Japan Ltd., Capital International K.K., Goldman Sachs Asset Management Co. Ltd., and Asset Management One Co. Ltd.

Compared with foreign-domiciled funds such as UCITS, Japanese funds have less flexibility to make reasonable changes to existing products. As a result, outdated funds are often left unchanged, while new funds are launched as replacements. The challenge is particularly significant for funds with substantial AUM offered through numerous distributors, where extensive procedures pose greater obstacles to product enhancements.

Figure 4. Written Resolutions by Fund Event Category



Source: Japan Asset Management Forum research based on information published on individual companies' websites¹⁰.

■ Competition for Highly Specialized Talent and Pressure on the Revenue Base

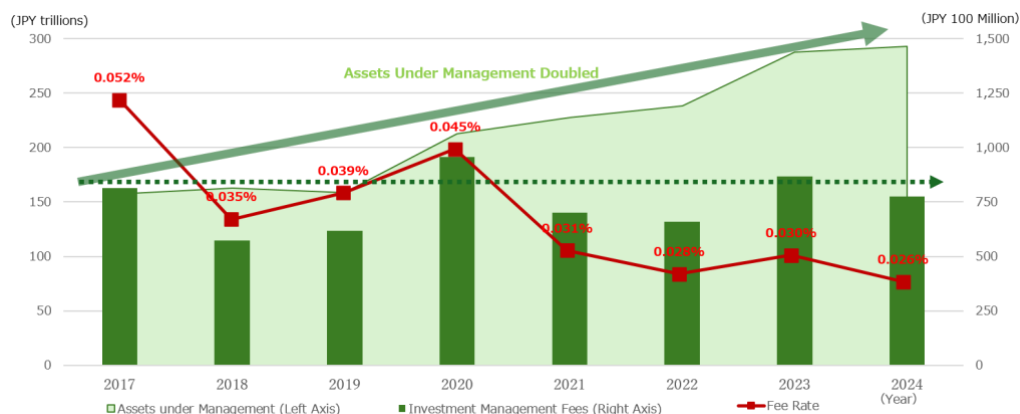
Competition for highly specialized talent is intensifying, both within and beyond the asset management industry, bringing succession planning and company research capabilities into sharper focus. It has also been observed that Japanese asset managers have not fully positioned compensation as an integral part of their talent strategies.

At the same time, management fee pressure and rising costs are weighing on profitability, constraining investment in the recruitment and development of highly specialized talent and making this a critical management priority. Over the past decade, externally managed AUM for Japan's eight major public pension funds have doubled. Yet the total amount paid in management fees has remained broadly unchanged, reflecting an average fee rate of approximately 2.6 bps. This is around one-twentieth of the level paid by major overseas pension funds¹¹.

A single written resolution may cover multiple fund event categories.

¹¹ FY2017–FY2024, Japan Asset Management Forum, survey based on annual investment reports and other disclosures published by eight major Japanese public pension funds.

Figure 5. AUM and Investment Management Fee Trends at Major Japanese Public Pension Funds



Source: Japan Asset Management Forum research based on the investment reports and related materials of Japanese public pension funds and data from CEM Benchmarking for major overseas pension funds.

【Overview of Discussions and Recommendations】

■ Summary of Discussions

At the second regular meeting, the panel discussion “*Enhancing the Value Delivered by Asset Managers*” included the view that addressing common challenges through collaborative engagement would be an effective means of raising standards across the industry. The discussion also pointed to the need to evaluate asset managers based on factors including accountability and repeatability, and to promote understanding of asset management fees commensurate with the value of services provided.

In the panel discussion “*Greater Flexibility in Fund Features (Material Changes to Fund Terms)*,” participants emphasized that commitments to beneficiaries should remain fundamental. At the same time, they supported a more flexible framework for the review of fund features when the assumptions at launch no longer align with current circumstances. Proposals included revision of the “*Q&A on Investment Trusts*”¹² and establishment of an electronic voting platform, among other ideas. Based on these discussions, the following three recommendations were developed.

Recommendation 1: Strengthen Research and Engagement Capabilities to Support Long-Term Corporate Growth

- Asset managers should deepen research to assess the fundamental value of companies from a long-term perspective and distinguish engagement priorities according to each stage of the corporate lifecycle. Generative AI and other technologies should be leveraged to improve the efficiency of research and engagement and create greater value, thereby increasing the effectiveness of efforts to enhance corporate value.

¹² June 2026, Financial Services Agency (FSA)
(<https://www.fsa.go.jp/news/r6/shouken/20250624/03.pdf>)

- For active strategies, asset managers should maintain thoughtful and continued interactions based on an in-depth understanding of investee companies. They should act as “constructive activists,” bringing discipline to management while working closely with companies to support long-term corporate value enhancement.
- For passive strategies, asset managers should address issues that contribute to market-wide advancement and dynamism, including management with due consideration of the cost of capital, industry consolidation and restructuring, collaborative initiatives and policy engagement. Shareholder relations meetings should also be used to promote companies’ understanding of investors’ perspectives on governance and proxy voting. Such efforts will contribute to improved capital efficiency and governance standards, ultimately supporting higher standards and greater dynamism across the market.
- Asset managers should encourage asset owners to periodically review stewardship reporting requirements against their intended purpose and necessity. Asset managers should demonstrate, through milestones and specific examples, the value created and outcomes achieved, rather than the volume of activities alone. Asset managers should also engage asset owners in discussions on the allocation of engagement costs and appropriate fee arrangements. Such efforts are expected to enhance accountability and improve the sustainability of stewardship activities.
- Where capacity or other constraints exist, asset managers should consider drawing on external expertise, including outsourcing engagement activities to other asset managers or specialist providers. This can supplement internal capacity, provide access to specialized expertise, and help ensure the effectiveness and continuity of engagement activities.

Recommendation 2: Develop Funds with Enduring Market Presence, Including Greater Flexibility to Enhance Fund Features

- Asset managers should identify and prioritize products that support medium- to long-term investment objectives and provide proactive disclosure and communication. This will give investors a clear and immediate understanding of such products and their intent.
- Disclosure should extend beyond risk and return to provide detailed information on fund characteristics, including investment style, and clarify each fund’s role within an asset owner’s portfolio.
- To support the diversification and expansion of asset owners’ allocations to risk assets, asset managers should broaden their capabilities across a wider range of asset classes, including private assets. Broader investment opportunities would

expand the supply of risk capital to companies, supporting corporate renewal and greater dynamism across the market.

- The scope and procedures for material changes to fund terms should be reviewed, with reference to overseas practices, to provide sufficient flexibility for product enhancements as the investment environment evolves. Any revisions should remain fully aligned with beneficiaries' interests. Specific measures for consideration, in consultation with relevant stakeholders, include revision of the *"Q&A on Investment Trusts,"* digital notification and voting procedures, and an industry-wide platform. Clearer decision criteria and streamlined procedures would make product enhancements a viable option even for funds with substantial AUM. This would discourage practices inconsistent with beneficiaries' interests, such as leaving outdated funds unchanged. It would also enable funds to deliver value on a continuing basis, strengthen investor confidence and establish an enduring market presence.

Recommendation 3: Strengthen Investment Operating Models for Long-Term Sustainability, Including Specialist Talent and the Revenue Base

- Asset managers should attract and develop highly specialized investment talent and establish appropriate evaluation frameworks to enhance the value they deliver. Asset managers should offer opportunities for professional growth, career development and new challenges alongside competitive compensation to attract and retain such talent. For investment professionals, evaluation and compensation should reflect investment capabilities, accountability, repeatability and achievement against expected returns. Asset managers should also consider incentive structures that align the interests of investment professionals with those of beneficiaries, drawing on international practices.
- Appropriate fee levels are essential to ensure fairness across clients and the continued viability of services. While mandates have at times been accepted at fee levels significantly lower than those of international players in order to establish market presence, asset managers should clearly articulate the value of their services and products and proactively seek client understanding of fee structures, including performance-based arrangements, that are commensurate with the value provided. For passive engagement in particular, where fees do not fully reflect the services provided, asset managers should promote understanding of how such activities contribute to higher standards across the market and pursue appropriate fee levels.

(3) Japanese Companies: Improving Capital Efficiency

[Underlying Challenges]

■ Weakness in Growth Investment and Underlying Structural Issues

Over the past 15 years, Japanese companies have significantly increased total shareholder distributions, while labor productivity at listed companies has outpaced growth in the US and Europe ¹³. At the same time, labor costs as a share of earnings have remained low, while investment in human capital, R&D and intangible assets, including information technology and digital transformation, has yet to catch up with the US and Europe, leaving a greater share of corporate resources held in cash and deposits. This may be attributed to a combination of external factors, such as deflation and low growth expectations; governance factors, including relatively short management tenures and incentive structures; and investor preferences for near-term shareholder returns. In Japan, CEO tenures are shorter than in the US and Europe, while long-term incentives comprise the lowest share of compensation among the three.

■ Business Restructuring, Market Dynamism and Concentration in Funding Sources

Japanese companies are more diversified across industries than their US and European counterparts, with larger diversified companies tending to have lower ROIC. In 2025, delistings from the Tokyo Stock Exchange represented 3.2% of listed companies, while new listings represented 1.6%, both below the levels seen at other major global exchanges, suggesting limited market dynamism. Corporate funding remains heavily reliant on bank lending, while corporate bond issuance is concentrated among highly rated issuers, with more than 90% of domestic issuance rated A or above and very limited issuance rated BB or below. In the US, insurers, pension funds, overseas investors and investment funds, which have greater capacity to take risk, collectively hold approximately 90% of corporate bonds, compared with just over 20% in Japan¹⁴, indicating further potential for financial intermediaries in Japan to facilitate a broader allocation of capital across different risk profiles.

¹³ December 2025, Cabinet Secretariat, Financial Services Agency (FSA) and Ministry of Economy, Trade and Industry (METI), "Review of the Guidelines for Human Capital Visualization," 7th Study Group on the Visualization of Non-Financial Information

(<https://www.cas.go.jp/jp/seisaku/nipponseichosenryaku/hizaimu/dai7/siryou2.pdf>)

¹⁴ March 2026, Ministry of Economy, Trade and Industry (METI), "Secretariat Materials for the 4th Study Group on the Corporate Bond Market toward Enhanced Corporate Finance"

(https://www.meti.go.jp/shingikai/economy/corporate_finance/pdf/004_03_00.pdf)

Figure 6. Structural Challenges to Growth Investment (Illustrative)

External Environment	• Investment decisions based on expectations of domestic demand growth were constrained by deflation and low growth expectations • Excessive protection of less competitive companies, limited labor mobility and rigid labor regulations hindered the reallocation of talent and capital from low-return businesses • Greater labor force participation among women and the senior workforce supported labor supply and reduced the urgency for investment in automation and information technology
Corporate Governance	• Risk-taking in growth investment and large-scale M&A discouraged by short management tenures and evaluation systems that penalize failure • Preference for the status quo reinforced by limited rewards for success but significant consequences for failure • Delayed decisions on business and industry restructuring due to strong attachment to legacy businesses, established relationships and debt-free management • Governance bodies such as boards and nomination/compensation committees with limited discipline over corporate growth strategies and capital allocation
Investors (Asset Managers)	• Investor engagement focused primarily on near-term performance and shareholder returns, with insufficient focus on companies' future growth potential • Preference for shareholder returns over corporate growth investment reinforced by strong investor demands for share buybacks and dividends • Limited investor expertise in evaluating large-scale M&A, intangible asset investment and human capital investment • Insufficient research and engagement capabilities to assess and support long-term value creation and growth investment

Compiled by Japan Asset Management Forum from Regular Meeting discussions

[Overview of Discussions and Recommendations]

■ Overview of Discussions

At the panel discussion “Growth Strategies Across the Corporate Lifecycle” held during the second regular meeting, participants emphasized that engagement should focus not on formality, but on appropriate discipline and accountability in enhancement of corporate value at each stage of the corporate lifecycle. Limited growth investment was attributed in part to management incentive structures that place greater consequences on failure than rewards on success, as well as relatively short management tenures. For small-cap and mature companies, including those with PBR below 1x, participants also

noted that going private and subsequent re-listing could be viable options, with support from the expertise and resources of private equity funds. Based on these discussions, the following two recommendations were developed.

Recommendation 1: Strategic and Efficient Capital Allocation

- As highlighted in the *“Guidance for Growth Investment,”* companies should establish medium- to long-term capital allocation policies that consider their stage of growth and the attractiveness of investment opportunities and prioritize growth investments with expected returns above the cost of capital.
- Specific growth investment plans should address areas where Japanese companies invest less than their US and European counterparts, particularly human capital, R&D and information technology, with close alignment across management strategy, human capital strategy and business portfolio strategy.
- To promote corporate growth investment, independent outside directors should play an increasingly important role, as also emphasized in the Corporate Governance Code. Boards and nomination/compensation committees should align management evaluation periods with long-term growth strategies and regularly review the proportion and performance metrics of equity-based compensation and long-term incentives. Investor communications and engagement should extend beyond short-term disclosures to articulate initiatives for long-term corporate value creation, with management committed to strategic investment and business restructuring that enhance long-term earnings power. This should encourage a longer-term management perspective and disciplined risk-taking.
- Companies should pursue growth strategies through business restructuring and international expansion. Based on the best-owner principle, companies should review their business portfolios and consider exits from low-return and non-core businesses, carve-outs, going private and re-listing, M&A, as well as external capital and management resources from private equity funds where appropriate. This should improve capital efficiency and strengthen the ability to execute fundamental reforms and growth investments that may be difficult to pursue while publicly listed.

Recommendation 2: Elevate Japan’s Capital Markets

- Companies should assess whether to remain publicly listed based on their individual circumstances and stage of growth. This assessment should consider a wide range of factors, including value creation potential, economic profit (ROIC-WACC spread), listing costs, funding needs and the feasibility of business restructuring. For mature and smaller listed companies in particular, options such as going private and re-listing, M&A and industry consolidation should be

considered to identify the most appropriate path to enhance corporate value. This should enable companies to operate in an environment best suited to corporate value enhancement, while also supporting market dynamism.

- Japanese companies should diversify their funding sources, maturities and investor base through greater use of corporate bonds and other forms of debt alongside bank financing, with consideration of their business characteristics, the scale and duration of growth investment, and financial strength. At the same time, financial intermediaries, including asset managers, should develop investment products accessible to asset owners, such as high yield bonds and loans. This should broaden access to growth capital and contribute to more developed and dynamic capital markets.
- For large-scale business restructuring, carve-outs, going private and re-listing, international expansion and other initiatives where internal capital, expertise and resources may not be sufficient, Japanese companies should consider a range of options involving private equity funds and other external partners, including equity participation, co-investment, and access to management and specialist professionals. This should enable fundamental business transformation, optimize business portfolios and strengthen the ability to execute growth investment.

3. Looking Ahead

The Subcommittee's discussions confirmed that driving the growth trajectory requires asset owners, asset managers and Japanese companies, as constituents of the investment chain, to fulfill their respective roles and collaboratively strengthen their capabilities.

At the same time, several issues remain for further consideration. Potential areas for discussion in coming years include further advancing the shift from savings to investment by individuals, increasing investment in domestic assets and expanding domestic asset funds that attract overseas capital. Other topics, including how to share the costs of engagement with companies outside the top market-cap tier, revisiting the process for material changes to fund terms and considering the development of a digital platform to facilitate such changes, and strengthening financial intermediation through corporate bond markets, require broader collaboration among asset management industry bodies, the relevant authorities and other related industries.

These recommendations are intended to encourage all constituents in the investment chain to reassess their respective roles and take concrete action. The Asset Management Forum will continue to support progress on these recommendations, deepen the discussions, and seek to drive the growth trajectory and thereby strengthen Japan's position as a leading asset management center.

Subcommittee 2: Supplying Growth Capital

1. Introduction

As the Japanese Government further promotes and develops its initiatives to establish Japan as a leading asset management center in pursuit of a “strong economy,” a key priority for the asset management industry is to enhance the value of Japanese companies through asset management, promote investment in Japan—including regional areas—and realize a virtuous cycle of capital in which the resulting benefits are returned to employees and households.

To achieve the sustainable growth of Japanese companies, transform industrial structures, and invest in new growth areas, it is necessary to provide diverse forms of financing tailored to the growth stage and business characteristics of each company. In particular, in addition to conventional financing centered on bank lending and public markets, there is substantial room for further development in the provision of capital through private markets, including private equity, private credit, and hybrid finance.

The demand for growth capital is not limited to large corporations. Capital recipients include startups, medium-sized and small companies requiring business succession, companies subject to buyouts, regional companies, and GX-related businesses such as renewable energy projects and data centers. Accordingly, capital providers must understand the circumstances of individual companies and regions and structure appropriate financial solutions based on the nature, duration, risks, and returns of the capital required.

The Subcommittee conducted discussions with the following objectives:

From the perspective of the asset management industry, particularly the development of private markets, to identify the potential and challenges associated with the provision of growth capital for achieving the sustainable growth of Japanese companies and the creation of regional value, and to develop recommendations that are relevant to actual business practice.

This year, building in part on the discussions of last year’s Subcommittee on “Enhancing the Value of Japanese Companies and Promoting Investment in Japan, Including Regional Areas” and Subcommittee on “Alternative Investments,” the Subcommittee examined the following three themes:

1. **Diversification of financing methods through private markets**
2. **Collaboration with local governments, regional financial institutions, and other stakeholders to create regional value**
3. **Expansion of the pool of management professionals, particularly those providing management and governance support**

This statement (the “Statement”) summarizes the current state of the provision of growth capital, the challenges involved, future directions, and the vision that the asset management industry should pursue, based on these discussions.

2. Discussions Held Last Year and the Progress of the Subcommittee

2.1. Relationship with Last Year’s Discussions

Last year’s Subcommittee on “Enhancing the Value of Japanese Companies and Promoting Investment in Japan, Including Regional Areas” identified several challenges. These included the fact that leading and high-quality regional companies were less visible than companies in major metropolitan areas, collaboration with local governments and regional financial institutions had not progressed sufficiently, and management resources and specialized personnel were in short supply in regional areas.

The following directions were indicated:

- asset managers should collaborate with local governments and regional financial institutions to build an ecosystem for identifying regional companies;
- engagement with regional companies should be made more efficient;
- collaboration among regional financial institutions, local governments, and asset managers should be promoted;
- the development and securing of management talent in regional areas should be advanced; and
- incentives such as employee and management share ownership should be utilized.

In addition, the Subcommittee on “Alternative Investments” confirmed the importance of cooperation between the banking sector, which possesses the capacity to provide senior loans and extensive customer networks, and private asset managers, which possess the capacity to provide long-term capital and take risks, in order to close the gap between capital demand and supply in Japan.

This year, the Subcommittee developed these discussions further by examining them from three perspectives: diversification of financing methods, collaboration with regional stakeholders, and management and governance support.

2.2. Progress of the Subcommittee

The Subcommittee held the following regular meetings:

- **February 19, 2026: Kickoff Meeting**
The Subcommittee confirmed its objectives, three themes, and future procedures.
- **April 22, 2026: First Regular Meeting**
The Subcommittee reviewed last year’s discussions and organized the current status and challenges relating to the three themes.
- **June 10, 2026: Second Regular Meeting**

The Subcommittee examined Sumitomo Corporation's use of private credit and initiatives undertaken by Osaka Prefecture and the City of Sapporo.

- **September 3, 2026: Third Regular Meeting**

Following a review of JAFCO's initiatives and the investment environment for startups originating in regional areas, the Subcommittee discussed the draft Statement.

The Subcommittee also exchanged views with other organizations. Supplying growth capital is a matter that concerns the entire financial sector, including banks, securities companies, insurance companies, pension funds, and other asset owners, in addition to the asset management industry. It is therefore important to combine the respective strengths of each type of financial institution.

3. Issues Identified and Directions for Resolution

3.1. Diversification of Financing Methods through Private Markets

(1) Current Status

Japan's private equity market has been expanding and is said to have reached approximately JPY 6 trillion in 2023. Investment themes have also diversified to include take-private transactions, business succession, carve-outs, and corporate revitalization.

Meanwhile, financing instruments positioned between equity and senior debt—such as mezzanine finance, hybrid finance, and private credit—remain underdeveloped. Approximately 80% of lending in Japan is provided by banks, indicating a greater reliance on banks than in the United States and Europe. While this reflects the important role banks have historically played in corporate finance, it also indicates that the range of capital providers and financing methods available to meet companies' diverse funding needs has not yet expanded sufficiently.

Private capital has the following characteristics:

- Flexible structuring according to the circumstances of a company or business
- Speed and execution certainty through bilateral negotiations
- A high degree of confidentiality with limited disclosure requirements
- The capacity to accommodate large-scale transactions
- Long-term capital backed by insurance funds and other sources
- The ability to design intermediate risk-return characteristics between debt and equity

These features can be effectively utilized for growth investments, M&A, business restructuring, long-term projects, and businesses with stable cash flows.

(2) Specific Examples of Utilization

At the first and second regular meetings, the Subcommittee examined an example of a large-scale transaction involving private capital in the acquisition of Air Lease Corporation by Sumitomo Corporation and SMBC Aviation Capital.

In this transaction, Apollo and Brookfield supported the acquisition by providing structured equity backed by long-term capital. The financing had characteristics of equity from an accounting and credit-rating perspective, enabling a rational structure from the standpoint of balance-sheet management and capital efficiency at Sumitomo Corporation.

The transaction was made possible by the following factors:

- A deep understanding of the characteristics of aircraft as assets
- Extensive long-term operating experience in the aircraft leasing business
- The management capabilities of Sumitomo Corporation and SMBC Aviation Capital
- Availability of long-term capital through private capital providers
- Upfront alignment among the four parties on the design of governance and decision-making arrangements
- Product design that matched the characteristics of the assets with the characteristics of the financing

This example demonstrates that private capital does not simply replace bank lending or bonds. Rather, it can complement other financing methods depending on a company's strategy, the characteristics of its assets, and its capital policy.

(3) Differences in Perception between the Demand and Supply Sides

For hybrid credit and other forms of private capital to be widely used in Japan, there appears to be a certain gap in perceptions between capital recipients and capital providers.

Issues	Capital Recipients' Tendencies	Value Available from Capital Providers
Financing costs	Preference for cost-minimizing structures over structures with appropriate duration and flexibility	Higher costs than traditional financing methods
Product characteristics	Preference for simple products	Structures tailored to individual needs
Duration	Expected financing term of approximately five to seven years	Capital with terms of ten years or more, including perpetual capital in some cases
Collateral and covenants	Willing to accept collateral and strict terms	Unsecured financing and covenant-lite structures
Capital characteristics	Primary focus on debt-type financing	Capital with equity characteristics for accounting and credit-rating purposes

For capital recipients, it is important to understand the overall value of private

capital—not only its cost, but also its flexibility, confidentiality, long-term nature, execution certainty, and the degree of managerial freedom it provides.

(4) Expansion into Startups and Venture Debt

At the third regular meeting, the Subcommittee discussed the environment for venture investment, including investment in startups originating in regional areas.

Annual capital inflows into domestic startups increased from approximately JPY 200 billion in 2015 to approximately JPY 760 billion in 2025. The geographical distance between startups and venture capital firms has narrowed in regional areas due to the widespread adoption of online meetings and other developments.

The examples of Tier IV, originating from Nagoya University, and Kyoto Fusioneering, originating from Kyoto University, demonstrate that companies capable of expanding globally from regional areas can emerge when regional universities and research institutions, core industries, regional financial institutions, operating companies, and external investors collaborate. However, deep-tech companies typically face long commercialization timelines and also substantial funding burdens, including research and development expenses. It is therefore important to design capital structures that combine not only equity but also subsidies, government-related funding, venture debt, and other forms of financing.

Venture debt offers the advantage of enabling fundraising while limiting dilution, but it also entails repayment obligations. Startups should therefore use venture debt appropriately, taking into account their business phase, revenue outlook, the existence of orders or advance payments, and the characteristics of their cash flows—in other words, they should use it responsibly and in appropriate amounts.

(5) Future Directions

The following initiatives should be pursued:

1. Updating Companies' Understanding of Financing Methods

The characteristics of bank lending, bonds, private equity, private credit, hybrid finance, venture debt, and other financing methods should be communicated clearly to CFOs, managers, regional financial institutions, and other stakeholders.

2. Building Complementary Relationships with Banks

Banks' customer bases and capacity to provide senior loans should be combined with the long-term capital, risk-taking capacity, and structuring capabilities of asset management companies.

3. Combining Public and Private Markets

The range of options should be expanded by combining multiple sources of capital, such as private mezzanine finance with publicly offered bonds, or bank senior loans with private credit.

4. Strengthening Product Structuring and Financial Intermediation

Products should be structured to facilitate investment by asset owners, with their risk-return characteristics, liquidity, duration, and accounting treatment presented clearly.

5. Developing Liquidity and Secondary Markets

Secondary transactions, valuation and pricing information, and mechanisms for interim liquidity should be developed while giving due consideration to investor protection.

6. Improving the Institutional and Regulatory Environment

The appropriate institutional framework should be considered in areas including the Money Lending Business Act, consolidated accounting, and the eligibility requirements for including unlisted shares in publicly offered investment trusts, so as not to impede the sound development of the market.

3.2. Collaboration with Local Governments and Regional Financial Institutions to Create Regional Value

(1) Diverse Investment Opportunities in Regional Areas

Regional areas offer a wide variety of potential investment opportunities, including:

- University-originated and research-and-development-oriented startups
- Small and medium-sized companies requiring business succession
- Companies related to core regional industries
- GX-related businesses, including renewable energy, offshore wind power, and storage batteries
- Large-scale infrastructure, including semiconductors and data centers
- Businesses addressing social issues, including regional transportation, tourism, medical care, and nursing care
- Companies with growth potential through M&A and industry consolidation

However, these companies and businesses are often difficult for investors in major metropolitan areas to identify. At the same time, regional stakeholders may find it difficult to understand how to connect with global capital and a diverse range of financial market participants.

(2) Initiatives by Local Governments and Regional Financial Institutions

Under the International Financial City OSAKA Strategy, Osaka Prefecture and the City of Osaka are promoting the attraction of asset management companies and fintech companies, one-stop consultation services in English, tax incentives and subsidy programs, business matching, and the use of financial and asset management special zones. By the end of fiscal 2025, 31 companies had been attracted, and 39 companies had established operations in Osaka as of October 2026.

Osaka has concentrations of universities, research institutions, and companies in areas including life sciences and carbon neutrality. Osaka is also developing financial

functions that leverage the region's characteristics, including a secondary market for security tokens and fintech hubs.

In Sapporo and Hokkaido, "Team Sapporo-Hokkaido" was established by 21 organizations from industry, academia, government, and finance to promote the integration of GX and finance. To connect Hokkaido's renewable energy potential with investment opportunities, the following initiatives are underway:

- TSH Green Finance Framework
- GX Information Platform
- SPARX Sapporo-Hokkaido GX Fund
- Collaboration among regional financial institutions, local governments, megabanks, and operating companies
- Consideration of citizen-participation funds and digital securities
- Impact investment to visualize job creation and development of new industries through GX

The GX Fund serves as a catalyst for attracting private capital through investments by the City of Sapporo and regional financial institutions. At its first close in March 2026, the fund raised JPY 5.4 billion, and fundraising continues with a target of JPY 10 billion.

These examples demonstrate the importance of combining the respective strengths of different stakeholders, rather than having local governments independently undertake investment decisions or provide capital. These strengths include the regulatory flexibility, tax incentives, and public role of local governments; the customer networks and regional information of regional financial institutions; and the investment expertise and fundraising capability of asset management companies.

(3) Challenges in Regional Investment

The following challenges must be addressed in order to expand the provision of capital to regional areas.

1. Visibility of Investment Opportunities

Information on regional companies and projects is not sufficiently visible to investors. Financial information, business plans, regional economic and social impacts, and risk information necessary for investment decisions should be organized and provided in a comparable format.

2. Identifying Capital Demand

Small and medium-sized companies and startups may not be fully aware of the type of capital they require or alternatives to bank lending that are available to them. Capital providers should identify potential demand and propose financing methods suited to each company's stage of growth.

3. Designing Region-Specific Investment Benefits

It is necessary to clarify why investors should invest in a particular region.

Regional strengths—such as universities and research institutions, industrial clusters, special zones, regulatory relaxation, low land and labor costs, and renewable energy—should be linked to tangible investment benefits.

4. Balancing Financial Viability and Public Value

Investments intended to support regional revitalization may place emphasis not only on financial returns but also on social value, including job creation, industrial development, and the return of benefits to local communities. The respective roles of funds seeking purely financial returns and funds pursuing regional policy objectives should be clarified, and appropriate forms of capital should be combined.

5. Coexistence with Local Communities

Simply introducing external capital may not necessarily translate into tangible benefits for local communities. In large-scale projects such as GX initiatives, it is essential to obtain the understanding and participation of local residents, including with respect to environmental and landscape impacts. Mechanisms under which members of local communities become beneficiaries should be considered, including the return of profits, citizen-participation funds, digital securities, and rights to use regional services.

(4) Future Directions

1. Establishing Regional Investment Platforms

Local governments, regional financial institutions, universities, business associations, asset management companies, operating companies, and other stakeholders should participate in platforms that consolidate information on potential investment companies and projects.

2. Clarifying Investment Themes for Each Region

Investment themes should be clarified based on the unique characteristics of each region, such as life sciences, GX, mobility, tourism, and business succession.

3. Matching Investment Opportunities with Capital Providers

Investor briefings, networking events with regional companies, and discussions among local governments, regional banks, and other stakeholders should be held on an ongoing basis.

4. Standardizing Information and Evaluation

With reference to green finance frameworks and similar initiatives, a common information disclosure and evaluation platform should be developed covering not only financial information but also environmental and social impacts.

5. Collaborating with Regional Financial Institutions

The customer networks and regional knowledge of regional financial institutions should be combined with the investment judgment and structuring capabilities of asset management companies. Cooperation should also be promoted between

bank-provided senior capital and mezzanine or equity capital provided by funds.

6. Promoting Participation by Citizens and Local Residents

Mechanisms should be considered through which members of local communities can share the benefits of investment, including citizen-participation funds, digital securities, and linkages with regional services.

7. Communicating Regional Initiatives Domestically and Internationally

Investment opportunities in regional areas should be communicated to domestic and international capital providers through international conferences, startup events, financial special zones, and other channels.

3.3. Expansion of the Pool of Management Professionals (Management and Governance Support)

(1) Current Status of Talent Shortage

Smaller companies and companies in regional areas face particular difficulty in securing CFOs, finance personnel, investor relations personnel, M&A professionals, technology management professionals, and project managers.

In addition, deep-tech companies originating from universities and research institutions may possess strong technological capabilities but lack management personnel capable of leading commercialization, capital policy, sales, organizational development, and international expansion.

Discussions on the investment environment for startups originating in regional areas pointed to a structural issue: while technology is dispersed throughout regional areas, the pool of talent tends to be concentrated in Tokyo. In response, companies can adopt organizational structures that combine regional and metropolitan functions, such as locating headquarters and sales functions in Tokyo while retaining research and development and manufacturing bases in regional areas.

(2) Types of Talent Required

The following three types of professionals will be particularly important.

1. Finance Professionals

CFOs; professionals responsible for finance and capital policy; investor relations and disclosure professionals; M&A and business restructuring professionals; and professionals with an understanding of private capital, banks, and public markets.

2. Technology Management Professionals

Professionals responsible for commercializing technologies; professionals in intellectual property and patent strategy; professionals who connect technology assessment with business planning; patent attorneys; professional engineers; and MOT (“Management of Technology”) experts.

3. Project Management Professionals

Professionals who connect local governments, regional financial institutions,

operating companies, and investors; professionals who can promote large-scale GX and infrastructure projects; professionals who build consensus among multiple stakeholders; and professionals who can translate regional social issues into business opportunities.

(3) Importance of Management and Governance Support

The role of the asset management industry is not limited to providing capital. It is also important to support portfolio companies in management and governance in order to promote their sustainable growth and enhance their corporate value. Potential forms of support include:

- Reviewing management strategies and business portfolios, and supporting M&A, business succession, and industry consolidation
- Formulating capital policies and fundraising strategies, and supporting the recruitment of CFOs and finance professionals
- Establishing internal control and risk management systems
- Developing investor relations and disclosure systems
- Improving the effectiveness of management meetings and boards of directors
- Introducing employee share ownership

Even for listed companies, it is important to assess whether the skills disclosed in skills matrices represent substantive capabilities necessary for enhancing corporate value, rather than serving merely as a formal disclosure exercise.

(4) Directions for Securing Talent

1. Collaboration with Universities

University courses, endowed courses, industry-academia collaboration programs, and practical training programs for CFOs and other executives should be established.

2. Establishing Regional Talent Platforms

Mechanisms should be established through which multiple regional companies can jointly utilize specialized personnel in areas such as finance, legal affairs, IT, and M&A.

3. Reducing Geographical Constraints through Online Work

Full remote work, hybrid work, and multi-location employment across Tokyo and regional offices should be combined.

4. Expanding Corporate Scale

M&A, industry consolidation, and roll-up strategies should be used to expand corporate scale and create compensation packages and career opportunities that enable companies to recruit specialized talent.

5. Incentives Including Employee and Management Share Ownership

Share-based compensation and ownership programs should be developed so that

management professionals and employees can share in the benefits of enhanced corporate value.

6. Support for Living and Relocation by Local Governments

Relocation to regional areas should be promoted through support for housing costs, rent, childcare, education, relocation expenses, and other needs.

7. Joint Utilization of Talent

Local governments, regional financial institutions, universities, funds, and operating companies should share information on talent and promote the use of professionals across multiple companies through concurrent appointments, secondments, and project-based assignments.

4. The Vision for the Asset Management Industry

Based on the discussions of the Subcommittee, the asset management industry should aim to fulfill the following roles.

4.1. Developing Diverse and Sophisticated Capital Providers

The range of capital providers and financing methods should be diversified to include equity, credit, hybrid finance, structured finance, venture debt, and other forms of capital. Appropriate risk-taking should be based not only on the size and creditworthiness of capital recipients, but also on the future potential of their businesses, cash flows, asset characteristics, and social value.

4.2. Strengthening Financial Intermediation

Asset management companies should strengthen their financial intermediation functions, rather than merely managing funds.

To achieve this, the following initiatives should be pursued:

- Structuring products that are readily investable for asset owners
- Providing clear explanations of risk-return characteristics
- Designing products across both public and private markets
- Collaborating with regional financial institutions, securities companies, and banks
- Expanding the investor base, including international investors, and enhancing English-language disclosure and international communication

4.3. Balancing Clarity, Flexibility, and Liquidity

For new financing methods to become widely adopted, they must be easy for both issuers and investors to understand.

In particular, it is desirable to enhance the following three qualities simultaneously:

- **Clarity:** Product features, risks, returns, and accounting and tax treatment are clearly explained.
- **Flexibility:** Terms can be designed according to the characteristics of each

company or business.

- **Liquidity:** Secondary markets and liquidity mechanisms are available.

Rather than seeking to achieve all of these objectives at once, a phased approach to adoption is important, with due consideration given to investor protection and market integrity.

4.4. Providing Ongoing Support for Corporate Value Enhancement

In addition to supplying risk capital, the asset management industry should provide value-added investment that contributes to the enhancement of portfolio companies' corporate value.

Through management and governance support, business portfolio reform, recruitment of talent, M&A, capital policy, investor relations, internal controls, and other forms of support, the industry should increase the certainty with which capital translates into growth.

4.5. Investing with an Understanding of Regional Characteristics

Rather than applying a uniform nationwide investment perspective from Tokyo, it is necessary to understand the industries, universities, technologies, talent, infrastructure, regulations, and special zones of each region.

With respect to investment in startups originating in regional areas, market participants should develop a mutual understanding of their respective roles. For example, venture capital firms and other specialized players can leverage their sourcing and investment assessment capabilities, while asset management companies can provide sizable capital in the later stages of growth through crossover investments and other approaches.

4.6. Engagement across Both Public and Private Markets

Engagement with listed companies and management support for unlisted and regional companies should not be treated as separate activities. Rather, continuous engagement should be maintained in accordance with each company's stage of growth.

Continuing engagement with companies from the unlisted stage through the post-listing stage, including through crossover investments, can be effective both for enhancing corporate value and for promoting the circulation of capital.

4.7. Establishing Regional Talent Ecosystems

An ecosystem should be established in each region to connect universities, financial institutions, local governments, operating companies, funds, and other stakeholders, and to develop and share talent in management, finance, technology, and project management.

An environment should be created in which specialized professionals can play active roles in regional areas through corporate expansion, M&A, industry consolidation, employee and management share ownership, and other initiatives.

5. Conclusion

To achieve the sustainable growth of Japanese companies and create regional value, it is important not only to increase the volume of growth capital but also to match the characteristics of the capital appropriately with those of each company and business.

Private markets possess advantages including flexibility, confidentiality, long-term capital, and execution certainty, and can serve as an important source of financing that complements bank lending and public markets. In particular, there is substantial scope for using financing methods that combine equity, debt, and hybrid capital in areas such as M&A, business succession, GX, deep tech, startups, and regional infrastructure.

At the same time, regional areas offer many potential investment opportunities. It is necessary to make visible the resources possessed by regional universities and research institutions, core industries, local governments, regional financial institutions, and operating companies, and to connect those resources with domestic and international capital. In doing so, it is essential not merely to introduce external capital, but also to return benefits to local residents and regional economies and ensure coexistence with local communities.

Furthermore, specialized professionals in management, finance, technology, and project management are indispensable for converting growth capital into actual growth. The asset management industry is expected to serve not only as a capital provider, but also as a provider of management and governance support, a financial intermediary, and a platform builder connecting regional areas with capital.

Going forward, the asset management industry should deepen its collaboration with banks, securities companies, insurance companies, pension funds and other asset owners, local governments, regional financial institutions, universities, operating companies, and international investors.

Against this background, the Subcommittee places particular emphasis on the following four points:

1. Promoting understanding among companies and regional stakeholders of diverse financing methods
2. Providing complementary capital by combining the respective strengths of banks and asset management companies
3. Identifying investment opportunities that leverage regional uniqueness while ensuring coexistence with local communities
4. Developing, securing, and jointly utilizing professionals in management, finance, and technology

Supplying growth capital is not an issue that can be addressed by the asset management industry alone. However, the asset management industry has a distinctive role to play because it manages long-term capital, engages in dialogue aimed at enhancing corporate value, assumes risks, and promotes the circulation of capital throughout society.

The Subcommittee hopes that this Statement will encourage engagement among companies, regional communities, financial institutions, asset owners, government authorities, and the asset management industry, and serve as a step toward strengthening the provision of growth capital and the circulation of capital in Japan.

Subcommittee 3: Options for Diversified Asset Building

Introduction

Last year, the subcommittee on “Alternative Investments” discussed promoting domestic private asset investments and promoting investments by domestic investors into domestic and offshore private assets, with a view to realizing a private market that contributes to the long-term, stable asset building of households and to economic growth. Through those discussions, the Subcommittee confirmed that private asset investments can serve as a new means of asset building and highlighted in its recommendations the importance of standardizing regulatory frameworks and market practices.

Building on this, this year, Subcommittee 3, “Options for Diversified Asset Building” (the “Subcommittee”), examined the operational challenges and potential measures for broadening the adoption of alternative assets, primarily from an asset building perspective. The discussion was organized around two pillars—“improving access” and “product governance”—and covered the entire product lifecycle, from product design through distribution, monitoring, and exit.

From the perspective of improving access, the Subcommittee discussed a new investment framework for domestic private assets, the development of secondary markets using security tokens and other means, and the establishment of operational and system infrastructure for publicly offered and privately placed investment trusts. Crypto-asset ETFs were also within the scope of the review. At the same time, as access expands, product governance becomes increasingly important. The Subcommittee therefore discussed information gathering and verification of investor suitability, due diligence on and monitoring of delegated asset managers and distributors, and the valuation and audit processes for private assets.

By achieving both improved access and robust product governance, the Subcommittee aimed to expand investment opportunities, create an environment in which domestic investors can invest with confidence, and thereby contribute to the sound and sustainable development of the private asset market.

1. Creating a New Framework to Promote the Supply of Capital to Domestic

Private Assets

1.1. Background and Challenges

In Japan, private assets are increasingly being adopted as a new option for household asset building. Investment in offshore private assets has grown through publicly offered investment trusts that invest in offshore funds, reaching more than JPY 1.6 trillion in AUM. By contrast, legal, self-regulatory, and operational constraints make it difficult to

create Japanese publicly offered investment trusts that invest primarily in domestic private assets.

With a view to channeling private capital into growth capital for Japan, the Subcommittee held two regular meetings to discuss the regulatory and operational challenges relating to domestic private asset investment, and the need for a new framework with reference to the European Union's ELTIF and the United Kingdom's LTAF. At the first regular meeting, the Subcommittee invited an expert from an audit firm to brief on international fund regulations, including ELTIF and LTAF. Neither is a specific legal vehicle; rather, each is a regulatory "label" that applies certain requirements to fund formation and management, distribution, disclosure, and other matters. On this basis, the Subcommittee discussed the relationship between legal vehicles and distribution labels, as well as whether a new framework is needed in Japan for investment in domestic private assets. At the second regular meeting, the Subcommittee considered an approach centered on leveraging existing frameworks while pursuing the necessary regulatory revisions and the standardization of market practices. Specifically, the Subcommittee organized the issues relating to investment restrictions applicable to Japanese investment trusts, liquidity management, asset valuation, disclosure, and system-related matters, while also confirming the potential use of listed venture funds and beneficiary certificates issued by specified trusts and other options. Furthermore, following the first regular meeting, the Subcommittee continued its discussions on the need for a new framework and on the phased development of such a framework, taking into account the size of the domestic private asset market, deal flow, and the development of the secondary market.

Overview of Subcommittee Discussions

(1) Constraints on the Use of Existing Japanese Investment Trusts

Although Japanese investment trusts have been partially permitted to invest in unlisted equities, such holdings are effectively capped at 15% or less. In addition, direct lending by Japanese investment trusts to unlisted companies, such as that seen in the United States BDCs, is effectively not contemplated under current laws and practices. Furthermore, while certain guidelines have been issued on liquidity management, valuation, and disclosure with the inclusion of private assets, much of the specific implementation is left to each firm's discretion. To address these constraints, it has been pointed out that, under the current framework, it may be necessary to adopt intermediary vehicle structures or fund-of-funds structures, resulting in increased complexity of fund structures, higher structuring and operational costs, and potentially lower net returns for end investors.

(2) Potential Use of Existing Investment Vehicles and Views on a New Framework

In Japan, investment vehicles for private assets have been gradually expanded

through the development and revision of frameworks such as investment trusts, investment limited partnerships, listed venture funds, and specified trusts issuing beneficiary certificates. In light of this, the view was expressed that, rather than immediately creating a new framework, it would be more realistic to first clarify the eligible investments and investor bases suited to each investment vehicle, identify the regulatory and operational challenges hindering adoption, and then enhance the usability of existing frameworks through regulatory revisions and standardization of practices as needed.

Another view was that, rather than revising existing rules on a piecemeal basis, it would be rational to leverage existing Japanese investment trusts as the legal vehicle and establish a coherent framework tailored to accommodate the characteristics of private assets. Specifically, this approach would apply to products meeting certain requirements, with special provisions on eligible investments, net asset value (the “NAV”) calculation frequency, redemption frequency, redemption notice periods, redemption gates, borrowing, valuation, disclosure, and other matters, along with related practices, including system capabilities. It was also suggested that launching such a framework under a new name as a vehicle for investing in private assets would be effective for raising market awareness, promoting product adoption, and supporting investor education.

1.2. Recommendations

First, product development utilizing existing frameworks should be promoted, and institutional arrangements and market practices should be continuously improved based on the experience accumulated through such efforts. Second, in parallel with these efforts, a detailed assessment should be conducted of the appropriate design and feasibility of a new framework for investment trusts investing in domestic private assets. At present, existing frameworks are gradually being expanded to accommodate investment in private assets, and market participants are exploring product formation using them. It is therefore important to encourage product development under existing frameworks and accumulate practical experience through their use. Based on such experience, the authorities, industry associations, and market participants should engage in ongoing dialogue, regularly review issues relating to product structuring, distribution, and operations, and, where specific issues are identified, flexibly revise laws and regulations, self-regulatory rules, and market practices as appropriate in order to continuously enhance the usability of the overall framework.

A new framework could be designed as a “Domestic Private Asset-Focused Investment Fund (tentative name),” built on the existing Japanese investment trust framework, with the objective of supplying long-term capital to domestic private assets. With reference to frameworks such as ELTIF and LTAF, it should be examined holistically, covering eligible investments including unlisted equities, loans, real estate, and infrastructure;

investment restrictions such as allocation limits and borrowing; redemption terms and liquidity management suited to the characteristics of the underlying assets. Appropriate design of incentives for investors, including tax benefits, should also be examined together with investor protection considerations, to promote adoption of the framework. Furthermore, given that such funds would hold a high proportion of private assets, consideration should be given to the feasibility of establishing minimum common standards for valuation and disclosure, to support investors' proper understanding of the asset class.

This new framework should be considered as one that clearly communicates to investors the characteristics and risks of products with long-term and illiquid features, while balancing the expansion of investment opportunities with appropriate investor protection considerations. Practical implementation should initially focus on domestic assets. Once the framework has demonstrated its effectiveness, its scope could be expanded to include offshore assets. At the same time, given that a certain degree of market adoption and establishment has already been achieved under the existing framework, it is important to proceed carefully with institutional development aimed at ensuring the smooth coexistence of both frameworks, with due consideration to market stability and user convenience.

2. Outlook for the Secondary Market for Private Asset Funds

2.1. Background and Challenges

The secondary market allows investors to buy and sell private assets before the end of a fund's term, providing an exit route for illiquid holdings. Against a backdrop of slower distributions amid rising interest rates, institutional investors worldwide are increasingly turning to secondaries to rebalance portfolios and generate liquidity.

While transactions in Japan remain limited, demand for secondary markets is expected to grow as private asset investments become more widely available to retail investors. Drawing on the initiatives of a domestic proprietary trading system (PTS) for security tokens (STs), the Subcommittee discussed the significance and challenges of a secondary market leveraging STs.

While STs enable the fractionalization of unlisted assets and more efficient transfer of rights, tokenization alone does not provide liquidity. Cumulative ST issuance in Japan has reached approximately JPY 350 billion, mainly in real estate and corporate bonds; however, compared with the growth in the number of securities transacted and the market capitalization of the secondary market, actual transaction volume remains limited, and ensuring market depth and liquidity is a challenge. Market functions, disclosure, price formation, and settlement infrastructure need to be developed in an integrated manner.

2.2. Recommendations

Going forward, the scope is expected to expand beyond real estate and corporate bonds to private assets as a whole. In particular, because closed-end funds impose long-term redemption restrictions, developing a secondary market is important for broadening the investor base. At the same time, the secondary market should not be seen as turning private assets into products with "guaranteed liquidity," but rather positioned as infrastructure that provides investors with a "platform" for trading and supports the circulation of capital. Its development requires not only tokenization but also the integrated development of market infrastructure, including disclosure that enables investors to make appropriate investment decisions, drawing on offshore precedents.

3. Enhancement of Market Infrastructure to Promote Private Asset Investment

3.1. Background and Challenges

The Subcommittee conducted a more detailed examination of the market infrastructure critical to promoting investment in private asset funds through investment trusts, with a view to moving last year's recommendations into the implementation phase.

At the first regular meeting, participants shared the view that, in addition to product frameworks and product governance, enhancements to distributor systems, data connectivity, operational rules, and the like are essential. Specifically, product-specific requirements were identified: for Japanese publicly offered investment trusts, redemption restrictions and early redemption fees, long settlement cycles, subscription/redemption calendars, and performance drag resulting from the inability to accept amount-based subscriptions with advance payment; and for Japanese private placement investment trusts for professional investors, capital calls, distributions and return of capital, and capital account management. Internationally, common platforms connecting distributors and asset management firms have become increasingly prevalent, and function to a certain extent as market infrastructure supporting the adoption of illiquid assets. This also indicates that standardizing the data items and business processes shared among asset management firms, distributors, fund administrators, system vendors, and other stakeholders will provide a foundation for market expansion.

In a speaker session with a system provider focusing on distributor systems for publicly offered investment trusts, the provider indicated that existing functionality can largely accommodate the handling of private asset funds and that it intends to continue enhancing functionality based on user requests. On the other hand, some processes still require manual handling or customization, and the standardization of operational rules for private asset funds was identified as a challenge—including how distributors deal in practice with the diversity of product designs, as well as integration into customer

management and investment management reporting. It was also suggested that, as there are limits to what individual firms can resolve on their own, a forum for industry-wide discussion is needed.

3.2. Recommendations

(1) Assessment and Development of Standard Operational Requirements and Common Infrastructure for Publicly Offered Investment Trusts

An industry-wide working group should be established to assess and develop standard operational requirements and common infrastructure for Japanese publicly offered investment trusts that invest in private assets or private asset funds. The working group would bring together asset managers, distributors (brokerage firms and banks), trustees, fund administrators, system providers, industry associations, and relevant authorities. In this initiative, industry associations or similar bodies could serve as the secretariat and coordinator, working closely with the relevant authorities. The initiative could cover the entire chain of operations and data connections, involving asset managers and distributors, as well as investment trust management companies and administrators/trustees.

Internationally, as products investing in illiquid assets have become more widely adopted, distributor systems have increasingly been adapted to accommodate redemption restrictions. The Subcommittee was presented with examples in which industry standardization, albeit private-sector-led, has helped reduce product development costs and implementation burdens. Drawing on such precedents, Japan is also expected to build a sustainable market foundation that supports the Policy Plan for Promoting Japan as a Leading Asset Management Center.

(2) Developing Infrastructure for Private Placements to Professional Investors

With the creation of J-Ships, a private placement framework for securities offered to professional investors, access to private assets is expanding beyond institutional investors. To promote the long-term, stable supply of capital to domestic and offshore opportunities — particularly startups, private companies, and infrastructure — it is important to position private placements to professional investors and closed-end funds, in addition to Japanese publicly offered investment trusts, as options for medium- to long-term asset building.

In the United States, a "portfolio approach" has become widespread in private asset fund investment, combining semi-liquid funds as core holdings with closed-end funds as satellite holdings that offer higher returns or access to specific strategies. In Japan as well, investment needs are expected to diversify in a similar way as the number of professional investors grows. However, current distributor and asset management firm systems are built on the premise of traditional asset investment, and their ability to handle operations specific to closed-end funds, such as capital calls and capital account

management, is limited. Internationally, private funds are offered through multiple distributors supported by infrastructure that reduces the burden of system development and contractual procedures for individual distributors, thereby underpinning market growth. To expand the professional investor base through J-Ships and other means and to grow the domestic private asset market, asset management firms, distributors, trustees, fund administrators, and system providers should work together to specifically identify the areas that should be standardized and systematized for private placements to professional investors, including closed-end funds.

Furthermore, for professional investors—particularly those focused on IRR (Internal Rate of Return)—the operational and regulatory feasibility of financing, collateral, and other mechanisms to support meeting capital calls could also be examined, with due attention to investor protection, suitability, credit risk, and cost burden.

4. Launch of ETFs Investing in Crypto-Assets

4.1. Background and Challenges

(1) Changes in the Environment Surrounding Crypto-Asset ETFs

In 2026, amendments to the Financial Instruments and Exchange Act and the Payment Services Act, along with tax reforms, were enacted, and the regulatory framework for crypto-assets as investment products is being developed. The Financial Services Agency (the “FSA”) has indicated a policy direction of allowing ETFs to invest in crypto-assets, subject to amendments to the Order for Enforcement of the Act on Investment Trusts and Investment Corporations. In light of these regulatory changes, the Subcommittee discussed the challenges of launching crypto-asset ETFs in Japan. Participants shared the view that it is important to ensure investor protection while also ensuring competitiveness relative to established offshore products, and that the regulatory and operational issues need to be identified and reviewed from a level-playing-field perspective.

(2) Issues Anticipated for Crypto-Asset ETFs

(i) Custody Costs and Competitive Conditions Relative to Offshore Products

The Trust Companies Association of Japan has submitted a regulatory reform request regarding the scope of compensation in the event of an outflow of underlying assets of a crypto-asset ETF; however, the FSA has indicated that it would be difficult to reduce trustee liability specifically for crypto-assets. Trustee liability has not been broadly reduced in the United States or Hong Kong either, and products in these markets are structured under risk management frameworks that include custody arrangements and insurance coverage. It would be undesirable for domestic products alone to bear excessive costs, or for offshore products and FoFs to have a competitive advantage over domestic products despite lower levels of compensation. The challenge is how to ensure a level playing field for domestic products while protecting investors.

(ii) Benchmarks Used for Valuation

The benchmark used for valuation is an important factor in calculating the NAV of a crypto-asset ETF. Use of domestic market prices is preferable, both to support the growth of Japan's crypto-asset market and to enable valuations that are as close as possible to the NAV calculation time. In addition, prices from a single exchange may be vulnerable to price volatility and manipulation and may not adequately reflect actual trade executions. For these reasons, the benchmark used for valuation needs to be resilient to price manipulation and volatility and to appropriately reflect actual trade execution activity.

4.2. Recommendations

(1) Establishing Competitive Conditions Between Domestic and Offshore Products

When crypto-asset ETFs are introduced, a level playing field between domestic and offshore products should be established while ensuring investor protection. To this end, the compensation mechanisms and levels of investor protection applicable to domestic products, FoFs, and offshore products should be compared and assessed, and their regulatory treatment should be considered with a view to ensuring a level playing field.

(2) Developing Benchmarks for Valuation

For the NAV calculation of crypto-asset ETFs, the requirements for benchmarks used for valuation should be set out, including reference data, calculation methodologies, and governance framework.

5. Enhancing Distribution and Product Development Frameworks for the Sound Expansion of Private Assets

5.1. Background and Challenges

As retail investor access to private asset investments continues to expand, private assets are becoming an increasingly important component of long-term asset building. At the same time, private assets differ fundamentally from traditional financial instruments in areas such as liquidity, valuation principles, and disclosure standards. Given the relatively early stage of development of the retail private assets market, gaps in understanding of product characteristics and evolving distribution practices may undermine investor confidence and impede sustainable market growth. The Subcommittee believes that the sound development of the private asset ecosystem requires not only product-level regulation but also enhanced product oversight and governance by both asset managers and distributors.

5.2. Recommendations

(1) Strengthening Ongoing Investor Suitability Monitoring and Asset Manager-Distributor Information Sharing

Investor suitability should be assessed not only at the point of sale but also on an ongoing basis throughout the investor's holding period. Asset managers (including, where appropriate, delegated asset managers engaged by the domestic asset manager) and distributors should work toward the development of an industry-wide framework for information sharing that also covers offshore funds, and includes the following:

- deviations from the defined target investors;
- investment concentration in investors' portfolios;
- changes in investor profiles;
- complaint and inquiry trends;
- redemption behavior; and
- investor communications and support arrangements when liquidity management measures are activated.

(2) Enhancing Investor Education and Distributor Training

A key challenge for the broader adoption of private asset investments lies in ensuring that market growth is accompanied by an appropriate level of investor understanding. Private assets differ materially from traditional assets in terms of liquidity, the transparency and frequency of valuations and disclosure practices. Private asset-specific activities such as deal sourcing, investment execution, portfolio value creation, and exits are typically conducted through relatively less public processes than in traditional assets, resulting in a higher degree of information asymmetry. In addition, compared with listed assets traded daily in the market, private assets are subject to liquidity constraints.

To provide a broader range of investors with investment opportunities in private assets with these characteristics, cross-sector educational initiatives for both investors and sales representative should be considered, covering the following topics:

- illiquidity and the mechanisms for redemption restrictions (liquidity management measures); and
- approaches to valuation.

(3) Establishing an Industry Standard for Distributor Due Diligence

To ensure effective product governance across both manufacturers and distributors, the establishment of a due diligence framework on distributors in connection with funds investing in private assets is becoming increasingly important. At present, distributor due diligence is conducted independently and voluntarily by individual domestic asset managers. However, the FSA's "Results of the Monitoring of Customer-Oriented Business Conduct by Distributors and Manufacturers of Risk-Involving Financial Instruments" (July 29, 2026) emphasized the importance of domestic asset managers

appropriately reviewing and assessing distributors' sales and management frameworks. Against this backdrop, the asset management industry should consider establishing a common framework, "Distributor Due Diligence Minimum Standard", which sets out a consistent baseline for review criteria and evaluation standards, thereby raising governance standards across the industry.

6. Enhancing Due Diligence and Ongoing Monitoring of Delegated Asset

Managers

6.1. Background and Challenges

The Subcommittee noted that, in private asset fund structures, distributors constraints in their ability to obtain investment information directly. Consequently, effective communication between domestic asset managers and distributors is essential. In particular, when significant adverse events or negative media coverage arise, asset managers should provide relevant information to distributors in a timely manner to enable prompt and effective investor communications. Where material events occur offshore and receive media attention, involvement of multiple parties may delay the flow of information to investors. The Subcommittee therefore emphasized the importance of providing information with due consideration to how such events may be viewed by Japanese investors. The Subcommittee also reaffirmed the importance of close coordination among delegated asset managers, domestic asset managers, and distributors with respect to redemption restrictions (gates) and other operational processes that are unique to private asset funds.

Importantly, domestic asset managers are not merely intermediaries that introduce private asset products offered by offshore delegated asset managers into the domestic market. Rather, taking into account the distribution channels and target investor profiles, they play a critical role in investor protection by independently evaluating the delegated asset manager's investment capabilities, risk management framework, valuations, liquidity management arrangements, and reporting practices, and by reflecting the results of those assessments in their product offerings.

6.2. Recommendations

(1) Establishing a Minimum Standard for Pre-Investment Due Diligence of Delegated Asset Managers

When selecting a product, domestic asset managers should assess not only the delegated asset manager's historical track record, but also the underlying economic drivers of the strategy, the assumptions upon which those return drivers depend, and the circumstances under which those assumptions may cease to hold. Given the limited ability of domestic asset managers to take alternative measures when a private asset strategy underperforms, pre-investment due diligence should generally be conducted in

greater depth than for traditional assets.

The Subcommittee believes that an industry minimum standard could be developed based on internationally recognized frameworks, including the due diligence questionnaires published by the Institutional Limited Partners Association (ILPA), while incorporating additional elements particularly relevant to Japanese retail distribution. Such elements may include:

- the scope and frequency of investment and risk information that can be disclosed to retail investors; and
- investor communication protocols during stress events and redemption restrictions.

The Subcommittee also noted that the mix of institutional and retail investors and concentrations by distributor channel, geographic region, or fundraising vintage may affect redemption behavior.

Care should be taken, however, to ensure that the minimum standard remains a tool for informed judgment rather than a mechanical checklist and does not come to be treated as a sufficient condition in itself.

(2) Integrating Pre-Investment Due Diligence and Ongoing Monitoring into a Single Oversight Framework

Existing industry rules already contemplate ongoing monitoring of not only investment performance but also investment risk, liquidity risk, portfolio composition, portfolio turnover, leverage, and characteristics of the underlying portfolio. The Subcommittee further noted that, where portfolio management has been delegated, delegated asset managers should provide explanations and disclosures that appropriately reflect the distinctive characteristics and risks of private asset investments. Domestic asset managers should ensure that the key return drivers, critical assumptions, and principal risks identified during pre-investment due diligence form the foundation of the ongoing monitoring program, and should seek to understand not only reported metrics but also the factors underlying them. Monitoring should focus not merely on reported metrics or manager commentary, but on understanding:

- the assumptions supporting key portfolio KPIs;
- the macroeconomic and sector-specific factors that could alter those assumptions; and
- the potential impact through which changes in those assumptions could affect the fund.

At the same time, there are practical limitations on the extent to which domestic asset managers can intervene in the day-to-day investment decisions of delegated asset managers. Accordingly, the primary objective of ongoing monitoring should not be ex-ante involvement in individual investment decisions. Rather, monitoring should seek to identify material risks, assess consistency with stated investment policies, assess the

level of investor disclosures, evaluate the continued viability of the product, and, where necessary, encourage appropriate improvement.

7. Developing Valuation and Audit Infrastructure to Support the Private Asset

Market

7.1. Background and Challenges

Unlike public assets, for which market prices exist, the calculated values of private assets can vary depending on valuation models and input data. As a result, in audits of investment trusts that include such assets, the domestic asset manager's valuation control framework and its information sharing with delegated asset managers have become important operational considerations. The Subcommittee invited an expert from an external audit firm to speak on "The Auditor's Perspective on Investment Trusts That Include Private Assets," and discussed the challenges of standardizing and streamlining the audit process.

During the presentation, it was explained that domestic asset managers are required to appropriately understand the risks and characteristics of their investments and to establish management and valuation processes commensurate with the valuation complexity of each asset class and the scope of external delegation. For direct investments, they are required to determine valuation policies, valuation models, and inputs based on information obtained through pre-investment due diligence and ongoing post-investment monitoring, and to continuously review their appropriateness. For fund-of-funds structures, it is important to examine the product design of the underlying funds, the oversight of service providers such as administrators, performance, and other factors, and to confirm that such service providers are performing their duties appropriately. In this case, because it is difficult to continuously check the valuation models and inputs used for every holding of the underlying funds, it was also suggested that a practical approach would be to set reporting criteria for events such as sharp changes in NAV or deterioration in the credit quality of underlying investments, and to conduct additional verification when material events occur.

It was also explained that, in light of the uncertainty, complexity, and subjectivity involved in valuation, the procedures performed by auditors consist of understanding the domestic asset manager's risk assessment, confirming that its valuation processes and internal controls are appropriately designed and operating effectively, and then verifying the reasonableness of valuation models and key inputs. Accordingly, the nature and depth of audit procedures vary depending on the valuation risk of the investments and the domestic asset manager's control framework, and it was noted that, for auditors to proceed smoothly, it is important for domestic asset managers to clarify their valuation processes and the basis for their judgments and to have a framework in place that allows them to explain these fully to auditors.

7.2. Recommendations

(1) Establishing Minimum Standards for Valuation and Audit Processes

To foster an environment in which investment trusts investing in private assets can be developed smoothly, minimum standards should be established for valuation and audit processes that enable robust risk verification while ensuring practical operational feasibility.

For direct investments, consideration should be given to organizing common principles regarding valuation models generally used for each asset class in light of their characteristics, the criteria for selecting such models, and the key inputs used in valuations. In addition, minimum standards could be developed with respect to the monitoring items to be confirmed by domestic asset managers, as well as the governance frameworks and processes for valuation review, validation, and approval.

For fund-of-funds structures, consideration should also be given to establishing minimum standards covering matters that domestic asset managers should assess at the product structuring stage, including the product design of underlying funds, fair value policies, and the oversight of delegated service providers. In addition, where material events arise after product launch, such as significant fluctuations in NAV or deterioration in the credit quality of underlying investments, minimum standards could be established for conducting additional information gathering and verification. Such an approach is expected to facilitate the development of a common understanding among domestic asset managers, asset managers of underlying funds, and auditors regarding the appropriate scope and depth of verification, without requiring the uniform collection of valuation models and input data for every underlying holding in the underlying funds.

In promoting the development of investment trusts investing in private assets, it is important to organize common principles and standards that allow the scope and depth of verification to be calibrated according to the level of valuation risk, thereby achieving an appropriate balance between rationalizing operational burdens and establishing a robust risk verification framework.

Conclusion

The discussions focused on the regulatory and operational challenges to promoting new investment opportunities, including private assets, with a view to expanding households' asset building options and channeling those funds into Japan's sustainable growth. These discussions confirmed the importance of advancing, in tandem, both improved access to products and the development of infrastructure that supports the entire product lifecycle, including product development, distribution, and monitoring. Going forward, it will be necessary to continue developing products and building a track record under existing frameworks, while assessing the potential for a new framework to promote the supply of long-term capital to domestic private assets. In addition, industry-wide common standards and market practices need to be developed for the

secondary market, operational and system infrastructure, due diligence, valuation, and audits. Achieving these objectives will require regulatory authorities, industry associations, and market participants to engage in ongoing dialogue and to refine frameworks and practices in light of changes in the market environment and operational experience.

Fostering an environment in which investors fully understand the characteristics and risks of products and can make informed choices with confidence is expected to create a virtuous cycle between medium- to long-term household asset building and the supply of capital to growth sectors. The Subcommittee hopes that these recommendations will contribute to the creation of diverse, high-quality investment opportunities and to the sustainable development of Japan's asset management market.

Subcommittee 4: Digital Transformation (DX)

Transforming Asset Management Industry in the AI Era: Recommendations for Rebuilding Competitiveness Through a Next-Generation Target Operating Model

Part 1: Summary of Recommendations

1. Introduction

Following its inaugural year in 2025, the Digital Transformation Subcommittee (the “Subcommittee”) entered its second year of activity in 2026. The leadership team comprised State Street Trust and Banking Co., Ltd., BlackRock Japan Co., Ltd., Sumitomo Mitsui Trust Asset Management Co., Ltd., and Mitsubishi UFJ Asset Management Co., Ltd. The Subcommittee held discussions around three themes.

The first theme was the design and proposal of a Target Operating Model (“TOM”)¹ as a business foundation that enables asset managers to concentrate resources on investment activities and strengthen their profitability. With a focus on shifting resources toward investment management and redefining the respective roles of asset managers and asset servicers, the Subcommittee considered the specific designs of TOMs, including the transfer and consolidation of investment operations, the benefits of implementation, and the challenges associated with transition.

The second theme was the transformation of the investment management business through AI. Through discussions on approaches to AI adoption, the sharing of practical examples, and collaboration among industry, government and academia, the Subcommittee considered how to promote responsible AI adoption and strengthen implementation capabilities across the industry.

The third theme was the extension of TOMs to private assets and the impact of tokenization on future TOMs. In addition to challenges relating to data acquisition, valuation, cash-flow management and reporting, the Subcommittee considered the potential implications of digital assets and the modernization of financial markets infrastructure.

Through these discussions, the Subcommittee developed the following assessment of the industry landscape and formulated two recommendations:

- The need to review established frameworks and practices is becoming increasingly evident, while investor needs continue to diversify and grow more sophisticated. At the same time, policy support for strengthening the asset management industry, advances in AI and data technologies, and the

¹ Target Operating Model (“TOM”): A future-state operating model that defines which activities are performed by the asset manager, which are entrusted to asset servicers or other service providers, and how data and technology are used to deliver an efficient and competitive business model. In essence, it represents the blueprint for the industry's future operating structure.

transformation of financial market infrastructure are creating an opportunity to redesign the industry's future business foundations. Against this backdrop of challenges and opportunities, business foundations built around legacy business models, including their processes, organizations, people, technology and data, are beginning to show their limitations.

- Asset managers must therefore allocate management resources more effectively to initiatives that support sustainable growth and enhanced global competitiveness, while redesigning their TOMs as new business foundations capable of supporting future management strategies.
- Achieving this transformation will require commitment from the senior management of asset managers, collaboration with asset servicers including trust banks, long-term support from financial groups, and policy and regulatory support from government and relevant authorities. Transformation must be pursued across the asset management ecosystem as a whole.

2. Industry Landscape

Structural fatigue in established frameworks and practices, together with the diversification and growing sophistication of investor needs, are increasing the need to reconsider the existing business foundations of the asset management industry. At the same time, policy support, advances in technology, and the transformation of financial market infrastructure are creating opportunities to address these challenges and build future competitiveness.

This section first examines the structural challenges facing the asset management industry and then considers the changes in the external environment that are enabling the industry to respond to those challenges.

Structural Challenges Facing the Asset Management Industry

(1) Structural Fatigue in Established Frameworks and Practices

Japan's asset management operations have developed with a strong emphasis on accurate accounting and robust operational processes. However, there is scope to reconsider the allocation of responsibilities and multilayered verification processes that have evolved under these frameworks and practices, considering today's market environment and technological capabilities.

In particular, operating models centered on accounting data, under which asset managers also perform calculations, reconciliations and verification, have contributed to maintaining operational quality. At the same time, as investment activities become more global and multi-asset in nature, private markets expand, and expectations for faster information delivery increase, these models may require investment professionals to perform additional verification and duplicative activities. As a result, highly skilled professionals who should be focused on investment performance, product development,

risk management and client solutions continue to devote time to investment operations.

Domestic cash management, investment guideline monitoring, trade and accounting instructions, accounting reconciliation, reporting and other activities should be reconsidered without assuming that the current allocation of responsibilities must remain unchanged. For each activity, it is necessary to reassess its purpose, the data it requires, the parties responsible for decision-making, processing and verification, and the allocation of accountability.

A clear distinction should be established between front-office data, which captures investment activity, and accounting data used for accounting and statutory reporting. Establishing an appropriate allocation of responsibilities and effective data connectivity between asset managers and asset servicers will be a prerequisite for the transition to next-generation TOMs.

(2) More Diverse and Sophisticated Investor Needs

As the investor base broadens and investment objectives become more diverse, asset managers are increasingly expected to move beyond the provision of stand-alone products and deliver solutions tailored to each investor's risk tolerance, liability profile, liquidity constraints and investment horizon.

Expectations are also increasing for portfolio solutions that combine public and private assets, together with information that is timely, transparent and easy for investors to understand.

To support a diverse range of products and services, including domestic investment trusts, investment advisory mandates and offshore funds, asset managers will need business foundations that allow common data and capabilities to be reused, rather than adding separate processes for each product or client.

An asset manager's competitiveness will increasingly depend not only on investment performance, but also on its ability to enhance client value through risk transparency, effective communication and responsiveness.

Changes Enabling Industry Transformation

(3) Policy Tailwinds for Strengthening the Asset Management Industry

The initiative to promote Japan as a "Leading Asset Management Center" has positioned the enhancement and competitiveness of the asset management industry as an industry-wide priority, rather than merely a management issue for individual firms.

Increased focus on the efficiency and rationalization of middle- and back-office operations provides an opportunity to reconsider long-established frameworks and practices, reaffirm the functions on which asset managers should primarily focus, and reassess the respective roles of investment management and investment operations.

Individual initiatives by separate firms will not be sufficient to convert these policy tailwinds into actual transformation. Asset managers, asset servicers, financial groups,

industry associations, government and regulatory authorities must develop a shared understanding of the intended direction and the challenges to be addressed.

Implementation should proceed progressively across regulation, contracts, data, systems and people. While respecting the diversity and business strategies of individual firms, the industry should promote standardization and collaboration in areas where competition is not essential.

(4) Technology-Driven Disruption

Advances in digital technologies, including generative AI, are changing the competitive conditions of the asset management industry. Activities that have traditionally depended heavily on experience and specialist knowledge, including information gathering, analysis, document production, reconciliation and inquiry handling, increasingly offer opportunities for AI-enabled support and automation.

Competitive advantage will increasingly depend not simply on whether a firm has adopted AI, but on how effectively it embeds AI into business processes, decision-making and client service, and whether it can translate that adoption into sustained value creation.

At the same time, successful AI adoption requires more than automating existing activities without changing the underlying operating model. Firms must reconsider the purpose of each process, the allocation of responsibilities, data flows, and the respective roles of people and AI.

The quality and reliability of AI outputs also depend on the quality of the underlying data and the conditions under which that data may be used. Establishing data-driven management is therefore an important management priority. AI governance, data governance, cyber-risk management and appropriate human validation must be developed and operated as an integrated framework to achieve both utility and reliability.

(5) Transformation of Financial Market Infrastructure

Financial markets are being reshaped by shorter settlement cycles, increasing transaction volumes, the globalization of trading activities, and more advanced settlement and transfer-of-rights mechanisms using blockchain and other technologies.

These developments require greater speed, stronger data consistency and more effective exception management across front-, middle- and back-office functions.

In particular, shorter settlement cycles are changing more than the required processing speed of existing activities. They are changing the assumptions on which asset management processes have traditionally been designed.

Historically, trades could be booked into accounting systems following executions and reconciliations, with settlement and downstream processes then performed using the resulting accounting information. As settlement cycles shorten, firms may increasingly need to take settlement actions and make related decisions before the finalized

accounting data becomes available.

As a result, operating models that rely solely on accounting data finalized after the event may find it increasingly difficult to respond promptly to market developments or provide information when it is required for investment decisions, cash management and investment guideline monitoring.

Going forward, business processes, data management, responsibility allocation and controls must be redesigned as an integrated whole, using data that captures investment activity on a timely basis as the starting point.

The expansion of private markets and the development of tokenization are also increasing the diversity of investable assets, transaction structures, settlement methods and data models.

Asset managers will require flexible and scalable TOMs that allow them to maintain a consistent view of the overall portfolio and connect information across investment management, risk, accounting and client reporting, even as traditional market infrastructure and new digital mechanisms coexist.

3. Recommendations Based on the Industry Landscape

Taken together, these developments point to two priorities for the asset management industry.

First, the industry must reconsider the allocation of responsibilities between investment management and investment operations, which remains rooted in established frameworks and practices, and redirect management resources toward higher-value activities.

Second, the industry must incorporate developments in AI, data and financial market infrastructure into its future business foundations in order to support future growth.

From this perspective, the Subcommittee makes the following two recommendations.

Recommendation 1: Strengthen Competitiveness by Redefining Investment Management and Investment Operations

To enhance their competitiveness on a sustainable basis, asset managers must concentrate limited management resources on higher-value activities, including investment performance, product and solution development, risk management and client solutions.

The Subcommittee therefore recommends reconsidering the current allocation of responsibilities, under which investment professionals may perform a broad range of accounting, booking, reconciliation and routine reporting activities, and redefining investment management and investment operations according to their respective purposes and responsibilities.

Redefinition does not mean transferring activities currently performed by asset

managers to asset servicers without changing the activities themselves.

In light of changes in market infrastructure, investor needs and the data environment, each activity should be reconsidered in terms of its purpose, the data it uses, the parties responsible for decisions, processing and verification, and the controls that should apply. The operating models of both asset managers and asset servicers should then be redesigned accordingly.

Asset managers should be responsible for the quality, timeliness and use of the front-office data required for investment decision-making and risk management.

For accounting data used in accounting and statutory reporting, asset servicers should take primary responsibility for managing accounting data and making accurate information available on a timely basis.

Clarifying this allocation of responsibilities would reduce duplicative data generation, reconciliation and verification, lessen the operational burden on investment professionals, and improve both operational quality and transparency.

Priority areas should include domestic cash management, investment guideline monitoring, trade and accounting instructions, accounting reconciliation and client reporting. For each of these areas, firms should reassess the business purpose, required data, responsible parties and control framework.

Cash management and investment guideline monitoring should not rely solely on processes that wait for accounting data to be finalized. They should be redesigned to use data that captures investment activity on a timely basis, with clear decision points, responsibility allocation and procedures for handling exceptions.

Asset servicers are expected to offer multiple service models reflecting the needs of different asset managers and to expand the scope and sophistication of the operations and information services they provide, without assuming that their traditional service boundaries must remain unchanged.

For these expanded roles to be sustainable, however, asset managers and asset servicers must develop service models that are viable for both parties. These models must take account of necessary systems investment, people and expertise, risk-bearing capacity, controls, cost allocation and appropriate service fees.

Activities that asset managers regard as non-competitive and suitable for standardization may nevertheless remain areas of differentiation and competition for asset servicers. The industry should therefore seek to combine standardization where appropriate with continued competition among service providers.

A single-party NAV calculation model should not be treated as the objective of reform in itself. Instead, it should be regarded as one possible outcome of reducing duplicative calculation, reconciliation and verification and redefining the roles of asset managers and asset servicers.

Depending on each firm's TOM, product range, client base, servicing arrangements and systems environment, firms should be able to follow multiple transition paths toward the same underlying objectives. These may include retaining a dual-party NAV

calculation model while consolidating investment operations and downstream activities or transitioning to a single-party NAV calculation model.

Implementation should not require every firm to adopt a uniform model. Transition paths should reflect each firm's business strategy, product range, client base and systems environment.

At the same time, greater industry standardization in non-competitive areas, including data elements, connectivity specifications and basic responsibility allocation, would reduce firm-specific solutions, transformation costs and operational risk.

Senior management should position TOM reform not simply as a cost-reduction initiative, but as a medium- to long-term management transformation designed to enhance profitability and client value.

Recommendation 2: Strengthen Competitiveness Through AI and Data and Respond to the New Market Environment

The ability to use AI and data is not merely a means of improving operational efficiency. It is an important organizational capability that can enhance investment research and decision-making, risk management, product and solution development, client service and operations, thereby strengthening the overall investment capabilities and competitiveness of asset managers.

The Subcommittee recommends pursuing AI and data strategies together with the redesign of next-generation TOMs in order to establish data-driven business operations and management decision-making.

Firms should clearly determine where AI will be embedded, the responsibilities and controls under which it will be used, and how business processes, data, people and governance should be redesigned as an integrated whole.

For the data foundations supporting AI, firms should clearly define where the data resides, the purposes for which it is used, applicable definitions and quality standards, responsible parties and access rights.

They should establish an environment in which data, once prepared, can be reused across multiple activities. Data held by asset managers and asset servicers should be connected appropriately, with front-office data and accounting data used according to their respective purposes, while enabling timely access to required information.

This would improve the accuracy of AI-enabled analysis and operational support and enhance the quality of both decision-making and client communication.

As the use of AI expands, firms should establish risk-based governance proportionate to the purpose of each use case and its potential impact on clients.

Human accountability should remain the fundamental principle. Approval of AI use, management of input data, validation of outputs, record keeping, continuous monitoring and cybersecurity should be operated as an integrated framework.

At the industry level, responsible AI adoption should be accelerated through three

complementary approaches: establishing practical principles, learning from one another, and developing solutions collaboratively. The industry should share practical approaches, leading examples and knowledge relating to talent development, security and other common challenges.

The expansion of private markets and changes in financial market infrastructure, including tokenization, should also be incorporated into the design requirements of next-generation TOMs.

GPs, asset managers, asset servicers and investors should develop a collective understanding of relevant data elements, definitions, quality requirements, reporting frequency and responsibility allocation, and establish mechanisms that connect information consistently across valuation, cash-flow management, risk management, accounting and client reporting.

Tokenization should be considered not only in terms of the potential of individual products, but also from the broader perspective of modernizing market infrastructure, including settlement, collateral, rights administration, accounting and information flows, and assessing the resulting implications for TOMs.

Delivering the Recommendations

To ensure that reform produces meaningful outcomes, success should not be measured solely through cost reductions.

Assessment should also consider the amount of time investment professionals can devote to higher-value activities, the timeliness of data delivery, reductions in exception handling and reconciliation, the responsiveness of client service, and the effectiveness of controls.

Firms should evaluate both short-term efficiency improvements and medium- to long-term growth capacity and establish mechanisms for applying the lessons learned to subsequent areas of implementation.

TOM reform cannot be completed through changes to processes and systems alone.

Firms must define the roles and expertise required under the new allocation of responsibilities and develop people capable of leading transformation across investment management, operations, data, technology and risk management.

Reform should proceed progressively through continued dialogue among relevant stakeholders, while maintaining business continuity and effective controls during the transition and confirming both implementation feasibility and the value delivered to investors.

The two recommendations are closely interconnected.

Redefining the respective roles of investment management and investment operations will clarify data responsibilities and business processes, creating the foundation required for effective AI adoption.

At the same time, AI and data adoption, together with the modernization of financial

market infrastructure, can do more than improve the efficiency of investment operations. They can enhance investment decision-making, risk management and client service and create the capacity to develop new products and solutions.

The purpose of these recommendations is not simply to reduce headcount or automate existing activities.

The objective is to enable asset managers to concentrate management resources on value-creating activities that are their differentiators, while allowing asset servicers to apply their expertise and economies of scale to deliver more sophisticated services. In doing so, the industry can enhance the value delivered to investors and strengthen the global competitiveness of Japan's asset management industry as a whole.

Nor is the objective of this reform to replicate overseas operating models mechanically.

The current period of significant change in AI, data and financial market infrastructure should instead be treated as an opportunity for Japan's asset management and asset servicing industries to build new TOMs capable of competing in future global markets.

Senior management of asset managers, asset servicers, financial groups, government and regulatory authorities should work together toward a shared direction. Reform should proceed progressively through an assessment of the current state, definition of the TOM, implementation in priority areas, and evaluation of outcomes.

Part 2: Detailed Discussion

The following sections provide the background to the two recommendations and discuss considerations for implementation by examining three themes: (1) the redesign of the TOMs, (2) the transformation of the investment management business through AI, and (3) responses to private assets and tokenization.

1. Designing a TOM to Strengthen Profitability Through Resource Concentration on Investment Activities

The objective is to move away from operating models centered on accounting processes and accounting data that becomes available only after transactions have been completed, and toward operating models that make timely use of the data required for investment decision-making and client value creation, while appropriately connecting front-office data and accounting data according to their respective purposes.

(1) Positioning TOM as a Management Issue

A TOM is not merely a description of workflows or system architecture. It is the business foundation through which a firm translates its future strategy into an integrated design for clients, products, organization, people, processes, data, technology, outsourcing and governance.

Accordingly, firms should not focus only on incremental efficiency improvements built upon existing processes and systems. Instead, they should begin with their future business strategy, including the types of clients they aim to serve, the products and services they intend to provide, and the value they seek to create, and then design the capabilities and operating model required to deliver that strategy.

The redesign of a TOM should therefore be treated not as a departmental efficiency initiative, but as a firm-wide transformation led by senior management.

(2) Redefining Investment Management and Investment Operations

Asset managers should clearly identify investment performance, product and solution development, risk management, and client advisory activities as areas of competitive differentiation and concentrate management resources accordingly.

At the same time, they should reassess whether investment professionals need to continue performing accounting processes, booking, reconciliation activities, and routine reporting tasks directly, and should reconsider how responsibilities are allocated between asset managers and asset servicers.

This reassessment does not imply a simple transfer of activities from asset managers to asset servicers. Rather, each activity should be reviewed in terms of its purpose, required data, decision-making authority, processing responsibility, verification responsibility, and procedures for handling exceptions.

Even when the operational responsibilities assumed by asset servicers expand, asset managers remain responsible for investment decisions, the selection and oversight of service providers, and the maintenance of appropriate internal controls.

The objective is not for both parties to perform the same activities repeatedly. Instead, responsibilities should be clearly allocated so that effective and efficient controls can be established across the overall operating model.

A similar distinction should be applied to the use of front-office data and accounting data.

Front-office data, which is used for investment decision-making and risk management, and accounting data, which supports accounting processes and statutory reporting, serve different purposes and therefore require different accountability structures.

Asset managers should be responsible for the quality and effective use of the front-office data required to manage portfolios and risks. Asset servicers, by contrast, should function as the primary managers of accounting data and should be responsible for delivering accurate and timely accounting information.

By clarifying these responsibilities and connecting both datasets according to their intended purposes, firms can reduce duplicative data generation, reconciliation, and verification while maintaining both operational quality and effective controls.

(3) Asset-Servicer-Led Service Models

Standardization does not imply that all asset managers should adopt a single operating model.

Instead, the industry should identify the areas in which standardization would improve overall efficiency, including common data elements, connectivity specifications, and baseline responsibility allocation. Asset servicers should then design and offer multiple service models tailored to the needs of different asset managers. These models may combine trade and settlement instruction intake, accounting services, data management, and information delivery through multiple combinations while remaining aligned with each firm's TOM.

At the same time, areas that may be considered appropriate for standardization from the perspective of asset managers may still represent areas of differentiation and competitive advantage for asset servicers. Consequently, the industry should not seek a single service model. Rather, it should distinguish carefully between areas suitable for standardization and areas in which service providers should continue to compete. Multiple service models should therefore coexist and evolve through competition.

Furthermore, any expansion of responsibilities undertaken by asset servicers must be sustainable. This requires consideration not only of the services desired by asset managers, but also of the systems investment, people, expertise, operational risk, controls, cost allocation, and appropriate service fees needed to support those services. Knowledge currently residing within asset managers should also be considered during transition planning. Transformation is unlikely to succeed through simple activity transfer alone and may require the migration of human resources, expertise, and processes as part of the broader operating-model redesign.

One area often discussed in this context is the move from a dual-party NAV calculation model to a single-party NAV calculation model. However, a single-party NAV calculation model should not be viewed as the objective of reform in itself. Instead, it should be regarded as one potential outcome of reducing duplicative calculations, reconciliations, and verification activities and redefining responsibilities across the industry. Different firms will have different TOMs, product structures, client bases, servicing arrangements, and systems environments. A realistic reform agenda should therefore recognize multiple transition paths, including retaining a dual-party NAV calculation model while consolidating investment operations and downstream activities, and migrating toward single-party NAV models where appropriate.

(4) Priority Areas for Implementation

The transition to a next-generation TOM should not be viewed solely as a transfer of investment operations. Several operational domains should be treated as strategic implementation priorities and addressed in parallel with broader TOM transformation efforts. These include cash management, investment guideline monitoring, trade

processing, accounting operations, and reporting.

Domestic Cash Management

Shorter settlement cycles are changing the requirements for domestic cash management. Asset managers should review existing approaches to managing temporary funding shortfalls and timing differences between inflows and outflows.

More importantly, firms should establish mechanisms that provide the information required for cash-management decisions on a timely basis, without relying exclusively on finalized accounting records.

Investment Guideline Monitoring

Investment guideline monitoring should evolve beyond reliance on post-accounting data.

Firms should use timely operational and investment data to support compliance monitoring and should reassess the data inputs, timing of testing, accountability structures, and procedures used to address breaches and exceptions.

Trade Processing and Accounting

Trade processing and accounting activities remain characterized by firm-specific interfaces, duplicated data entry, and multiple layers of reconciliation.

Where practical, the industry should standardize data specifications and simplify information flows in order to reduce operational complexity, eliminate unnecessary duplication, and improve scalability.

Reporting

Reporting should be redesigned from the perspective of investor value rather than solely accounting consistency.

The objective should be to provide information that helps investors understand portfolio activity, risk exposures, and investment outcomes, and to support more informed decision-making.

Sustainable Implementation

Successful implementation will depend on a balanced assessment of both costs and benefits.

Transformation costs will include systems investment, human resources, migration activities, operational controls, and organizational change. Benefits may include improved efficiency, lower operational risk, more timely access to information, and a greater ability to redirect investment professionals toward higher-value activities.

Implementation models should therefore be designed to remain economically and

operationally sustainable for both asset managers and asset servicers.

(5) Phased Implementation

The transformation envisioned in this paper should be implemented progressively rather than through a single large-scale transition.

A practical implementation roadmap can be organized into four phases.

Phase 1: Current-State Assessment

Firms should first develop a clear understanding of their current operating model by identifying competitive activities, investment operations, data dependencies, responsibility allocation, cost drivers, and operational risks.

This assessment provides the baseline from which a future-state TOM can be designed.

Phase 2: Target-State Design

The next step is to define a future-state TOM aligned with each firm's business strategy.

This includes determining the appropriate allocation of responsibilities between asset managers and asset servicers and establishing the desired operating model.

Phase 3: Priority Implementation

Organizations should then select priority areas for implementation, such as cash management, investment guideline monitoring, trade processing, accounting operations, and reporting.

The focus should be on delivering practical improvements.

Phase 4: Validation and Expansion

The final phase involves evaluating outcomes and improvements in operational quality, client value, cost efficiency, and operational risk management and progressively expanding implementation into other parts of the operating model.

It is important to emphasize that this recommendation presents a common direction of travel rather than a prescriptive implementation blueprint. The sequence, scope, and pace of transformation will differ across organizations depending on their business strategies, operating environments, and strategic priorities. Asset managers, asset servicers, financial groups, and other stakeholders should therefore pursue transformation through ongoing dialogue and collaboration rather than through a uniform industry-wide approach.

2. Transforming the Investment Business Through AI

The ability to leverage AI and data has become a critical foundation for enhancing

investment capabilities and competitiveness across the asset management industry and supporting next-generation TOMs.

AI should not be viewed merely as a tool for improving operational efficiency. Rather, it has the potential to enhance investment research, decision-making, risk management, product and solution development, client engagement, and operational effectiveness.

At the same time, the success of AI adoption will depend not only on the performance of AI models themselves, but also on the quality of underlying data, the ability to integrate AI into business processes, and the governance structures that support responsible use.

The industry should therefore focus not only on introducing AI into existing activities, but on redesigning business processes, operating models and decision-making frameworks to fully realize its value.

(1) AI as a Competitive Imperative

Investor needs are becoming more complex, products and services are becoming more sophisticated, and expectations for timely information and decision-making continue to increase.

At the same time, the industry faces increasing constraints on the availability of skilled professionals.

In this environment, asset managers should not limit AI adoption to automating repetitive tasks. Instead, they should integrate AI into investment research, risk management, product and solution development, client engagement, and operational processes as a core competitive capability.

However, successful implementation requires more than simply replacing existing activities with AI.

Organizations must reconsider:

- the objective of each activity;
- the process by which it is performed;
- the data required;
- the allocation of responsibilities between people and AI; and
- the framework for decision-making, validation and accountability.

AI adoption is not an end in itself. Firms should begin by defining the business or client problem to be addressed and the value to be created.

(2) The Three Pillars of an Industry AI Strategy

The Subcommittee proposes an AI strategy built around three mutually reinforcing pillars:

Establishing Practical Principles

The asset management industry should develop practical, risk-based guidance for the use of AI that reflects the specific characteristics and challenges of investment

management.

Such guidance should build upon existing laws, regulations and industry standards while providing practical support for internal decision-making, governance design and stakeholder communication.

Rather than imposing a single set of controls on all organizations, firms should be able to determine the appropriate level of governance based on the purpose and risk profile of each use case.

Learning from One Another

The industry should continue to share implementation experiences, governance approaches, lessons learned and realized benefits through forums, case-study sessions and collaborative initiatives.

Because AI technologies and use cases evolve rapidly, industry participants should not view guidance as static. Ongoing knowledge-sharing will be essential to refining practical approaches and accelerating industry-wide adoption.

Building Together

Certain challenges are difficult or inefficient for firms to address individually.

Examples include:

- AI talent development;
- cybersecurity;
- fraud and misuse prevention; and
- common industry infrastructure.

Collaboration among industry participants, regulators, technology providers and academic institutions should be promoted in these non-competitive areas. Working groups, joint research and pilot initiatives should be used where appropriate to strengthen AI implementation capabilities across the industry.

(3) Data-Driven Management and an Integrated TOM Strategy

The effectiveness and scalability of AI are fundamentally dependent on data quality, timeliness, completeness and accessibility.

Data management should therefore not be treated merely as a technology issue. Instead, it should be recognized as a business foundation that supports both business strategy and AI adoption.

Organizations should establish clear accountability for:

- where critical data resides;
- business purpose;
- definitions;
- quality standards;
- access rights; and

- ongoing stewardship.

Simply adding AI capabilities to existing operating models will not deliver maximum value if fragmented data structures and duplicated processes remain in place. For this reason, TOM redesign and AI and data strategy should be pursued together.

Front-office data used for investment decisions and risk management, and accounting data used for accounting and statutory reporting, should be connected according to their respective purposes and responsibilities.

A well-designed data architecture will allow organizations to maintain appropriate accountability while enabling seamless information flows across the enterprise.

Organizations should also seek to ensure that data, once created and maintained, can be reused across multiple functions rather than being limited to a single process or system.

Investment research, risk management, product development, client engagement, reporting and AI applications should all be able to leverage the same trusted data foundation under appropriate access controls.

Such a reliable and reusable data foundation is essential to translating AI adoption into sustainable value creation.

(4) Responsible AI Adoption

The expansion of AI usage should not be managed through blanket restrictions.

Instead, organizations should adopt a risk-based approach that considers factors such as:

- intended use;
- impact on clients;
- involvement in investment decisions;
- sensitivity of input data; and
- model complexity.

Human accountability should remain a core principle.

Depending on the risk profile of a use case, organizations should establish controls covering:

- approval of AI usage;
- management of data entry;
- validation of outputs;
- record keeping;
- ongoing monitoring; and
- client communication where appropriate.

From an organizational perspective, firms should establish clear business objectives for AI adoption, identify priority use cases, and create cross-functional governance structures. Clarity should also be established around where critical data resides, the purposes for which it is used, applicable definitions and quality standards, responsible

parties and access rights.

At the same time, AI-related risks should not be managed in isolation.

Data governance, cybersecurity, third-party technology dependencies and AI governance should be treated as part of a unified risk-management framework supported by continuous monitoring and improvement.

Responsible AI adoption should not be interpreted as limiting AI usage.

Rather, it means using AI proactively but responsibly, with clear business objectives and appropriate governance while continuously evaluating its benefits and risks and making necessary improvements to support sustainable value creation.

(5) Phased Implementation

Organizations should begin by defining the business objectives they seek to achieve and identifying the challenges they are attempting to address.

Based on these objectives, firms should prioritize a set of AI use cases where meaningful value creation is expected.

Implementation should proceed initially through limited pilots and proof-of-concept initiatives.

Evaluation should consider not only anticipated benefits but also:

- data quality;
- output validity;
- effects on business processes;
- client impacts;
- associated risks; and
- required control frameworks.

Insights gained through these pilot initiatives should be used to refine business processes, clarify the allocation of responsibilities between people and AI, strengthen supporting data foundations, and enhance governance arrangements before broader deployment.

Organizations can then expand implementation progressively across additional functions and user groups.

Even after deployment, firms should continue to monitor:

- output quality;
- usage patterns;
- realized benefits;
- risk exposure; and
- control effectiveness,

while adapting continuously to technological advances and evolving business environments.

In addition to firm-specific initiatives, the industry should continue to accumulate knowledge through case sharing, working groups, collaborative research and pilot

programs in areas where challenges are common across organizations.

In this way, lessons learned by individual firms can contribute to strengthening AI implementation capabilities across the industry as a whole.

3. Extending TOMs to Private Assets and Assessing the Impact of Tokenization

The continued growth of private markets will require more than the expansion of investment products. It will require the modernization of market operating models, including data management, information flows, role allocation, valuation processes, and reporting frameworks.

Similarly, the digitization of market infrastructure through tokenization should not be viewed solely as the digitization of individual investment products. Its implications extend to transaction processing, settlement, rights administration, information flows, and the broader design of future Target Operating Models (TOMs).

(1) Operational Challenges Emerging in Private Assets

Private assets highlight a number of operational and data-management challenges that become increasingly difficult to address through traditional operating models.

Data Acquisition and Information Flows

The information provided by General Partners (GPs) often differs significantly in terms of content, update frequency, data granularity, and delivery format.

As a result, asset managers frequently bear a substantial burden in collecting, consolidating, validating, and transforming information obtained from multiple sources.

Similar challenges arise in areas such as:

- look-through reporting;
- ESG disclosures; and
- risk monitoring,

all of which often require firm-specific processing and manual intervention.

Cash Flow Management

Private market investments introduce additional operational complexity through commitments, capital calls, distributions, foreign exchange exposures, liquidity requirements, and fund-of-funds structures.

Managing these activities effectively requires a sophisticated approach to cash-flow forecasting and liquidity management.

Valuation and Reporting

Valuation and reporting processes face additional challenges because valuation dates and data availability are often not aligned.

Consequently, fair-value assessments, risk monitoring, and investor reporting

frequently rely on manual judgment and operational workarounds.

Furthermore, the responsibilities of GPs, administrators, trust banks, and asset managers are often inconsistent across investment structures, resulting in duplicative efforts to obtain, process and verify the same information.

As private markets continue to expand, operating models based on repeated firm-specific adaptations are likely to become increasingly difficult to sustain.

A redesign of TOMs encompassing data flows, business processes, and responsibility allocation will therefore be required.

(2) Extending TOMs to Private Assets

Many domestic asset managers currently perform a gatekeeper role, collecting information from domestic and foreign GPs, validating it, and transforming it into formats suitable for different business purposes.

As markets and products become more diverse, reliance on such firm-specific processing becomes an increasing operational constraint.

Private assets should therefore not be treated as exceptions that are added onto an existing TOM.

Instead, they should be incorporated into TOM design as a core requirement for managing integrated portfolios that include both public and private assets.

Building a Common Industry Foundation

As a first step, firms should identify where information is currently acquired, transformed and validated across processes such as:

- data collection;
- look-through reporting;
- valuation;
- cash-flow management; and
- investor reporting.

This analysis should also identify areas of duplication and inefficient firm-specific processing.

Based on this assessment, market participants should develop a mutual understanding regarding:

- minimum required data elements;
- data definitions;
- quality standards;
- reporting frequency; and
- responsibility allocation.

These foundations will be necessary if information is to be shared and reused efficiently across the market.

A Phased Development Roadmap

Transformation is likely to be most effective when pursued through a phased approach.

Near-Term Priorities

The industry should focus on defining:

- minimum data requirements;
- practical information-sharing standards;
- look-through requirements for different use cases; and
- reporting best practices.

Medium-Term Priorities

The industry should improve integrated cash-flow management across commitments, capital calls, distributions, liquidity management, and foreign exchange.

At the same time, data standardization and data reuse should be leveraged to improve operational efficiency and reduce reporting burdens.

Long-Term Priorities

The industry should consider a broader redesign of market infrastructure, including the respective responsibilities of:

- GPs;
- Administrators;
- asset managers;
- asset servicers; and
- investors.

This should ultimately support improvements in valuation frameworks, information disclosure, data distribution, and overall market transparency.

Data Reuse Across Functions

Once data has been acquired and standardized, it should not be restricted to a single process or reporting requirement.

Instead, appropriately governed data should be reusable across:

- investment management;
- risk management;
- accounting;
- client reporting; and
- related activities.

Improving transparency, timeliness and reusability of information will be a crucial step toward strengthening the private market investment environment and market infrastructure.

(3) Impact of Tokenization and Digital Assets on TOMs

Discussion of digital assets can be separated into two distinct areas.

The first concerns digital assets as investment instruments and products, with the potential to expand investment opportunities and improve market access.

The second concerns the digitization of market infrastructure, which could enhance functions across the financial market, including settlement, collateral management, transfer of rights, data distribution, and other activities.

Tokenization as an Operating Model Issue

Tokenization is more than a change in how assets are represented.

It has the potential to redesign operating processes and information flows across the entire investment lifecycle, including:

- trading;
- settlement;
- rights administration;
- accounting; and
- reporting.

As a result, the implications of tokenization should be evaluated across product development, front-office activities, operations, risk management, legal and compliance functions, and asset servicing.

Tokenization Does Not Automatically Solve Data Problems

Tokenization should not be viewed as a solution that automatically creates missing data or resolves long-standing challenges relating to data quality, transparency, and disclosure in private markets.

If data definitions, quality standards, ownership rights, accountability and information-sharing processes remain unclear, tokenization may simply reproduce existing problems in digital form.

For this reason, tokenization and broader efforts to improve data standardization and information distribution should be viewed as related but distinct transformation initiatives.

Future Direction

Going forward, the industry should evaluate not only individual product opportunities, but also the broader design of market infrastructure and information ecosystems.

These discussions should be connected to the data standardization, transparency and reporting challenges already visible in private markets.

Particular attention should be paid to responsibility allocation and information flows across settlement, collateral management, rights administration, accounting, and client reporting.

The industry should continue to monitor leading practices and regulatory developments domestically and internationally, while progressively developing practical use cases.

Subcommittee 5: Sustainable Finance

Crystallizing the GX Strategy and Elevating it to Action; the Role of the Asset Management Industry as a "Convenor"

1. Introduction

The paper *What Can Investors Do About Climate Change?*,¹ released in May of this year by the Institute for Sustainable Finance—a research institute under the auspices of the London School of Economics and Political Science (the “LSE”)—offers valuable insights for financial sector professionals. Notably, its concluding remarks articulate four critical attributes required of leaders in sustainable investment.

Courage · Honesty · Curiosity · Commitment

How might these attributes be interpreted within the Japanese context? Does Japan meet all of these criteria, or does a gap remain? This line of inquiry turns our attention to a term seldom invoked in the domain of finance: “courage” Upon evaluating the deliberations of this subcommittee (the “Subcommittee”), it becomes increasingly clear that the nuances embedded within this concept of “courage” may have an important bearing on the future evolution of finance in Japan.

The Subcommittee takes forward the issues raised in last year's discussions, focusing on Japan's Green Transformation (“GX”) economic policy. Meanwhile, a central motivating question throughout our discussions is whether private investors—who have a responsibility to protect and enhance beneficiaries' interests over the long term in light of structural risks—are adequately responding to policymakers' aim of “leveraging government financing to catalyze private capital.”

While sustainable finance has been widely discussed across government panels and private sector forums—uncovering a range of structural issues—the Subcommittee deliberately adopted a practitioner’s lens. We aimed to move from diagnosis to execution, addressing two vital questions: What actions must be prioritized next, and how can we translate these insights into tangible, forward-looking strategies?

Last year, the Subcommittee emphasized the urgent need to bridge the gap between real-economy industries and the financial sector, including asset management. Subsequent growth strategies deployed by the current administration have only amplified the necessity of this synergy. Building on this momentum, our Subcommittee examined specific key industries this year—drawing on insights from experts and practitioners to identify shared challenges and explore potential solutions. In particular, the Subcommittee focused on the Ministry of Economy, Trade and Industry’s (the

¹ Prof. Tom Gosling et al. (2026), *What Can Investors Do About Climate Change?*, The London School of Economics and Political Science

"METI") "GX Industrial Region" strategy, viewing it as an ideal framework to comprehensively address the public-private collaborative finance required for the future. Anchored by demand-side perspectives, our discussions centered on concrete strategic responses required from financial institutions and capital providers.

2. Discussion Themes

Japan has positioned GX at the core of its national growth strategy, steadily advancing policy measures designed to simultaneously achieve decarbonization and stronger industrial competitiveness. The development of industrial clusters, notably the "GX Industrial Region" initiatives, extends far beyond corporate-level emissions reduction and technology development; it represents a holistic transformation encompassing energy systems, infrastructure, supply chains, employment, and local communities. Successfully executing this vision is critical—not only to rebuilding Japan's industrial foundation and strengthening regional resilience, but also to securing international competitiveness and trust.

Yet, despite ambitious government policies and promising technological concepts, mobilization of private capital—the momentum required to translate these blueprints into execution—remains insufficient. GX investments demand substantial amounts of long-term capital while carrying complex, compounding uncertainties across technology, construction, demand, regulatory frameworks, and community consensus. Consequently, a crucial step is converting policy-level "transitions" into investable "transactions" with risk-return profiles that private capital can rigorously evaluate.² Accelerating industrial advancement requires seamlessly connecting policy targets with individual projects, societal benefits with bankability, and early-stage risk capital with long-term stable funding.

Building on the agenda established last year, the Subcommittee examines the integration of industry and finance within the concrete context of real-world GX execution and deal origination. Our objective is to dissolve the silos between finance and industry, creating spatial and temporal cohesion that unites government bodies, local authorities, corporate entities, financial institutions, asset owners, asset managers, local communities, and academia. Moving beyond superficial calls for cooperation, we must construct an operational framework that aligns capital and expertise with precision—accounting for each stakeholder's distinct role, risk tolerance, and time horizon.

3. Framework of Recommendations

Globally, growth-oriented sustainable finance inherently involves a broad spectrum of stakeholders, each with distinct mandates and priorities. As seen worldwide, solutions

² Green Finance Institute (2025), Transactions to Transitions – A Global Investment Greenprint -

rarely emerge from a single government entity or dominant actor dictating every move; rather, they demand collective, system-wide answers. Accordingly, this proposal moves away from traditional "asks" directed solely to the government. Instead, it offers an actionable roadmap—including changes in approach where necessary—for all ecosystem stakeholders to collectively overcome the structural bottlenecks facing today's Japanese market.

At its core, this proposal addresses a pivotal question: *How can we further mobilize private capital in alignment with the government's GX Growth Strategy?* To formulate concrete responses, our analysis is anchored around the following three strategic perspectives:

1. Concrete Actions to Bridge Industry and Finance
2. Frameworks for Aligning Public and Private Capital Deployment
3. Strategic Initiatives to Foster Shared Intent and National or Regional Momentum

Throughout its deliberations, the Subcommittee remained steadfastly focused not on listing obstacles or dwelling on root-cause diagnostics, but on forging viable pathways and actionable breakthroughs toward solutions.

As detailed below, addressing sustainability challenges often leads to gridlock when framed within rigid boundaries—whether restricted to one's own organization or limited to the domestic market. A crucial insight from our discussions is that breaking through these impasses requires actively expanding our horizon beyond traditional borders, leveraging lessons from international markets and cross-industry collaborations.

4. Focus Point I

Foundational Actions Toward Long-Term, Uninterrupted Finance Supporting GX Initiatives in Industry

In our discussions featuring the METI's Environmental Finance Office, both forum members and METI officials reached a shared realization: maintaining sustained dialogue is indispensable. Held on a genuinely level playing field, this open exchange of views profoundly shaped our subsequent deliberations.

For the financial sector, this dialogue served as an opportunity for reflection. While Japan's sweeping and granular growth strategy has garnered global attention, financial institutions should recognize that their remains to deepen their understanding. Conventional wisdom often attributes this disconnect to myopic investment horizons and a waning interest in Japanese corporate R&D. Market participants routinely point to fundamental frictions: a mismatch between long-term industrial roadmaps and short-term stock performance, or a policy framework so meticulously detailed and broad in scope that it risks appearing unfocused or overly diffuse.

However, the imperative for action is clear. Capital providers—especially asset

managers—must first grasp the underlying intent of the growth strategy. They must translate this vision into their own "narrative" (as discussed hereafter) to articulate its strategic value to stakeholders, ultimately using it as a foundation for constructive engagement with policymakers.

Dialogue with regulatory authorities yields another critical implication. Japan's growth strategy outlines 17 "strategic sectors" as crucial focal points. Each of these broad fields is likely to present financing opportunities, meaning METI cannot remain the sole government counterpart. As highlighted in our discussions—which touched on localized topics such as regional administration, port management, agricultural support, and household waste sorting—the scope extends far beyond conventional sustainability or GX boundaries. This reality demands that all stakeholders embrace shared responsibility for ensuring that finance is deeply integrated into every dimension of future growth strategies.

While we often refer broadly to the "financial sector," the ecosystem financing the real economy comprises diverse asset owners—including life insurers, pension funds, and non-bank financial institutions—alongside securities firms, advisors, rating agencies, data vendors, and asset managers. Although the Subcommittee engaged a broad array of cross-industry practitioners, the breadth and depth of these interactions remain incomplete.

In practice, sustainable finance discussions are taking place across disparate industry groups and NGO-led forums. Parallel initiatives echoing the Subcommittee's work undoubtedly exist across other sectors. Establishing periodic dialogue among the leaders and strategists of these respective groups would foster mutual synergies, expand collaborative networks, and accelerate impactful outcomes. (For more on the role of asset management, see Supplementary Note A.)

This year, the GX Acceleration Agency (the "GXA") introduced the "GXA Platform" as a core mechanism within its initiative to serve as a hub for driving GX investments. By collaborating with international organizations, non-profits, and global stakeholder communities through roundtables and structured dialogues, the platform aims to strengthen both networking capabilities and policy formulation—a mandate that directly aligns with the Subcommittee. Expanding the scope of the Subcommittee and the Japan Asset Management Forum serves as a direct, positive contribution to the GXA Platform. Crucially, this reciprocal dynamic can serve as a powerful catalyst for breaking down long-standing silos and fostering seamless, multi-stakeholder integration.

[Recommendation I]

We believe it is essential to establish the Secretariat and Subcommittee functions of the Japan Asset Management Forum as a permanent communication hub connecting relevant government ministries, including METI, with the financial sector, thereby expanding its "Convenor" role to connect stakeholders and guide them toward solutions. Through this framework, we can regularly share updates on the progress of GX policies, institutional design, and project development in GX industrial regions, while establishing a two-way conduit to channel practical perspectives from the asset management industry back to the authorities to expand investments and broaden the investor base.

5. Focus Point II

Strategic Initiatives to Accelerate Public-Private Collaborative Financing

During last year's Subcommittee discussions focusing on regional economics, a key insight emerged: framing finance within a defined, boundary-specific microcosm enables far deeper, more concrete analysis. Aligning with this approach, we focused our deliberations on the "GX Industrial Regions" designation initiated by METI. By treating the Hokkaido/Sapporo region as the core capital-demand entity, we evaluated its regional GX growth strategy while explicitly modeling the required responses from capital providers.

The central challenge is clear: *How can we structure and scale public-private collaborative financing to convert large and varied investment opportunities into executed transactions?* Drawing on comparable global benchmarks, we examined several critical interventions.

The Subcommittee focused primarily on "matching" and "hand-offs" (baton pass). Consider a regional enterprise developing promising GX technologies. Having successfully cleared the proof-of-concept phase, the company prepares for commercialization—only to face critical hurdles: who will provide the required capital, and which financial institutions possess the expertise to structure the financing? This is the core challenge of matching. First raised by the City of Sapporo and Hokkaido last year, progress on this issue was reported in our session this year. The problem is vividly illustrated in the schematic below provided by the municipality (colloquially referred to within the Subcommittee as the "Whale Problem").

Investment Scale and Key Players in the GX Sector: Who Can Build Decision-Ready Deals?

Image	• Subsea HVDC Transmission• Hyperscale Data Centers• Semiconductor Manufacturing• Port Development• 1GW+ Offshore Wind Power	Offshore Wind Power (Under 1GW)	Energy Storage Systems & Solar PV	Emerging Technologies
Size				
Key Features	National Infrastructure -Scale Long-Term Development	Large-scale private investment	Mid-scale private investment	New Technology Investments
Investors	Government -Affiliated Financial Institutions, Multilateral Development Banks / DFIs, PFI, Institutional Investors, Infrastructure Funds	Mega-banks Infrastructure funds	Private Equity Fund Regional banks ESGmutual funds	VC CVC Mid-small Banks
Required Investment Scale	JPY 1 Trillion+	¥10B – ¥100B+	JPY 1B – 10B+	Under JPY 10B

(Source) Materials from the 3rd Sustainable Finance Subcommittee (Prepared by the City of Sapporo)

The significance of this structural mismatch extends far beyond supply-demand friction; it risks stifling promising technologies at their inception as innovators abandon commercialization due to a perceived lack of capital. Crucially, this challenge is not confined to regional economies. In engagement between asset managers and corporate leaders, a recurring frustration emerges: *"If subsidiaries or individual projects could secure financing aligned with their specific risk-return profiles, business execution would be far more agile and efficient. Instead, capital raising remains tethered to the parent company's creditworthiness and balance sheet, concentrating project-level risks across the entire corporate group."*

While foundational initiatives—such as improving information disclosure and mobilizing expert talent as seen in Hokkaido (e.g., leveraging financial expertise from financial hubs like Tokyo to support regional markets)—are essential, timely and targeted capital deployment directly to the field requires a strategic, holistic approach to human capital placement, particularly for seasoned financiers.

Furthermore, seamless execution along the financing chain remains a challenge for both the public and private sectors—a dynamic directly linked to the well-known "Valley of Death," where a lack of funding prevents commercialization.

Financial needs naturally evolve over time, a reality most pronounced in tech development and large-scale project execution. Just as real estate finance shifts its structures, conditions, and syndicate members as a greenfield site moves through construction into full commercial operation, sustainable and GX investments must be managed through distinct lifecycle stages.

Singapore's Financing Asia's Transition Partnership ("FAST-P"), frequently cited in the

Subcommittee discussions, serves as a prime model for addressing this transition.³ Crucially, it also offers a valuable framework to streamline and bring clarity to Japan's often clouded discourse on sustainable finance.

On the demand side, industrial capital raising (and its underlying motives) generally falls into three distinct stages:

(a) Early-Stage Demonstration: High fundamental expectation in technology, yet further empirical validation is required to confirm commercial viability.

(b) Commercial Scale-Up: Technological feasibility is established, but adoption remains hindered by structural barriers (e.g., high costs, scale constraints, time constraints).

(c) Market Maturation: High visibility and predictability of the path toward full-scale commercialization.

Conceptually, the financing playbook for these stages follows a clear progression: (a) is driven by government grants and concessional capital; (b) relies on blended finance bridging public support and private risk capital; and (c) transitions to private capital markets, ultimately reaching long-term stability. To conduct meaningful dialogues on sustainable finance, market participants must first establish shared clarity on precisely which stage of this spectrum they are addressing.

The hallmark of the FAST-P model is its forward-looking financing architecture, designed to navigate the transition across stages (a) through (c) by engaging key stakeholders from the outset. In moving from stage (a) to (b), public finance plays a pivotal role—blending subsidies, public pensions, development finance institutions, select commercial banks, and concessional capital, often structured under a dedicated construction-finance SPV. Once initial financing is secured, negotiations commence immediately with prospective capital providers for phase (c), such as life insurers and pension funds, in anticipation of the operational phase (see Supplementary Note B).

What, then, does a seamless "baton pass" entail?

First, the public sector's footprint should diminish as project self-sustainability increases, freeing up public capital for redeployment into new catalytic opportunities. Second, for the private sector, rigid adherence to traditional siloing—such as banks providing short-term capital and institutional investors supplying long-term funds—creates capital supply gaps, Valleys of Death, a risk particularly acute in long-horizon regional and industrial transition finance.⁴ FAST-P suggests that early-stage multi-stakeholder participation is key to mitigating this bottleneck—a principle echoed in

³ Sustainable Markets Initiative / Investor Leadership Network (2024), Blended Finance Best Practice ; A detailed list of global initiatives and examples is available for review

⁴ Center for Global Commons (2022), The Planet Positive Chemicals: This issue is examined through the lens of chemical technology as an end-user sector.

international discussions on resilient urban infrastructure finance. Rather than relying on a linear progression where commercial banks lead alone and institutional investors join only after operations stabilize, future capital providers must be engaged from day one to share data, align risk assessments, and establish clear investment parameters.

To render this baton pass operational, downstream capital providers cannot be sought after the fact. Risk sharing, disclosure standards, and capital transition triggers should be discussed and clarified from the outset. Asset managers are uniquely positioned to orchestrate this process. By leveraging their broad investor networks, long-term risk-return underwriting capabilities, and deep expertise across private markets, asset managers offer more than mere collaboration: they serve as central integrators and coordinators. Ultimately, they bridge time horizons and harmonize capital roles to ensure an uninterrupted financing continuum (see Supplementary Note A for further details on asset management contributions).

A notable feature of FAST-P and modern blended finance models—which are by no means limited to emerging markets—is their reliance on multinational capital sources. Looking ahead at Japan’s impending financing requirements, domestic markets cannot rely solely on internal capital. Japan should seek to develop an open market architecture that actively attracts international long-term institutional investors and specialized capital. Securing international capital yields benefits far beyond sheer liquidity: it embeds globally recognized evaluation standards, leverages insights from precedent transactions, and enforces disciplined ongoing monitoring.

To translate these strategies into practice, successful financing transactions must be systematically documented within a centralized repository to establish a shared "Investment Playbook (actionable investment insights)."⁵ Crucially, this repository must record not only successful executions, but also deal-structuring bottlenecks, innovative risk-sharing mechanisms, capital-transition parameters, local stakeholder consensus-building processes, and iterative improvements.

By maintaining this knowledge base in a format accessible to the Green Transformation Promotion Agency (the “GXA”), relevant ministries, financial trade associations, and regional stakeholders, Japan can continuously refine and standardize its unique model of public-private blended finance.

⁵ Boston Consulting Group / Institut de la Finance Durable (2025), Building a Catalytic Repository ; Internationally, there is an increasing demand for an accumulation of successful Blended Finance case studies.

[Recommendation II]

To address the vast, diverse, and often capital-intensive nature of GX projects, it is essential to steadily build a track record of creative public-private collaborative financing, grounded in Japan's institutional frameworks, market structures, and regional characteristics.

These practical case studies and structural design insights should be accumulated and shared through this Forum and the GXA Platform, and refined into an "Investment Playbook." Furthermore, the Forum, as a "Convenor," should utilize this knowledge to support the creation of a collaborative framework that connects businesses, end-users, investors, and financial institutions, ultimately leading to the establishment of standardized investment structures unique to Japan.

Structuring GX projects entirely on a bespoke basis according to individual circumstances cannot meet the demands of both scale and speed. While a one-size-fits-all approach that ignores project-specific nuances is inappropriate, establishing common evaluation metrics, risk-sharing frameworks, capital transition procedures, and information disclosure protocols will substantially enhance project origination efficiency and investor predictability.

Based on standard structures, both the public and private sectors will be able to jointly and efficiently assess project complexity by evaluating factors such as technology readiness, construction risk, market and offtake certainty, sponsor capital strength, and local socio-economic benefits.

The top priority is for both sectors to absorb domestic and international expertise to refine structural design capabilities, thereby building a foundational framework to advance financing autonomously and efficiently.

6. Focus Point III

Aligning Growth Imperatives with Fiduciary Duty: Shared Vision and Deepening the GX Narrative

When the GX Agency supported Resonac Holdings Corporation's hydrogen production project in Kawasaki Port through debt guarantees, the Subcommittee highlighted a critical success factor: the efficient supply of waste plastics as raw material, made possible by meticulous waste sorting by residents across the broader Tokyo metropolitan area.

This serves as an example illustrating how everyday household actions directly contribute to the green economy—and the circular economy in particular. Such narratives must not be buried under dry headlines reporting merely "JPY X billion in debt guarantees." Instead, as discussed in our panel, this case should ignite broader strategic inquiry: *Can this model be replicated in other regions? Is local feedstock*

volume sufficient? Which waste streams should be aggregated where, and what are the operational bottlenecks?

In this context, "GX Industrial Regions" should not be viewed merely as sites for capital expenditure or energy transition. Rather, they are holistic arenas where three pillars intersect: structural economic realignment (Transition), measurable local benefits (Impact), and the integration of resources, energy, and consumer behavior (Circular Economy), as exemplified by Resonac.

These regional arenas face compounding pressures: population decline, labor shortages, aging infrastructure, and heightened disaster risks. GX investments must not address these crises in isolation; instead, they should serve as an integrated solution to multifaceted regional challenges. As demonstrated by the strong market reception to the Tokyo Metropolitan Government's Resiliency bond issued in the Eurobond market last year, regions that proactively address energy security, resource circulation, disaster resilience, and high-quality job creation will expand their financing options. Explicitly factoring regional benefits into both business planning and financial underwriting can improve the use of public resources while also reinforcing the social license to operate, and contribute to long-term project viability.

Ultimately, securing buy-in from households and end-beneficiaries is essential to solving these systemic challenges. GX is not merely a government or corporate directive; it is a society-wide shift touching energy consumption, resource efficiency, daily life, and future asset building.

Through robust Beneficiary Engagement,⁶ asset owners and asset managers must clearly and authentically articulate how long-term sustainable investments drive stable future financial returns, strengthen community resilience, and mitigate long-term societal costs.

⁶ Dialogue: Takeshi Kimura (PRI Board Member) & Hiroshi Nakaso (Chairman of FinCity.Tokyo), "Realizing a Relay of Responsible Investment Reflecting the Beneficiaries' 'Soul'" (Financial and Financial Affairs, June 2022). Highly insightful regarding asset owners' connection to beneficiaries.

[Recommendation III]

Could the ongoing discussions of this Subcommittee—which continuously challenge and refine the purpose of financing sustainability and GX—be viewed as an opportunity to understand and re-conceptualize fiduciary duty in a uniquely Japanese context?

As we formulate future growth strategies, we propose collaboratively refining a "GX Narrative"—a tailored concept describing frameworks that elucidate the purpose and value of individual GX policies and contributing actions. This narrative should target both domestic households and international potential investors, serving as a shared focal point for the financial sector, industry, central and local governments, academia, and NGOs.

A narrative, in this context, is not mere ideological PR. Rather, it functions as a common language grounded in real-world practice and data that explains the economic, regional, and social value generated by GX investments, thereby aligning the actions of diverse stakeholders. Practical precedents stored in repositories will present opportunities to further sharpen this narrative, driving greater capital flows toward Japan's growth opportunities.

Fiduciary duty is not limited to short-term return maximization. Addressing long-term structural and systemic risks to protect and cultivate the future interests of beneficiaries is an essential component of modern fiduciary duty. Realizing large-scale, long-term transformation relies on all stakeholders looking beyond existing silos and passive reliance, acting instead with long-term vision and agency.

7. Direction of the Subcommittee Discussion and the Strategic Evolution of the Asset Management Forum

Realizing GX requires more than mobilizing capital. The core imperative lies in engineering an enduring execution model—one that seamlessly bridges industrial vision, regional futures, policy continuity, and diverse capital structures. To this end, the Asset Management Forum must act as a primary Convenor, driving the convergence of industry and finance, establishing a standardized archetype for Japanese-style public-private catalytic finance, and galvanizing societal commitment through a coherent GX narrative.

A critical, unresolved challenge is cultivating and securing "orchestration talent"—visionaries capable of conceiving mega-projects, uniting disparate stakeholders, and ensuring long-term capital recycling. We must engage talent across all generations while continuously tapping into global expertise and international best practices.

While GX Industrial Regions serve as a foundational starting point, similar structural financing challenges may arise across all 17 Strategic fields. Enhancing the financial sector's capacity to partner with industry and government—thereby deploying patient,

risk-tolerant capital—is paramount to expanding Japan's economic competitiveness and attracting international confidence and investment. This Subcommittee remains firmly committed to advancing concrete actions and sustained dialogue to bring this vision to fruition.

On this point, the Subcommittee received a compelling insight from a featured expert:

"Are we confusing the catalyst with the ultimate objective—treating the formula of 'JPY 20 trillion in government funds unlocking JPY 150 trillion in total financing' as the end goal itself? Global investors and business leaders see far beyond that initial horizon. They recognize that if an economy like Japan's actually mobilizes capital on this scale, the compounding economic multiplier will be vastly greater. The expectations facing Japan are immense. We must urgently awaken to the powerful currents of global intent and ambition now converging upon us."

This connects with the concept of "courage" cited at the outset of this statement—a quality defined by the LSE paper as follows:

"Climate leadership requires the courage to continue stating – publicly and consistently – that climate change is real, financially material over long horizons, and warrants action."

For today's Japanese market, real progress demands that every stakeholder—across both public and private sectors, without exception—needs the "courage" to take a step forward together.

[Supplementary Note A] Unlocking the Strategic Potential of Asset Managers

While bank loans have traditionally anchored sustainable finance in Japan—leaving an entrenched reliance on main banks for industrial financing—GX projects demand a fundamentally different approach. The GX trajectory spans technology demonstration, commercialization, plant construction, stable operations, and scaling, requiring capital whose nature evolves over time. Recognizing the continued importance of bank lending, market participants must connect diverse capital providers early on, establishing a clear division of labor aligned with varying risk tolerances and investment horizons.

Globally, providers of deep, risk-bearing capital actively shape overall financing structures. As project and financing scales expand, orchestrating sponsors, public entities, financial institutions, and long-term investors into coherent capital structures and risk-sharing models becomes critical. Extended financing timelines and operational complexity heighten exposure to exogenous shocks. In these moments, an adaptive coordination framework—maintaining stakeholder dialogue to restructure capital, covenants, and roles as needed—determines project survival and continuity.

A panel at a recent NY Climate Week captured this shift concisely: standard "collaboration" is no longer enough; the true imperative is coordination. Global markets urgently require mechanisms that synthesize intent into actionable, bankable structures. For multi-stakeholder, long-horizon GX initiatives, moving beyond shared goodwill to align capital timelines, risk allocation, and individual mandates is essential.

Asset managers must transition from passive facilitators of collaboration to proactive coordinators who structure and streamline the investment ecosystem. Specifically, during high-risk early stages, asset managers should serve as "Convenors"—bringing together governments, private lenders, corporates, and global long-term investors at the right moment to bridge structural mismatches between capital supply and project demand.

Positioned at the intersection of diverse asset owners and investors, asset managers possess deep expertise across private markets and long-term risk-return profiling. Leveraging these capabilities—while upholding strict investment independence and fiduciary duty—asset managers are uniquely equipped to de-risk, structure, and transform complex GX projects into institutional-grade, investable opportunities.

[Supplementary Note B] Time-Phased Public-Private Financing: Key Case Studies

Among the international frameworks evaluated by the Subcommittee, the Energy Transition Acceleration Finance (the "ETAF") program—a key pillar of Singapore's FAST-P initiative—provides a compelling blueprint for executing a seamless capital "baton pass."

Industrial transition entails high initial capital expenditure—including new construction—alongside substantial uncertainties around technology, construction

execution, market demand, and revenue predictability. Consequently, securing purely private commercial financing during early project phases is rarely viable. Conversely, public resources are finite and must be deployed with maximum catalytic leverage.

The ETAF model reconciles these constraints through a structured two-stage mechanism:

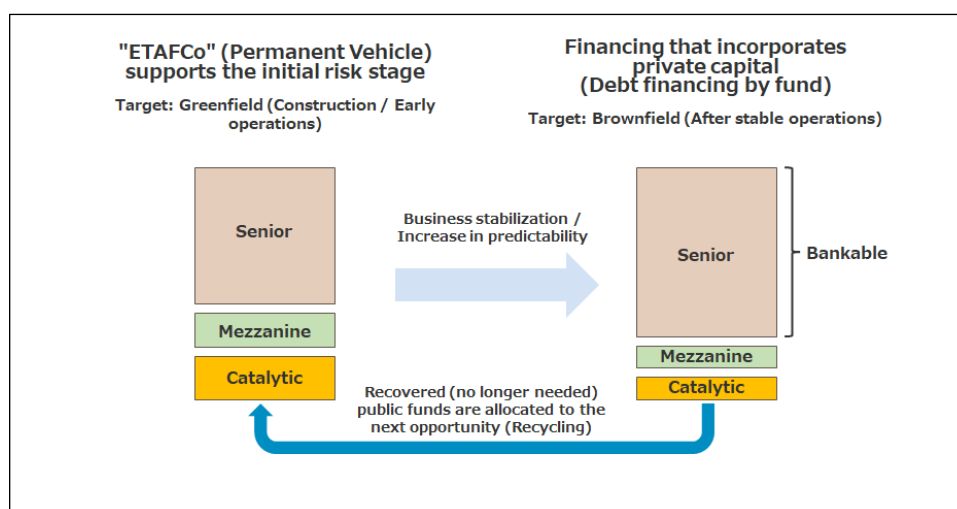
1. Phase 1 (Early Stage / Incubation): Time-bound, public and concessional capital is funneled through a dedicated special-purpose vehicle (ETAFCo) to absorb high upfront risks.

2. Phase 2 (Commercialization & Scaling): Once construction risks recede and operational/revenue visibility takes hold, institutional private capital is crowded in.

As private capital assumes the lead, public equity, debt, and guarantees are partially recycled or released. Reallocating these liberated public funds into the next pipeline of early-stage ventures dramatically enhances public capital efficiency and multiplier impact.

ETAF is already producing live investment transactions. Forward-looking commercial banks are participating even during Phase 1, while dialogue with private life insurers, pension funds, and credit rating agencies is actively underway to prepare for Phase 2 refinancing. For Japan, adopting a similar development-phase mindset is essential—blending grant funding, mezzanine capital, debt guarantees, and policy finance according to project maturity, while designing upfront for capital recycling and refinancing.

This model also offers profound insights into financial standardization. Standardization does not mean imposing a rigid capital structure on every transaction. Rather, it means establishing shared design principles and timeline expectations around how early-stage risk is absorbed, and under what conditions private capital steps in. Predefining clear transition triggers and exit horizons for public support enforces commercial discipline, accelerates project self-sufficiency, and prevents moral hazard or over-reliance on concessional funds.



(Source) Adapted from the materials of the 3rd Sustainable Finance Subcommittee

While similar initiatives are emerging worldwide, significant opportunity remains for Japan to absorb global best practices in structural design, risk allocation, and capital transition—refining them into a tailored archetype of public-private blended finance optimized for Japanese institutional and regulatory frameworks.

[Supplementary Note C] What Capital Does the Japanese Market Truly Require?

The inaugural Subcommittee session last year opened with a provocative question from an industry expert: *"Does Japan lack the capital required for sustainable finance?"* Most market participants would likely answer, "There is capital in abundance." However, this proposal does not question the aggregate volume of capital, but rather whether private capital is actively mobilizing toward GX and other high-growth sectors. While liquidity exists in the market, the prerequisite conditions for deploying that capital into long-horizon, high-uncertainty growth opportunities remain incomplete.

As highlighted last year, the sheer scale of capital required for national growth strategies will inevitably exceed bank balance sheets alone. Expanding liquid, secondary debt markets thus remains a crucial imperative. From the perspective of capital recipients, this expands financing choices, establishing a self-sustaining cycle where debt capital flows freely as both supply and demand align on value.

What, then, of equity capital—the vital counterpart and foundation to these debt markets?

This supplementary analysis directly confronts a fundamental question: Japan possesses abundant liquidity, but does it possess sufficient patient capital willing to bear deep, long-term risk?

When corporate balance sheets and self-funded capital expenditures can absorb project risks, friction remains minimal. However, several of the 17 Strategic Sectors encompass mega-projects that no single enterprise can shoulder alone. Has the current "GX narrative" fallen into the trap of assuming public funds will step in to underwrite all remaining risks?

Government resources are not bottomless. Crucially, public interventions—such as GX Economy Transition Bonds—are structured with future repayment in mind. Determining where to source true, long-term risk capital thus forms the core axis of Japan's macroeconomic growth strategy.

Viable pathways exist. Long-term risk capital still slumbers within Japan, and significant scope remains to establish the frameworks, incentives, and logic required to unlock it. Internationally, leveraging cross-border capital and resources is standard practice. Addressing this challenge demands the precise horizontal collaboration and orchestration detailed in our main paper.

During our focus on the chemical industry, the Subcommittee examined how Boeing recognized Toray's carbon fiber technology early on, executing a long-term, large-scale procurement contract that laid the foundation for Toray's global scaling. Framed through

a contemporary lens, this is a classic example of how a long-term off-take agreement enhances commercial viability and de-risks technology-led growth. Can we replicate this technology-driven growth trajectory today? What role can asset managers play? We must recognize that breakthrough technology itself acts as a powerful magnet for risk capital.

Furthermore, drawing from recent global public-private partnership models, the Subcommittee also discussed the need to sharpen and intensify the strategic mandate of the GXA.

These discussions underscore an urgent consensus: Japan must directly confront the challenge of securing long-term risk capital, with all stakeholders taking collective ownership to unlock national growth.

**Subcommittee 6: Recommendations for the Wider Adoption of
Asset Management and Asset Building
—Toward an Environment where Everyone can
Become Aware, Get Started,
Stay the Course, and Put Assets to Work, by Standardizing
“Awareness Mechanisms” and “Ongoing Support”—**

1. Introduction

(1) Current Status

In Japan, the institutional foundations for stable household asset building are taking shape through the new NISA, the individual-type defined contribution pension scheme (the “iDeCo”), corporate-type defined contribution pension plans (the “Corporate-type DC Plans”), and other arrangements. The number of NISA accounts reached 28.21 million as of the end of December 2025¹, and the number of participants in Corporate-type DC Plans reached 8.62 million as of the end of March 2025². The institutional framework for asset building is thus steadily extending its reach.

Alongside NISA, the government also positions Corporate-type DC Plans and iDeCo as important asset-building tools³. In its Progress Report 2026 for Advancing Asset Management Services, published in July 2026, the Financial Services Agency (the “FSA”) identifies improving the environment for Corporate-type DC Plans and iDeCo as one of the key themes⁴. Meanwhile, the Ministry of Health, Labour and Welfare (the “MHLW”) is working to make investment management and related matters more visible to participants in corporate pension plans, while also discussing operational improvements to the defined contribution pension system⁵.

For these initiatives to translate steadily into stable asset building for individuals, institutional foundations alone are not enough: financial literacy must also improve, and opportunities for education and consultation must expand. The key is to create touchpoints and pathways that help individuals understand these systems and naturally reach the information and support they need. In financial and economic education, the

¹FSA, “Publication of Survey Results on the Use of NISA Accounts”

(<https://www.fsa.go.jp/policy/nisa/20260703.html>)

² MHLW, “Trends in the Number of Corporate Pension Plan Rules, Employers, and Participants in Corporate-type Pension Plans” (<https://www.mhlw.go.jp/content/001660647.pdf>)

³ Cabinet Secretariat, “Financial Strategy to Promote Growth Investment—Upgrading Japan as a Leading Asset Management Center”

(<https://www.cas.go.jp/jp/seisaku/nipponseichosenryaku/kinyu/pdf/financialservicesstrategy2026.pdf>)

⁴ FSA, “Progress Report 2026 for Advancing Asset Management Services”

(<https://www.fsa.go.jp/policy/pjlamc/20260724/20260724.html>)

⁵ MHLW, “Improving the Visibility of Investment Management and Related Matters for Participants in Corporate Pension Plans” (<https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/nenkin/nenkin/mieruka.html>)

Japan Financial Literacy and Education Corporation (the “J-FLEC”), a public institution that promotes such education through public-private collaboration from a neutral and fair standpoint, offers services that include dispatching instructors, individual consultations, and a certified adviser program⁶.

Foundations for systems, education, visibility, and consultation are therefore being put in place. The next step is to link them to a variety of touchpoints (schools, entry into the workforce, workplaces, local communities, major life events, and other settings) and to strengthen the pathways that lead individuals naturally to the information and support they need.

(2) Purpose of the Subcommittee

This subcommittee (the “Subcommittee”) set out to review broadly the roles of relevant stakeholders, particularly financial institutions and related entities⁷, the appropriate configuration of those responsible for delivery, and possible revisions to institutional and product designs. Its aim was to help each individual design and realize their own financial life plan, and improve their financial well-being, through the wider adoption of asset management and asset building.

In particular, the Subcommittee treated improved financial literacy as a core foundation for the wider adoption of asset building, recognizing that its benefits also extend to household financial management, life planning, and related areas. Its discussions therefore addressed both strengthening education and creating an environment in which individuals can smoothly access the information, systems, and support they need, regardless of their level of knowledge, experience, or interest.

(3) Analytical Framework

The Subcommittee divided the asset-building and asset-management process into four phases—“Access,” “Entry,” “Solutions,” and “Decumulation”⁸—and examined the bottlenecks at each stage and the roles the relevant stakeholders should play. In parallel, it held a series of study sessions on precedents in Australia, the United States, the United

⁶ J-FLEC is an authorized corporation under the jurisdiction of the FSA and a public institution that promotes financial and economic education through public-private collaboration from a neutral and fair standpoint. These Recommendations refer to J-FLEC in its role as a neutral foundation for education and consultation, not as an entity that recommends specific financial products.

⁷ In these Recommendations, “financial institutions and related entities” refers to asset management companies; distributors, including banks, securities companies, regional financial institutions, and similar entities; plan administrators; insurance companies; financial instruments intermediary service providers; and other similar entities.

⁸ “Decumulation” refers to the planned drawdown and use, in line with post-retirement living needs, of financial assets accumulated during the asset-building phase. These Recommendations refer to this stage as the “asset-utilization phase.” The term is used broadly to cover not only withdrawal procedures but also continued investment management, methods of receiving benefits, and consultation and support.

Kingdom, and at Japanese companies⁹.

The Subcommittee concluded that the challenges should not be viewed simply as shortcomings in existing systems or institutions. Rather, they are best understood as barriers that individuals encounter at each stage as they become interested in asset building, actually get started, stay the course, and ultimately put their accumulated assets to work. Specifically, these barriers are: limited opportunities to become aware; high barriers to getting started; weak support for staying the course; and insufficient means to put assets to work effectively.

2. Key Challenges to the Wider Adoption of Asset Management and Asset Building

(1) Limited Opportunities to Become Aware

The first challenge is that there are still too few touchpoints through which individuals come to see the need for asset building as directly connected to their own future life planning¹⁰. Funding needs and the necessary preparations change with life events such as entering the workforce, marriage, buying a home, raising children, changing jobs, and retirement. Yet it is not easy for individuals to gain an integrated view of both their current household finances and their overall future preparedness, including public pensions and retirement benefits.

At the same time, as part of the foundations for fostering such awareness, J-FLEC and private-sector entities offer instructor-dispatch services and opportunities to learn about, and seek advice on, household financial management, life planning, NISA, iDeCo, and related matters. Initiatives are also under way to make future preparedness more visible, including greater transparency on corporate pensions and expanded functions for the Public Pension Simulator. Going forward, these initiatives should be connected to touchpoints such as schools, entry into the workforce, workplaces, local communities, and major life events, and opportunities for individuals to review their future outlook periodically and easily should be further expanded.

⁹ The Subcommittee held six study sessions in total, receiving presentations and briefings on: (i) “Overview of the Australian Pension System” by Fidelity on May 12; (ii) “Initiatives to Incorporate Private Assets into 401(k) Plans” by Blue Owl on May 20; (iii) “The Sphere of Value Creation in Asset Management Opened Up by U.S. Independent Advisers” by Ms. Yuko Numata on July 1; (iv) “Initiatives to Promote the Use of DC Pensions” by NEC on July 22; (v) “The U.K. Pension System and the Promotion of LTAFs” by PwC on August 13; and (vi) “Practices and Future Directions in the U.S. DC Market and Decumulation” by Carlyle on September 11.

¹⁰ According to J-FLEC’s “2025 Public Opinion Survey on Household Financial Behavior” (covering households with two or more persons; released December 18, 2025), 64% of respondents said they had never consciously considered their household’s asset-liability balance, a prerequisite for asset building, and 35% of households had formulated a life plan. In addition, in the Japan Securities Dealers Association’s “Nationwide Survey on Securities Investment—Summary of Survey Results,” released on October 16, 2024, “I had never heard of iDeCo” was the most frequently cited reason for not participating in iDeCo.

(2) High Barriers to Getting Started

The second challenge is that both individuals and employers still find it burdensome to start using the available systems and products.

For NISA, the most frequently cited reason for not using it is “I do not know how to invest”¹¹. Some individuals have also opened an account without making any purchases, which suggests that learning about the system or opening an account does not necessarily lead to actual use¹².

For Corporate-type DC Plans and iDeCo, the need to streamline and simplify the systems and to better support participants in selecting appropriate products has been identified as an issue, and discussions and reviews are under way. For individuals, initiatives to reduce the burden of first engaging with these systems include promoting online enrollment and change procedures for iDeCo and adding an iDeCo estimation function to the Public Pension Simulator. For employers, reviews are under way to make these systems easier to introduce and use, including simplifying Corporate-type DC Plans’ procedures and notification procedures under iDeCo+ (the Small and Medium-sized Employer Contribution Payment System).

Going forward, these institutional improvements need to be both more widely publicized and more broadly implemented. Seamless pathways should also be strengthened, in both workplace and community settings, to support individuals continuously from understanding a system, through applying or enrolling, to actually starting to use it.

(3) Weak Support for Staying the Course

The third challenge is that, once individuals have begun building assets, there is still insufficient support to help them review their holdings and contribution amounts, adjust their asset allocation or contribution amounts when necessary, and keep building assets without undue strain while undertaking refresher learning or seeking advice when markets fluctuate or their life circumstances change.

Historically, such reviews, adjustments, and refresher learning have been left largely to the initiative of individuals with relatively high levels of interest or knowledge¹³. As the investor base expands through NISA and other channels, however, an environment is needed that addresses the concerns and uncertainty of first-time investors. When markets fluctuate, particularly in downturns, or when living circumstances change,

¹¹ Japan Securities Dealers Association, “Nationwide Survey on Securities Investment—Summary of Survey Results,” October 16, 2024.

¹² Nomura Asset Management Research Institute, “Challenges Observed among Inactive NISA Users—Based on Survey Findings” (<https://www.nomura-am.co.jp/amrc/reports/2607.html>)

¹³ Nomura Asset Management Research Institute, “2023 Survey of Attitudes toward Defined Contribution Pensions” (https://www.nomura-am.co.jp/corporate/surveys/pdf/20230613_90714BE0.pdf). The survey found that respondents who considered themselves financially literate in asset management were more likely both to know their current product-allocation instructions and to have reviewed them in the past.

individuals still lack clearly visible touchpoints and pathways for revisiting the principles of long-term, regular, and diversified investment, and for reviewing their approach or seeking advice in light of their own life stage and concerns.

Comparisons with other major countries also show that relatively fewer individuals in Japan rely on “tools, calculators, and educational materials available through a workplace retirement plan” or on “human advisers”¹⁴. Moreover, “information obtained through social media and video-sharing sites” was the source NISA users consulted most often when making transactions¹⁵.

Going forward, ongoing information, refresher learning, and consultation support should enable individuals to keep building assets without undue strain. The environment should also be improved so that individuals can readily access a diverse range of consultation and support providers suited to their needs, including financial institutions and related entities.

(4) Insufficient Means to Put Assets to Work

The fourth challenge is that, in both the asset-building and asset-utilization phases, products and services suited to individuals’ objectives and life stages are not yet sufficiently available.

In the asset-building phase, the core solutions that support long-term, regular, and diversified investment are not always presented in a way that individuals find easy to understand. Nor are the roles and characteristics of target-date funds (the “TDFs”), balanced funds, and similar products, or how to choose among them, yet well understood. In the United States, the Qualified Default Investment Alternative (the “QDIA”) framework for 401(k) plans¹⁶, the United Kingdom’s National Employment Savings Trust (the “NEST”)¹⁷, and Australia’s MySuper framework (“MySuper”)¹⁸ all build into institutional and product designs the concept of default funds that make choosing easier for individuals. In Japan, by contrast, the role and use of such core solutions are not yet widely understood or shared. For example, 43.0% of Corporate-

¹⁴ Asset Management One, Institute for Nurturing the Future, “Japan’s Challenges in Light of a Five-Country Survey on Retirement Asset Building, and Implications from the ‘Survey of Employees of Companies Participating in Long-Term Lab 2025,’” from the Research Report of the Long-Term Research Team for Embedding Asset Building in Society, Phase II (<https://www.nensoken.or.jp/wp-content/uploads/R08-02.pdf>)

¹⁵ Japan Securities Dealers Association, “Survey Report on Usage Trends since the Launch of the New NISA,” May 2026.

¹⁶ A QDIA is a default investment option permitted under U.S. ERISA regulations (29 C.F.R. §2550.404c-5) for participants or beneficiaries who do not provide investment instructions. Representative examples include target-date funds, balanced funds, and managed accounts.

¹⁷ NEST is a workplace pension scheme established under the United Kingdom’s Pensions Act 2008, with Nest Corporation as trustee. It operates on a non-profit basis and is open to all employers as a vehicle for the automatic-enrollment system.

¹⁸ MySuper refers to a superannuation product for default contributions—a “MySuper product”—authorized by APRA under Australia’s Superannuation Industry (Supervision) Act 1993. Its purpose is to provide simple, cost-effective products for default members.

type DC Plans in Japan have adopted designated investment methods, but only 23.2% of those plans use a target-year-type option, a level that remains low compared with the United States¹⁹.

There is also not yet an environment in which individuals, regardless of their knowledge, experience, or level of assets, can draw on sophisticated asset-allocation and diversification expertise comparable to that of institutional investors from an early stage of asset building, through products and services that embed this expertise so that individuals need not make complex judgments themselves. Moreover, as individuals' asset-management needs become more diverse and sophisticated, neither institutional arrangements nor product and service providers are yet adequately accommodating their interest in a broader range of asset classes and investment approaches.

In the asset-utilization phase, neither the concept of continuing to invest while drawing down assets nor the options for receiving and drawing down assets in light of public pensions, retirement benefits, and other resources have yet been sufficiently organized or made available. Nor are the products, services, and consultation pathways that would help individuals consider an approach suited to their own circumstances sufficiently visible or accessible.

Going forward, relevant stakeholders, particularly financial institutions and related entities, will need to create an environment in which individuals can readily select and use the means appropriate to each stage of both the asset-building and asset-utilization phases.

3. Initiatives, Measures, and Policy Directions to Address These Challenges

(1) Basic Approach

The Subcommittee agreed that improved financial literacy should be at the core of the wider adoption of asset building. Because the benefits of financial literacy also extend to household financial management, life planning, avoiding financial problems, and other areas, education, greater visibility, access to systems, ongoing support, and the development of products and infrastructure should be combined so that they complement one another.

In other words, education must be strengthened while, in parallel, an environment must be created in which individuals can more easily become aware, get started, stay the course, and put assets to work.

¹⁹ Investment Company Institute (ICI), *The Untapped Potential of Target Date Funds in Japanese Retirement Accounts* (2025), using data as of the end of December 2022; and Pension Fund Association, "Results of the FY2024 Survey on the Actual Status of Corporate-type Defined Contribution Pension Plans." For the latter survey, the reference date for responses was the end of each Corporate-type DC Plan's business year falling between April 1, 2024 and March 31, 2025.

Recommendation 1: Implement a “Financial Health Check” and Improve Access

— An environment that makes it easier to become aware and to get started

The first recommendation is to implement a “Financial Health Check”²⁰, through which individuals periodically review their household finances, asset-building status, and projected pension benefits, and to establish access arrangements that link the results, as appropriate, to actions such as improving household finances, revising life plans, using available systems, or starting asset management and asset building.

Just as a health checkup can prompt people to review their lifestyle habits, personal finance should incorporate mechanisms at key points (at school, on entering the workforce, in the workplace, in local communities, and at major life events) that present an individual’s situation simply and help that individual recognize where they currently stand. The aim is not to demand precise calculations, but first to help individuals see the issue as personally relevant and to create a natural trigger that connects them to the education, consultation, and systems they need. Building on existing education and consultation infrastructure, the Public Pension Simulator, and other resources, a structure should be established that allows individuals to take the next step without undue difficulty.

The workplace, in particular, is a setting for implementation because it offers ongoing touchpoints with a broad range of individuals. Supporting employees’ financial well-being can also be a meaningful initiative for employers as part of human capital management. In light of these considerations, it is deemed effective for parties involved to take a proactive stance toward employers offering employees opportunities to take a Financial Health Check.

Financial Health Checks need not be provided only by financial institutions and related entities. A broad range of providers can be envisaged, including employers, educational institutions, local support providers, public and neutral consultation platforms, and digital-tool providers.

The Financial Health Check should be designed not merely to raise awareness but also, where appropriate, to lead directly to getting started. After the check, individuals should be able to move promptly into regular investment through Corporate-type DC Plans, iDeCo, or NISA. As far as possible, confirming eligibility, applying or enrolling, setting contributions, selecting products, and making the first purchase should all be possible through a single, seamless process.

For NISA in particular, opening an account should not be treated as an end in itself. Measures are needed to promote genuine “account activation,” including making the

²⁰ A “Financial Health Check” refers to an initiative in which household income and expenditure, projected public pension and retirement benefits, assets held, progress in asset building, and related matters are reviewed periodically and simply. The term is used in these Recommendations and does not refer to any particular system or product. Its purpose is not to solicit sales of specific products, but to give individuals an opportunity to understand their own circumstances and, where appropriate, to connect them with education, consultation, and relevant systems.

first purchase and setting up recurring investments. Pathways should be developed in both workplace and community settings so that individuals can get started as soon as they recognize the need.

Recommendation 2: Standardize “Family-Doctor”-Style Ongoing Support

— An environment that makes it easier to stay the course

The second recommendation is to standardize “family-doctor”-style ongoing support²¹ that individuals can access when needed and that leads to reviews and adjustments. Asset management and asset building call for judgment not only at the outset, but also at major junctures in life, such as market downturns, changes in family circumstances, and the period before and after retirement. If individuals can move forward at such times only by researching everything on their own, the expansion and sustained adoption of asset building will be limited. Pathways to advice should therefore be built in during ordinary times, whether through local communities, workplaces, digital channels, or other routes, so that individuals can turn to them when needed.

Ongoing consultation and support can come from diverse providers, with financial institutions and related entities playing a central role. Other providers may include companies’ employee benefit departments, financial planners, neutral consultation platforms run by public institutions and other bodies, and digitally enabled services. What matters is to create pathways that show individuals clearly where to seek advice and connect them with an appropriate provider when necessary.

The Subcommittee’s study sessions also highlighted that, in the United States, financial institutions, investment-support platforms, and outsourced investment functions such as Turnkey Asset Management Programs (“TAMPs”) and Outsourced Chief Investment Officers (“OCIOs”)²² work together to support ongoing advice. Even if the same model cannot be introduced in Japan immediately, it is still important to build a sustainable framework in which individuals can easily find an entry point for consultation, reliable providers are clearly identified, and ongoing follow-up is available when needed.

As consultation and support expand, the key question is how to ensure not only quality, neutrality, and continuity, but also clear explanations of the division of roles and of

²¹ “Family-doctor”-style ongoing support is a metaphor used to describe, in accessible terms, a continuous consultation and support framework that individuals can access when needed and that can lead to reviews and behavioral change. It is not intended as an analogy with medical practice. Rather, it is a broad support concept that encompasses financial institutions and related entities, companies’ employee benefit programs, neutral consultation platforms run by public institutions and other bodies, digital tools, and other forms of support.

²² TAMP (Turnkey Asset Management Program) refers to a specialist provider that offers discretionary investment services, such as separately managed accounts (SMAs) and fund wraps, to securities firms and independent advisers. OCIO (Outsourced Chief Investment Officer) refers to a service in which a firm registered for investment advisory and agency business or investment management business manages, or advises on, a portfolio on a comprehensive basis.

conflicts of interest, so that individuals can use these services with confidence. Drawing on the respective strengths of diverse providers, including financial institutions and related entities, it would be desirable to set out basic principles for how consultation services are structured and operated, and to create a support environment that individuals can readily understand and trust.

In particular, individuals should receive a clear explanation of the respective roles and positions of entities that provide and sell products and of those that offer neutral information and initial consultations. Private-sector consultation and support should ideally be designed to reconcile neutrality, fairness, and quality, on the one hand, with commercial viability, on the other. Consultation and follow-up pathways should also be developed to encourage both initial use and continued participation among individuals who feel uncertain before, or shortly after, they begin using the relevant systems.

In recent years, some companies have also begun covering the cost of providing neutral consultation opportunities, and such initiatives could be shared as reference cases²³.

Recommendation 3: Diversify and Upgrade Solutions and Infrastructure

— An environment that makes it easier to put assets to work

The third recommendation is to upgrade, from the asset-building phase through the asset-utilization phase, the solutions that make it easier for individuals to get started, stay the course, and put assets to work, together with the institutional and operational infrastructure that supports them.

I Specific Measure 1 under Recommendation 3: Default Design and Product Selection Support

As illustrated by the U.S. QDIA framework²⁴, the United Kingdom's NEST²⁵, and

²³ As an example of an initiative promoting human capital management and financial well-being, the Subcommittee received a presentation on "Shines," a workplace financial education and consultation service offered as an employee benefit by NEC Corporation and its subsidiary, Painter Co., Ltd., using independent financial advisers (IFAs).

²⁴ In the United States, 401(k) and similar plans may adopt automatic enrollment. Under the QDIA framework, TDFs, balanced funds, and professionally managed accounts may serve as default investment options. The U.S. Department of Labor explains that TDFs are a long-term investment strategy that automatically adjusts asset allocation, and that many plan sponsors use them as QDIAs. More recently, the QDIA eligibility of designs incorporating lifetime-income features has also been addressed.

²⁵ In the United Kingdom, employers are required to automatically enroll certain employees in workplace pension schemes. NEST has grown as a vehicle for automatic enrollment and, as of the end of March 2026, had 14 million members and £62.9 billion in net assets, with approximately 97% of members remaining in its default strategy. The U.K. government's Pensions Investment Review is advancing reforms to enable DC schemes to invest in a broader range of asset classes, including venture capital, infrastructure, real estate, and private credit. Under the Mansion House Accord, major DC providers have committed to allocating 10% of their main default funds to private markets. In addition, the Financial Conduct Authority has established the LTAF framework for investment in long-term and illiquid assets.

Australia's MySuper²⁶, overseas jurisdictions have established default funds that make choosing easier for individuals, strengthened quality control and information disclosure, and developed solutions with the post-retirement period in view.

The FSA's Progress Report 2026 cites cases in which corporate-type DC plan administrators with relatively low proportions of participants invested solely in principal-protected products explain concretely why replacing products in the lineup is necessary and beneficial, and propose to employers that investment trusts such as TDFs and balanced funds be selected as designated investment methods.

Going forward, further consideration should be given to repositioning designated investment methods not merely as a fallback for participants who have given no investment instructions, but as a pathway for active choice that supports long-term asset building.

II Specific Measure 2 under Recommendation 3: Upgrading Solutions and Expanding Choice in the Asset-Building Phase

In the asset-building phase, what matters is not simply increasing the number of products, but improving the quality of core solutions so that individuals can access sophisticated asset allocation and diversification comparable to that of institutional investors. For TDFs, balanced funds, model portfolios, fund wrap services, and similar offerings, further progress is needed in designing products that draw on a broader range of asset classes, reviewing them in line with life stages, keeping costs at appropriate levels, clearly articulating the value they provide, and explaining their content, risks, and roles more clearly.

In this context, unlisted and illiquid assets, including private assets, should not be incorporated in a way that requires individuals to select them on their own. Rather, their gradual incorporation should be considered within vehicles that provide sufficient diversification together with rigorous liquidity management, valuation, information disclosure, conflict-of-interest management, and product governance.

In the United States, TDFs are widely used as core investment options in 401(k) plans. Institutional and product-design initiatives are also under way to incorporate alternative assets, including private equity, into diversified asset-allocation funds such as TDFs and balanced funds.

In the United Kingdom, reforms are under way to make it easier for DC schemes to invest across a broader range of asset classes, and the Long-Term Asset Fund (LTAF) framework has been established as a vehicle for accessing long-term and illiquid assets.

²⁶ Under Australia's superannuation system, total assets amounted to approximately A\$4.4 trillion as of the end of March 2026, and the contribution rate has been raised to 12%. MySuper is designed as a simple, cost-effective, and comparable product for default members. A retirement-phase reporting framework and best-practice principles published in February 2026 also position post-retirement asset utilization as an important issue alongside the asset-building phase.

NEST is also expanding diversified investment that includes such assets through the default fund used by the great majority of its members.

In Australia, MySuper provides a foundation of simple, comparable default funds, and product dashboards, comparison tools, and similar measures are used to improve transparency.

Japan, too, has scope to apply these approaches for the benefit of individuals, while ensuring appropriate product governance, information disclosure, liquidity management, and other safeguards.

III Specific Measure 3 under Recommendation 3: Developing Solutions That Bridge to the Asset-Utilization Phase

Looking ahead to the asset-utilization phase, there is a need to develop products and services suited to receiving and drawing down assets, mechanisms that let individuals continue investing while drawing down assets, coordination with public pensions and insurance, and advisory frameworks tailored to individual circumstances.

However, the asset-utilization phase should not be treated as a separate, isolated issue. Rather, how accumulated assets will eventually be received, drawn down, and used to support everyday life should be considered from the asset-building phase onward. The scope of this work should therefore extend beyond product design to mechanisms for delivering the necessary information, consultation support, and choice support at the right time.

In the United States, for example, the regulatory treatment has been clarified for cases in which “lifetime-income features,” such as arrangements for receiving a specified amount on an ongoing basis in the future, are built into the investment design of TDFs and similar products²⁷. In the United Kingdom, NEST is putting in place arrangements that accommodate post-retirement withdrawals²⁸. Australia emphasizes institutional and product development for the post-retirement period alongside the asset-building phase, and has established principles for providing information and guidance tailored to members’ circumstances and for clearly presenting the necessary options to members approaching retirement²⁹.

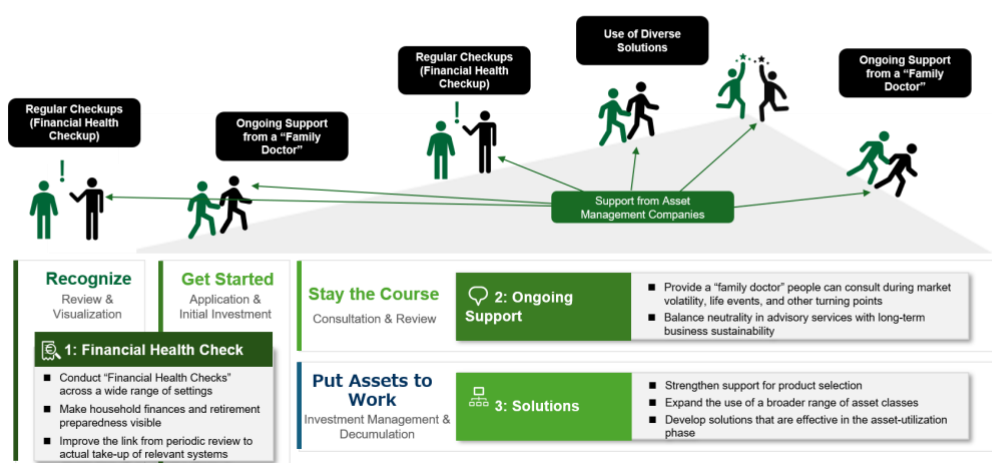
²⁷ See U.S. Department of Labor, Advisory Opinion 2025-04A. Given that the QDIA regulations recognize categories such as TDFs, balanced funds, and managed accounts, the relationship between the QDIA framework and designs intended to secure post-retirement income has been identified as an issue. See also ERISA Advisory Council, “Qualified Default Investment Alternatives—Start to Finish, Default to Payout” (2024).

²⁸ See Nest Corporation, “Order and rules.” The NEST Rules were amended on August 31, 2026 to reflect flexi-access drawdown and the related framework for retirement and death benefits.

²⁹ See Australian Treasury, “Best Practice Principles for Superannuation Retirement Income Solutions” (February 23, 2026). The principles address member understanding; product and setting design; information provision and engagement; the presentation of solutions suited to different member cohorts; continuous improvement; and related matters. See also Treasury Ministers, “Strengthening the Retirement Phase of Superannuation” (February 23, 2026).

Japan should likewise develop solutions that bridge, rather than separate, the asset-building and asset-utilization phases. Further consideration should also be given to when, and through what forms of information, advice, and choice support, financial institutions and related entities, employers, and other support providers should deliver such solutions to individuals, including through digital tools.

Illustrative Model: A System in Which Everyone Can Recognize the Need, Get Started, Stay the Course, and Put Assets to Work



(2) Implementation Through Public-Private Collaboration

— The Role That Asset Management Companies Should Play

In implementing these recommendations, it is important for public- and private-sector stakeholders to collaborate in putting in place mechanisms that effectively reach individuals. In this context, asset management companies, in particular, should proactively contribute to creating an environment in which individuals can access the information and support they need, and can more readily build and make use of their assets, while fully leveraging their expertise and assuming a central role in these efforts.

As stakeholders responsible for creating an environment in which “even first-time users can participate easily, while those who think through more carefully can make better choices,” asset management companies need to develop and upgrade core solutions that are simple, easy to understand, conducive to long-term and diversified investment, and readily usable within Corporate-type DC Plans, iDeCo, NISA, and other systems. In particular, asset management companies should actively promote the wider adoption of TDFs, balanced funds, and similar products, including for use as designated investment methods, through better product design, quality control, and clearer explanations.

Asset management companies should not limit their role to providing products. Working with companies, financial institutions and related entities, and neutral

education and consultation platforms run by public institutions and other bodies, they should also communicate directly with individuals and provide consistent messages, visualization tools, educational content, and other ongoing information.

The asset management industry should also play an active part in broadening access to asset building through workplace and community pathways, including for employees of small and medium-sized enterprises and others who have traditionally had limited contact with the relevant systems.

4. Conclusion

The Subcommittee's discussions reaffirmed that the wider adoption of asset management and asset building cannot be achieved simply by increasing the number of products or systems. What is required is to place improved financial literacy at the core, recognizing that it also contributes to better household financial management and life planning, and to develop, in an integrated way across education, institutional arrangements, ongoing support, and infrastructure, "mechanisms that enable awareness," "systems that make it easy to get started," "ongoing support that makes it easier to stay the course," and "solutions that enable individuals to put assets to work."

The FSA's initiatives to advance asset management services, J-FLEC's development of education and consultation infrastructure, and the MHLW's work to improve the visibility of corporate pensions and to consider operational improvements to the DC system show that the enabling environment is already starting to take shape. Going forward, financial institutions and related entities, regulatory authorities, companies, educational institutions, and other relevant actors will need to combine their respective strengths and collaborate in practical, implementable ways.

The Subcommittee seeks a shift away from "a system in which only those who can research everything on their own are able to move forward" toward "a system in which everyone can become aware, get started, stay the course, and put assets to work." We hope these recommendations will serve as a starting point for redesigning the standard architecture of asset building and asset utilization in Japan in a way that contributes both to individuals' financial well-being and to the sustainable development of Japan's financial and capital markets³⁰.

³⁰ The Subcommittee wishes to express its deep gratitude to Ms. Akiko Nomura, Chief Researcher at the Nomura Institute of Capital Markets Research, and Professor Yuko Numata of the Graduate School of Global Business, Meiji University, for their extensive and valuable advice during its deliberations.