A dark grey silhouette of the Japanese archipelago is centered on the page. The map is split horizontally: the upper portion is set against a light grey background, while the lower portion is set against a green background that matches the bottom half of the page. The silhouette shows the four main islands: Hokkaido, Honshu, Shikoku, and Kyushu.

# JAPAN: A GUIDE TO INTERNATIONAL FUND DISTRIBUTION

[irishfunds.ie](http://irishfunds.ie)



[@IrishFunds](https://twitter.com/IrishFunds)



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# ABOUT

## IRISH FUNDS

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Established in 1991 the Irish Funds Industry Association (Irish Funds) is the representative body of the international investment funds community in Ireland. We represent fund promoters / managers, administrators, depositaries, transfer agents and professional advisory firms involved in the international funds industry in Ireland, with nearly 14,000 funds and net assets of €4.2 trillion. The objective of Irish Funds is to support and complement the development of the international funds industry in Ireland, ensuring it

continues to be the location of choice for the domiciling and servicing of investment funds. Through its work with governmental and industry committees and working groups, Irish Funds contributes to and influences the development of Ireland's regulatory and legislative framework. Irish Funds is also involved in defining market practice through the development of policy and guidance papers and the promotion of industry-specific training.

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# MARKET OVERVIEW

## INTRODUCTION

Under the Japan Revitalization Strategy of the Japanese government, the Japanese economy has shown signs of growth. The asset management industry is expected to lead in economic growth as a key financial intermediary in the Japanese economy.

Considering the enormous demographic transitions occurring in Japan, it is at the top of the agenda to shift massive household bank savings to investments for the long-term wealth of the Japanese nation. It is also essential to keep a supply of money to industry to sustain economic growth.

The asset management industry is expected to play a key role in transforming the flow of funds in the Japanese financial markets. Institutional investors have also started diversifying investments from a concentration in Japanese Government Bonds to global assets in search of higher return. The trends of these investor preferences continue to result in a high demand for unique and innovative investment capabilities around the world<sup>1</sup>.

The opportunity for further fund penetration is therefore significant. According to the Bank of Japan<sup>2</sup>, household financial assets exceed a staggering JPY 1,752 trillion (USD 15.4 trillion) as of March 2017. While the majority of these assets are held in cash, bank deposits or other risk-free financial instruments, the portfolio has gradually been shifting towards investment products.

## LEADING PLAYERS

The Japanese funds industry is highly concentrated with the top ten fund managers by assets accounting for a significant proportion of the market.

Although the landscape is dominated by domestic Japanese players such as Nomura and Daiwa, a number of foreign managers have been able to build a significant foothold in the Japanese market. These include:

- Fidelity
- Japan Growth Equity
- Pictet

## ASSETS UNDER MANAGEMENT OF PUBLIC TOSHIN

TOP ASSET MANAGERS	DOMESTIC/ FOREIGN	DEC. 2016 (IN JPY TRILLION)
Nomura Asset Management Co.,Ltd.	D	24.5
Daiwa Asset Management Co.,Ltd.	D	14.0
Nikko Asset Management Co.,Ltd.	D	11.3
Mitsubishi UFJ Kokusai Asset Management Co.,Ltd.	D	9.8
Asset Management One Co.,Ltd.	D	8.5
FIL Investments (Japan) Limited	F	3.6
Sumitomo Mitsui Trust Asset Management Co.,Ltd.	D	3.5
Sumitomo Mitsui Asset Management Co.,Ltd.	D	2.5
Daiwa SB Investment Ltd.	D	2.3
Nissay Asset Management Corporation	D	2.1
Okasan Asset Management Co.,Ltd.	D	1.3
Pictet Asset Management (Japan) Ltd.	F	1.3
Tokio Marine Asset Management Co.,Ltd.	D	1.1
Goldman Sachs Asset Management Co.,Ltd.	F	1.0
Amundi Japan Ltd.	F	1.0
BlackRock Japan Co.,Ltd.	F	0.8
Legg Mason Asset Management Co.,Ltd.	F	0.7
UBS Asset Management (Japan) Ltd.	F	0.7
JPMorgan Asset Management (Japan) Ltd.	F	0.6
Deutsche Asset Management (Japan) Ltd.	F	0.5
<b>Total retail assets</b>		<b>96.6</b>

(source: The Investment Trusts Association, Japan)

<sup>1</sup>Guidance to the Asset Management Industry in Japan – Practical guidance for global asset managers to successfully enter the market, 2017 Tokyo Metropolitan Government in cooperation with the Financial Services Authority in Japan and in collaboration with PwC Consulting LLC, PricewaterhouseCoopers Aarata LLC, Atsumi & Sakai LPC

<sup>2</sup>Bank of Japan figures as at end March 2017.

# MARKET OVERVIEW

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## TRENDS, OPPORTUNITIES, GROWTH PROSPECTS AND REGULATORY DEVELOPMENTS

A persistent low interest environment is a key driver in the demand for low-cost funds. Regulatory demands, fee pressures and looming structural changes require firms to review their investment strategies and offerings and seek new growth opportunities.

### Trends

Low-cost funds are gaining popularity:

- As investors become increasingly fee-conscious amid the persistent low interest environment, low-cost funds are gaining favour, particularly with younger investors.
- There is an increasing appetite for online funds that incur low or no sales fees.

Retail investor needs are shifting towards total return investments:

- They are moving from monthly dividend-paying funds towards engagement funds, a type of active management fund, that meet their medium to long-term asset-building needs. Asset managers are shifting their product offerings accordingly.

Japanese ETFs are expected to surge:

- Japan's ETF market, the largest in Asia, is expected to grow further in 2019, driven by demand from local pension funds and insurance companies. The Bank of Japan is expected to remain the dominant buyer of domestic equity ETFs.

### Opportunities

#### Fund of Fund Investment

There is a growing need for domestic asset managers to offer customers a range of products that are not necessarily aligned with their in-house investment capabilities. Therefore, demand for outsourcing to the sub-advisors exists to service this need.

In addition, there are an increasing number of fund-of-fund products available. For these products, the domestic manager creates a domestic fund in Japan and invests into foreign funds sponsored by foreign asset managers.

Stockholder engagement is gaining momentum:

- Over 200 institutional investors have adopted Japan's stewardship code. This has prompted asset managers to improve their corporate governance and foster sustainable investment returns among institutional investors.

Education could boost ESG uptake:

- Uptake of environmental, social and governance (ESG) strategies have been mostly confined to government and pension funds in Japan, as retail investors have misconceptions about these investments. Asset managers need to help investors understand the benefits of ESG and taking a longer-term view of investments.

Robo-advice could attract investors:

- A Cerulli Associates survey found that 40% of retail investors deem human advisors unnecessary for financial advice; and their digital engagement is high (80%-100%).

### Regulatory developments

Initiatives introduced to facilitate industry growth and market entry:

- The Financial Services Authority (FSA) has created a business planning office to help advance the asset management industry.
- An accelerator programme plans to attract 40 Fintech companies by 2020.

New fee disclosure rules for funds:

- The FSA has issued new fee disclosure rules, requiring fund houses and brokerages to fully disclose the fees they charge investors for public funds and give justification for their fees.

Excessive sales quotas scrutinised:

- FSA will tighten its monitoring of banks to ensure they are not selling customers unwanted or unnecessary products, including wealth and insurance products.

### Growth Prospects

The Japanese population is decreasing and becoming older. Fertility rates below the break-even level and the longest life expectancy in the world mean that fewer babies are being born and older people are becoming a larger share of the population.

Japan is not unique - European demographics are similar. What makes Japan notable is that its life expectancy is driving the age structure faster than in Europe and forcing Japan to cope with the consequences first.

Given the rapidly ageing Japanese population and the baby-boomer generation that is fast approaching retirement, demand for income-generating funds is likely to increase.

# KEY DISTRIBUTION CHANNELS

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SECURITIES COMPANIES



BANKS

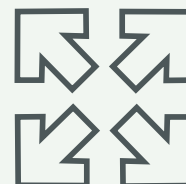


INVESTMENT CONSULTANTS

Securities companies, banks and investment consultants control the distribution channels and, as a result, are the major gatekeepers for entering the Japanese market.

# 85%

Nine of the top ten retail asset managers are domestic players and household names. Collectively, they manage 85% of retail fund assets. In recent years, many have introduced more foreign and specialized investment options.



Given the required skills are not necessarily available in the domestic market, there has been increased outsourcing to foreign asset managers.

The picture is quite different in relation to institutional asset managers, where foreign firms have been very successful in capturing market share and dominate the market.

# DISTRIBUTING UCITS AND AIFS

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## REGISTERED FUNDS

There are two tiers of fund registration requirements in Japan:

- In order for a foreign fund to be offered or sold in Japan on any basis (including private placement) it must be registered as a Foreign Fund (“**Foreign Fund Registration**”).
- In order to be offered to the public a foreign fund must also file a Securities Registration Statement (“**Public Offer Registration**”). A Securities Registration Statement (which must include comprehensive information regarding the shares, the fund and the underlying assets of the fund) must be filed with the regulator, together with numerous supporting documents.

### 1. Foreign Fund Registration Process:

- A registration document must be submitted to the regulator including detailed information about the fund, together with a legal opinion confirming proper incorporation of the fund, copies of all home state approvals and an asset management agreement.
- No registration fees are payable to the regulator.
- Estimated legal fees would be approximately USD\$16,500-33,000, depending on the type of fund (corporate or unit trust), complexity, involvement of a local promoter, etc.
- Japanese translations of supporting documents are not required.
- Estimated time to prepare a registration document is 1 month.
- Registration takes effect immediately on submission of documentation.

### 2. Public Offer Registration process:

- A local licensed intermediary must be appointed.
- A Securities Registration Statement (which must include comprehensive information regarding the shares, the fund and the underlying assets of the fund) must be filed with the regulator, together with numerous supporting documents.
- No fees are payable to the regulator.
- Estimated legal fees would be approximately USD\$70,000-100,000.
- All documents must be translated into Japanese.
- Estimated time to prepare registration is 3 months.
- Waiting period of 15 days, during which time marketing activities can occur.

#### Local licensed intermediary

Use of a local licensed intermediary will not avoid the Registration requirements.

# REGULATORY AUTHORITIES

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財務省

Ministry of Finance Japan

**THE KANTO LOCAL FINANCE BUREAU  
OF THE MINISTRY OF FINANCE JAPAN**

3-1-1 Kasumigaseki, Chiyoda-ku,  
Tokyo 100-8940, Japan

[www.mof.go.jp/english/](http://www.mof.go.jp/english/)

 金融庁  
Financial Services Agency

**THE FINANCIAL SERVICES AGENCY**

3-2-1 Kasumigaseki Chiyoda-ku  
Tokyo 100-8967, Japan

[www.fsa.go.jp/en/index.html](http://www.fsa.go.jp/en/index.html)



# LOCAL TAXATION REQUIREMENTS

## TAXATION OF INDIVIDUAL INVESTORS IN JAPAN INVESTING IN A FOREIGN INVESTMENT TRUST

### Foreign stock investment trust

For individual investors of a foreign stock investment trust publicly offering units in Japan, distributions are treated as dividend income and subject to withholding tax at the rate of 20%, which has been tentatively increased to 20.315% from January 1, 2013 to December 31, 2037 due to an interim tax called the Special Reconstruction Income Tax (for the reconstruction of the area damaged by the Great East Japan Earthquake in 2011).

If a foreign withholding tax is already imposed on the distributions, the amount after deducting the amount of foreign withholding tax will be subject to Japanese withholding tax.

Individual investors will be able to choose among aggregate taxation, separate self-assessment taxation and not requiring self-assessment taxation. The tax credit for dividends, which is intended to avoid double taxation due to the imposition of corporate tax on the issuer and income tax on the dividends, is not available to foreign investment trusts.

Profits from the sale (including repurchase by the investment trust) of the units of a foreign stock investment trust are treated as capital gains and taxed at the rate of 20% (tentatively 20.315% for the reasons stated above).

Losses from sale can be: (i) aggregated with (a) profits from sale, or (b) dividends of listed stocks or units of other publicly offered investment trusts; and (ii) carried forward for three years.

### Foreign bond investment trust

A bond investment trust is an investment trust whose portfolio is strictly limited to bonds. An investment trust that does not meet the requirements of a bond investment trust is classified as a stock investment trust.

For individual investors of a foreign bond investment trust publicly offering units in Japan, distributions are treated as interest income and subject to withholding tax at the rate of 20% (tentatively 20.315% for the reasons stated above).

From January 1, 2016, individual investors will be able to choose between separate self-assessment taxation and not requiring self-assessment taxation. If a foreign withholding tax is already imposed on the distributions, the amount of foreign withholding tax will be deducted from Japanese withholding tax.

Profits from the sale (including repurchase by the investment trust) of the units of a foreign bond fund were not subject to Japanese tax until December 31, 2015. Since January 1, 2016, the profits have been treated as capital gains and taxed at the rate of 20% (tentatively 20.315% for the reasons stated above).

Losses from the sale were not given any tax treatment until December 31, 2015. However, from January 1, 2016, such losses can be: (i) aggregated with (a) profits from sale, or (b) dividends of listed stocks or units of other publicly offered investment trusts; and (ii) carried forward for three years.

## TAXATION OF INVESTORS IN JAPAN INVESTING IN FOREIGN PARTNERSHIP TYPE INVESTMENT TRUSTS

Japanese partnerships are not subject to taxation. However, the partners will be subject to taxation with respect to profits gained through the management of the partnership assets.

In principle, a foreign partnership will not be subject to tax with respect to profits gained through the management of partnership assets. However, on July 17, 2015, the Supreme Court of Japan ruled that a Delaware limited partnership should be classified as a corporation for tax purposes. This is the first Supreme Court decision to establish criteria for the classification of a foreign entity. The court explained that, to determine if an entity is a corporation for tax purposes, one needs to consider if the entity has the legal attributes of a separate taxpayer, focusing on the rights and obligations relating to the entity's activities.

The court said that the first question is whether the entity is clearly defined under the law of incorporation as a corporation, or simply as an aggregate of its members. The second question is whether the entity can separately have a proprietary interest in its assets, and be liable for debts and obligations incurred as a result of its legal acts under the law of incorporation. Where an entity is deemed to be a foreign corporation, the entity's partner shall be treated as a shareholder of the entity for Japanese tax purposes.

# AGREEMENTS WITH FOREIGN GOVERNMENTS OR REGULATORS

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## AIFMD

The Japanese FSA entered into the “Memorandum of Cooperation concerning Consultation, Cooperation and the Exchange of Information related to the Supervision of Funds and Fund Managers” with European securities regulators on July 19, 2013. The memorandum is intended to set a framework of mutual cooperation among regulators, which is required by the Alternative Investment Fund Managers Directive. The FSA and its counterpart foreign regulators are expected to exchange regulatory information upon request.

## FATCA

The Japanese authorities, including the Ministry of Finance, the National Tax Agency (“NTA”) and FSA, and the US Department of Treasury jointly issued the “Statement of Mutual Cooperation and Understanding between the US Department of the Treasury and the Authorities of Japan to Improve International Tax Compliance and to Facilitate Implementation of the Foreign Account Tax Compliance Act (the “FATCA”)” on June 11, 2013, which was amended on December 18, 2013.

Japan is a Model 2 country, where financial institutions are required to provide information on accounts held by US persons who agree to such provision of information to the US Internal Revenue Service (“US IRS”).

As to information on accounts of US persons who do not agree to such provision of information, the US IRS may request The NTA to provide such information pursuant to the treaty. The NTA will obtain such information from the relevant financial institutions pursuant to the local law implementing the treaty, and will provide such information to the US IRS.

## CRS

Japan enacted a law to implement the reporting requirement under the Common Reporting Standard (the “CRS”) of the Organisation for Economic Co-operation and Development. The law is expected to be effective from January 1, 2017. NTA will collect account information of non-residents from Japanese financial institutions pursuant to the law and will provide it to the competent foreign tax authorities under the CRS.

As Japan is a Model 2 country under FATCA, where financial institutions in Japan are required to provide account information on US persons to the US IRS, they will be required to provide account information in a bifurcated manner: to the US IRS as to US persons under FATCA; and to NTA as to non-residents under the CRS, when the reporting requirement under the CRS begins.

# ADVANTAGES OF DISTRIBUTING AN IRISH FUND

For nearly 30 years Ireland has been an established international funds centre and at the forefront of the funds industry, offering a full suite of locally domiciled solutions and services as a gateway for distributing funds to Europe and beyond.

Ireland has a highly internationally regarded regulatory regime and Irish funds are distributed in over 90 countries.



## ACCESS

Distribution to investors via the EEA passport across the European market consisting of 500 million consumers



## LEADING

Ireland is a leading domicile for UCITS funds, accounting for almost 80% of assets of Irish domiciled funds



## TAX

Ireland is an internationally recognised open and tax efficient jurisdiction with over 70 double taxation agreements



## SCALE

Largest hedge fund administration centre in the world, over 40% of global hedge fund assets are serviced in Ireland



## TALENT

Ireland is globally recognised for specialist skills and has 16,000 highly educated professionals dedicated to the funds industry

# 1<sup>st</sup>

## IRELAND LEADS

The world for attracting high-value investment, generating substantial inward investment with strengths in key sectors, including ICT, financial and business sectors (IBM global location trends 2018)



## IRELAND IS A COMMITTED EU MEMBER

and will remain so, providing full market access to the EU. It is the only English-Speaking common law jurisdiction in the Euro Zone



## NUMBER OF IRISH FUNDS REGISTERED FOR SALE IN JAPAN

In PwC's Benchmark Your Global Fund Distribution 2018 Brochure, there were 10 Irish domiciled sub-funds cross-registered in Japan as at end 2017 with Irish domiciled funds making up nearly 10% of these total registrations.\*

\*Source: <https://www.pwc.lu/en/fund-distribution/docs/pwc-publ-gfd-march-2018.pdf>

# INDUSTRY ORGANISATIONS

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Bank of Japan	<a href="http://www.boj.or.jp/en/index.htm">http://www.boj.or.jp/en/index.htm</a>
Business Development Centre TOKYO	<a href="http://www.bdc-tokyo.org/en/about">http://www.bdc-tokyo.org/en/about</a>
Financial Instruments Mediation Assistance Centre	<a href="http://www.finmac.or.jp/english/">http://www.finmac.or.jp/english/</a>
Financial Service Agency	<a href="http://www.fsa.go.jp/en/index.html">http://www.fsa.go.jp/en/index.html</a>
Government Pension Investment Fund, Japan	<a href="http://www.gpif.go.jp/en/">http://www.gpif.go.jp/en/</a>
The Investment Trusts Association, Japan	<a href="http://www.toushin.or.jp/english/">http://www.toushin.or.jp/english/</a>
Japan Exchange Group	<a href="http://www.jpx.co.jp/english/">http://www.jpx.co.jp/english/</a>
Japan Investment Advisers Association	<a href="http://www.jiaa.or.jp/index_e.html">http://www.jiaa.or.jp/index_e.html</a>
Japan Securities Dealers Association	<a href="http://www.jsda.or.jp/index.html">http://www.jsda.or.jp/index.html</a>
Japanese Bankers Association	<a href="http://www.zenginkyo.or.jp/en/">http://www.zenginkyo.or.jp/en/</a>
Ministry of Finance	<a href="http://www.mof.go.jp/english/index.htm">http://www.mof.go.jp/english/index.htm</a>
Ministry of Health, Labor and Welfare	<a href="http://www.mhlw.go.jp/english/index.htm">http://www.mhlw.go.jp/english/index.htm</a>
Pension Fund Association	<a href="http://www.pfa.or.jp/english/index.html">http://www.pfa.or.jp/english/index.html</a>
Tokyo Metropolitan Government	<a href="http://www.metro.tokyo.jp?englihs?index.htm">http://www.metro.tokyo.jp?englihs?index.htm</a>
Type II Financial Instrument Firms Association	<a href="http://www.t2fifa.or.jp/teikan/index.html">http://www.t2fifa.or.jp/teikan/index.html</a>

# THE FACTS

SOURCE: Central Bank of Ireland, Monterey Insight Ireland Survey 2018 and Irish Funds (Net assets and number of funds valid as of Dec 2018)

**986 Fund Promoters**  
(532 promoters of Irish Domiciled Funds)

## Irish Investment Funds Industry

**€4.2**

TRILLION TOTAL AUA

€2.4

TRILLION DOMICILED AUA

DISTRIBUTION TO OVER

**90 COUNTRIES**

**13,914 TOTAL FUNDS**

7,290 IRISH DOMICILED

6,624 NONDOMICILED



LAWYERS  
ACCOUNTANTS  
LISTING BROKERS



ADMINISTRATORS  
DESPOSITARIES

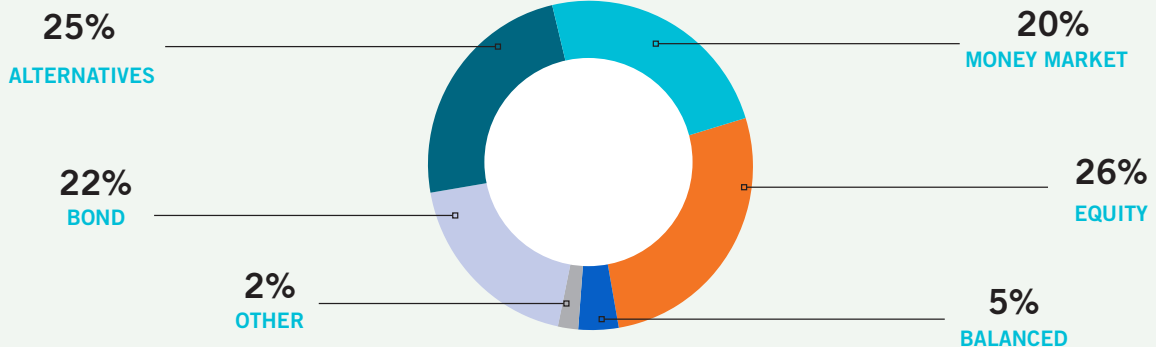


ASSETS  
MANAGERS



SOURCE: Central Bank of Ireland, Dec, 2018

## Irish Domiciled Funds Breakdown by type





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18-22 Tara Street, Dublin 2

**t: +353 (0) 1 675 3200**

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**January 2019**

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The contents of this document may not be comprehensive or up-to-date, and neither Irish Funds, nor any of its member firms, shall be responsible for updating any information contained within this document.