

Joint Statement
51st Japan-U.S. Business Conference
Japan-U.S. Business Council / U.S.-Japan Business Council
November 14, 2014

The Japan-U.S. Business Council and U.S.-Japan Business Council (hereinafter, "the Councils") took a new step toward the next 50 years with the 51st Japan-U.S. Business Conference held in November 13-14, 2014 at Tokyo, Japan.

Meeting this year under the theme "Shared Responsibility: Partnership for Sustainable Growth in the Asia-Pacific and Beyond," business leaders from Japan and the United States agreed on further cooperation for sustainable growth, peace and prosperity of Asia-Pacific region and beyond. The Councils note there were various reports and discussions on the global geopolitical situation including energy security and cyber security during the conference. Also, the Councils reaffirm the importance of cultural and people-to-people ties, which has been a key pillar of the Alliance between the two countries since its inception, and called upon member companies of the Councils to exert further efforts to promote those ties.

The Councils look forward to working closely with each other, and our respective governments, in the areas outlined below for the mutual benefit of our respective member companies and Japanese and the U.S. economies.

1. Japanese and U.S. Economic Growth and Key Issues

The Councils are encouraged by the gradual strengthening of the U.S. economy, which continues to outperform the G-7 economies, and some signs that the Japanese economy is rebounding from the sharp contraction in the first quarter of FY 2014. Overall, the Councils recognize there are vulnerabilities in each and, by extension, the global economy.

Therefore, the Councils urge both governments to: (1) establish credible medium- and long-term fiscal policies that are implemented gradually in ways that will stabilize the global financial system, keeping in mind the impact any measures may have on growth; (2) ensure effective communication and increased transparency, especially by central banking authorities, so as to avoid financial instability and negative spillovers to the global economy; and (3) pursue policies that will raise productivity in both economies in order to generate needed income and consumption increases that will drive overall demand.

Japanese Economic Priorities

While there was a reduction in GDP during the second quarter of 2014 (April – June) mainly due to a slowdown of personal consumption in reaction to the tax hike in April, the Japanese economy is on a gradual recovery trend. However, attention needs to be paid to several factors which are having a negative impact on growth, including the prolonged recoil reduction in consumption, delay in the recovery of exports, increased import costs, stagnant incomes, and a chronic understaffing problem.

The Bank of Japan's quantitative easing policy has had a positive effect in reversing deflationary trends and stimulating domestic demand. Given recent factors affecting prices in Japan the Councils applaud the move to increase asset purchases announced October 31 to meet the 2% inflation target and boost domestic demand.

To complement fiscal and monetary expansion, the Councils urge renewed focus on structural reform under the Third Arrow that will sustain growth, boost productivity, and maintain investor confidence. The Councils applaud the enhanced "Third Arrow" measures announced in June in the Revised Growth Strategy that aim to accelerate reforms in so-called "hard-rock regulations" including labor, agriculture and the medical sector. In particular, the Councils urge prioritization and full and rapid implementation of reforms in the National Strategic Economic Growth Areas so that these may spread through the economy as much as possible. The Councils stress the importance of innovation through, for example, further utilization of ICT that stimulates the Japanese economy.

The Councils welcome measures to bring Japan's corporate tax rate more in line with other major economies by aiming at lowering it to less than 30% within a few years, and urge extension of the carry forward period for net operating losses to OECD norms as a means of spurring investment.

The Councils urge the Government of Japan to implement steadily all the measures specified in this growth strategy, particularly:

- Propulsion of Comprehensive Reform of Tax and Social Security:
If the current low birth rate of 1.3 to 1.4 continues, the population of Japan will decline to 80 million, and form an "inverted pyramid" shape, where people over 65 years old consist of 40% of the total population. Consequently, the current social security bill of approximately 110 trillion yen per year will increase to approximately 150 trillion yen, resulting in a

situation in which not only the social security system, but the sustainability of financial administration is in a hazardous situation. Thus, it is imperative for Japan to enact comprehensive reform of social security and tax in parallel. The Councils urge steady increase in the consumption tax to 10%, prioritization and streamlining of social security benefit, together with sufficient consideration to low-income households, SMEs, and local economies. Given the current fiscal condition in which Japan depends on government bond issuances for nearly half of its expenditures, fiscal consolidation could not be achieved only by economic growth, though it would raise government revenues. The Councils expect the Japanese government to implement necessary measures not only to raise revenues, but also to curb expenditures, to achieve the primary surplus by FY2020 in line with current fiscal targets of the government.

- **Enhancing Women's Active Participation in the Workforce:**
This is an important growth strategy for Japan's economy to achieve sustainable growth with the rapidly aging society, as well as an important management strategy for Japanese enterprises to survive in fierce global competition. To this end, the Councils call upon our member companies to promote a clear commitment and strong leadership by top corporate management in order to encourage awareness among employees.

U.S. Economic Priorities

Although the U.S. economy is on a positive track and is outperforming other advanced economies, there are still concerns over stagnant wages and incomes, labor utilization, and corporate investment. It is clear that U.S. productivity growth has lost some momentum in recent quarters, and the Councils urge the U.S. government to renew its focus on what has long been a hallmark of the U.S. economy.

The Councils appreciate communication by the Federal Reserve Board on the direction of monetary policy in recent weeks. As global economic uncertainty mounts, it is more important that communication on the timing of suggested interest rate adjustments be as early and clear as possible in order to avoid destabilization of the markets and negative spillover into the real economy.

There are encouraging trends in the U.S. budget deficit, but longer-term concerns about the rising debt level remain. To stimulate more domestic and foreign investment, and tax revenue, the Councils urge the administration and Congress to begin discussions on comprehensive tax

reform that would lower the statutory corporate tax rate to levels in line with other major economies while adopting a territorial system used by other advanced economies.

Similarly, the Councils urge concentrated efforts to gain Trade Promotion Authority in order to conclude major trade agreements such as the Trans-Pacific Partnership (TPP), Trans-Atlantic Trade and Investment Partnership (TTIP), Trade in Services Agreement (TISA) and Information Technology Agreement (ITA). To improve the investment environment, the Councils suggest that efforts to reduce the regulatory burden on domestic and foreign companies operating in the United States will have a significant impact.

Lastly, the Councils encourage measures that continue to support an “all of the above” energy strategy that takes full advantage of the U.S. shale oil/gas opportunity to support domestic growth and job creation.

2. Japan-U.S. Trade and Economic Partnership

The Councils are encouraged by the general direction and more cooperative dynamics in the overall U.S. –Japan economic relationship. Companies in both Councils continue to see good opportunities to expand trade, investment and partnerships across all major industrial and service sectors in Japan, the United States and globally.

As the negotiations for the Trans-Pacific Partnership (TPP) agreement accelerate, the Councils applaud both leaders of Japan and the United States for their strong commitment to achieve a high-level agreement as stated in the Leaders' Statement on November 10, 2014 in Beijing. As the largest economies in the negotiations, the United States and Japan have shared responsibility to lead the negotiations to a successful conclusion.

A strong TPP agreement will bind Japan and the United States even closer by expanding our bilateral economic relationship even further, thus strengthening the foundation of our longstanding Alliance. Moreover, we share common interests in securing the establishment of high standard rules and open markets in Asia via the TPP. The TPP negotiations will enable both countries to work in close cooperation in shaping rules that will boost trade and prosperity for the region for current participants as well as those that will follow in the future. The Councils recognize that bilateral economic partnerships are not sufficient to facilitate development of global value chains, and that mega FTAs like TPP can serve as platforms that disseminate freer access to goods and services and enable participants to obtain benefits by

streamlining regulations for investment and government procurement, protecting intellectual property rights, promoting coherence of regulations including standards and certification, establishing rules for competition with state-owned enterprises and reducing non-tariff barriers. TPP will also have geopolitical benefit for the U.S., Japan and Asia-Pacific region.

Offers of ambitious and far-reaching market access for substantially all goods and services by TPP negotiating countries, particularly the United States and Japan, will greatly help all the TPP members to achieve high-standard rules among the region. Every participant has their own sensitivities on rules or market access, and the Councils urge all governments to manage these with creativity in order to maintain the principles, objectives and benefits in the overall agreement.

The Councils, working together with relevant organizations, are ready to support both governments in obtaining people's understanding on conclusion and ratification of the TPP negotiations in each country. The Councils call upon both leaders to make a bold decision from a broader perspective.

3. Global Energy and Japan-U.S. cooperation

Energy is fundamental to global growth and stability. In this context, the Councils stress the enormous opportunity for enhanced cooperation between the United States and Japan on energy policy. Given the critical role of stable, clean and affordable energy in advanced economies, the United States and Japan can forge a mutually beneficial partnership on energy that will support U.S. energy exports, and stable and secure energy supplies for Japan; promote cleaner, low-carbon energy production to help address the pressing issue of climate change; and strengthen the broader U.S.-Japan relationship. The Councils extend their call for a deepened bilateral public-private sector Strategic Energy Dialogue to help identify and act on these challenges and opportunities.

Japan and the U.S. have dramatically different energy situations. Japan has been effectively without nuclear power generation since the Great East Japan Earthquake of March, 2011, thus deepening its dependence on energy imports, while raising questions about Japan's long-term energy security. Discussions of energy policy thus cannot be decoupled from energy security issues.

At the same time, the "Shale Revolution" in the United States is allowing it to become an energy

exporter, leading to rapid change in the global energy arena. Stable supplies of LNG from North America will reduce Japan's dependence on fossil fuels imported from the Middle East, driving Japan's reevaluation of its energy security. Expanded use of LNG, along with a shift to renewable energy resources and development of additional clean energy technologies, will also contribute to Japan achieving the necessary CO2 reductions for effective global warming countermeasures. These crucial technologies include, of course, high-efficiency gas thermal power generation utilizing LNG. In addition, there is a role as well for oil gasification, carbon capture, utilization and sequestration (CCUS), coal gasification, ultra-supercritical coal-fired thermal power generation, and natural gas combined cycle generation. Since Japan and the U.S. are global leaders in these low-carbon technologies, Japan-U.S. cooperation in technology development can speed deployment of these technologies worldwide, with special focus on fast-growing developing countries. The Councils urge both governments to reduce regulatory hurdles to these new technologies, and promote a stable and predictable regulatory regime for new renewable energy sources that will attract additional investment.

In addition, with assured safety as the primary precondition, nuclear power remains an important part of base load power supply, and one that contributes to reduction of greenhouse gas emission. The Councils commend the Abe administration for moving ahead with nuclear restarts. As safe nuclear power can also play an important role in helping developing countries secure adequate energy supplies while limiting greenhouse gas emissions, the Councils also welcome the approval of the submission of Convention on Supplemental Compensation (CSC) to the Diet by the Japanese Cabinet, and urge its prompt passage by the Japanese Diet.

In many ways, Japan-U.S. cooperation through expanded commercial relations will form a stable platform for continuing the energy revolution. America's abundance of advanced exploration and production technologies provides another crucial factor in future discussions of energy security. Given the difficulty of strategically storing natural gas, improvements in shipping, improvements in supply contract conditions, and improvements in supply/demand forecasting will prove vital. The U.S. will be the gas exporter, and Japan the importer. The United States can provide the natural gas resource and production base, and Japan can provide the natural gas shipping production base and the investment dollars necessary to bring additional resources to market.

4. Healthcare Innovation as a Driver of Economic Growth

The Councils share the view that strong, globally competitive, innovation-based pharmaceutical,

medical device, and diagnostic industries (“healthcare industry”) are critical components of strong domestic economies in both countries, contributing significantly to GDP, employment, tax revenue, R&D, and trade. The Councils note once again the remarkable progress made over the past decade in developing a shared industry vision toward adoption of healthcare policies that support innovation and rapid adoption of biomedical products that improve patient care and health in both countries.

The Councils recognize and welcome that good progress has been made over the last several years in improving the competitiveness and attractiveness of the markets in both countries. In particular the Councils applaud PMDA for steadily decreasing medical device and pharmaceutical approval times as well as Japan’s introduction of a pilot program that provides price stability for pharmaceuticals over the patent/exclusivity period.

Given the pressing needs in both countries, the Councils encourage the regulatory authorities in the U.S. and Japan to continue promoting fundamental policies that support industry innovation, including R&D measures that facilitate and protect innovation, expeditious regulatory review and approval processes, and transparent and predictable pricing and reimbursement procedures that take into account the high costs of innovation.

As the populations of both Japan and the United States age, the healthcare industries will play an especially critical role in maintaining healthy and productive work forces that sustain productivity at the high levels needed to increase economic growth and incomes in both countries. The R&D-based biomedical industries continue to develop innovative healthcare solutions that support the lengthening of the average healthy lifespan and reduction of the economic burden of disease.

The Councils also note the increasing importance of international trade to industry success. Given the sophistication of the U.S. and Japanese industries and relative transparency of the respective regulatory processes, the U.S. and Japan should work closely together in developing rules and practices in other countries that will support sound medical treatment. In particular, the Councils urge the U.S. and Japan to collaborate closely in the TPP negotiations to ensure the TPP agreement includes the strongest possible pharmaceutical IPR standards, as well as transparency and procedural fairness measures in other participating countries related to pricing and reimbursement.

In short, the Councils urge both governments to take into account the important role the

healthcare industry plays in overall economic growth, and look forward to engaging with officials from relevant ministries on ways to support industry growth and development while improving overall patient care.

5. Financial Regulations Contributing to Sustainable Growth

The Councils believe transparent capital markets and strong financial services sectors in the U.S. and Japan are essential not only for growth in our two countries, but also for growth in the global economy as well. Accordingly, the Councils fully support reasonable regulatory reforms designed to strengthen the global financial system, and our respective domestic systems.

However, the Councils remain concerned about the potential for unintended consequences of the current national and global regulatory reforms on financial and capital markets, which threaten to impede the sector's ability to provide needed liquidity and support domestic demand, and hence to fuel broader macroeconomic growth. In this new regulatory environment, the Councils believe that supervisory measures should be appropriate to attain appropriate supervisory objectives and not go beyond what is necessary to achieve those objectives, and avoid distorting competition in the market. In this regard, it is especially important for regulators to take into account the fundamental differences between banks, insurance and other non-bank institutions when setting regulatory structures and capital standards. The Councils urge the governments to avoid measures that would introduce volatility, destabilize the market for long-term insurance and as a result deny customers choice.

The Councils remain concerned about the overlapping and cumulative impact of already globally agreed-upon regulations and the implementation of such measures in each jurisdiction, including Basel III, and the domestic regulatory reforms being implemented across national jurisdictions, which taken together could impose unanticipated consequences for the financial system, and at the same time create new opportunities for regulatory arbitrage. Furthermore, the Councils urge both governments to cautiously monitor the cumulative impact of regulation and to enhance cross-border cooperation and coordination among global regulators, in order to promote greater international regulatory consistency avoiding extraterritorial application. There is also a concern about the one-size-fits-all approach to global regulation, which will lead to a new risk for the global financial system.

In this context, the Councils call on both governments to continue working through the G20, the Financial Stability Board or other global standards-setting bodies, while ensuring transparency

and accountability of duly elected leaders, to strengthen the current framework of global economic governance for pursuing the strong, sustainable and balanced expansion of the global economy.

6. Travel & Tourism: Promoting Human and Cultural Exchange

For the first time, the Councils addressed Travel & Tourism (T&T) as a major topic in the U.S.-Japan Business Conference. T&T is a major contributor to economic growth and employment in the United States, and is becoming so in Japan. T&T creates significant spillover effects in other industries and, as such, represents a large sector of economic output for almost all major economies. Worldwide, the T&T sector accounted for nine percent of global GDP (\$6 trillion) and provided 120 million direct jobs in 2013 according to the World Travel and Tourism Council (WTTC). There is potential for significant growth of the T&T industry in the United States, and particularly in Japan.

Against this backdrop, the Councils fully endorse the commitment made by President Obama and Prime Minister Abe at their meeting in Tokyo in April of this year to expand people-to-people exchange between Japan and the United States. The Councils agree with the view expressed by the leaders that "Broad people-to-people exchange between Japan and the United States has been a key pillar of our Alliance since its inception." Travel and tourism is a critical element in promoting and facilitating such exchange.

The Councils commend Prime Minister Abe for making T&T one of the pillars for economic growth under the Third Arrow, and for setting an ambitious target to increase inbound tourists to 20 million by 2020. There are positive and encouraging trends, with the number of foreign tourists entering Japan exceeding 10 million for the first time in 2013, and the current pace indicating over 13 million will enter this year. Japan still has abundant untapped capability to establish "destination" attractions that will draw tourists from the region and world in greater numbers. In particular, the 2020 Tokyo Olympics/Paralympics will serve as a major milestone towards the goal and Japan can go beyond.

Japan has many positive attributes required for a strong travel & tourism industry, including good infrastructure for air and ground transportation, a strong service-oriented culture, diverse geographic attractions, world class hotels and restaurants, cuisine culture as typified by "Washoku", and a modern communications and financial system. However, there are some issues that will need to be addressed in order to meet these goals and make this sector a stronger

contributor to the Japanese economy, including more relaxation of visa requirements, smoother and faster immigration, upgrading of metropolitan and local airports and improvement of access, and improvements in the electronic payment system to allow greater and broader use of overseas-issued payment cards.

Longer term, MICE (Meetings, Incentives, Conferences and Exhibitions) is another important opportunity that can bring more people in from the world, promote exchange of people and information that encourages innovation and business changes, in addition to the immediate economic benefit. In Japan, Integrated Resorts (IR) where meetings, conferences and exhibitions are held is under discussion. IR is expected to be a great contributor to the growth of T&T in Japan and the economic development of regions and related industries. At the same time, it is necessary to dispel social concerns over possible negative effects. The Councils are ready to contribute to the deepening of the discussions based on our experiences in development and management of IRs in the U.S. and Asia in order to increase public understanding of the positive impact IRs can have and the ways social concerns can be effectively addressed.

Although the U.S. travel & tourism economy is larger and more developed than in Japan, there are also infrastructure, regulatory, immigration and other issues that need to be addressed in the United States in order to facilitate and enhance tourism. In particular, the Councils urge improvement in the U.S. visa system to facilitate business travel for professionals coming to the United States for short-term assignments, as well as improvements that ease the time and inconvenience of customs and immigration processing at major entry airports. To this end, programs such as Global Entry are very useful, and the Councils urge the U.S. and Japanese governments to work together, and with the private sectors, to find ways to bring Japan into the Global Entry network.

Expanding T&T and other exchange between the United States and Japan is a win-win proposition for both countries, and the Councils pledge to make every effort to collaborate and promote two-way flows of business and leisure travelers to boost growth and job creation. In line with these priorities and opportunities, the Councils have formed a Travel & Tourism Working Group comprised of companies involved in various facets of the industry. The Working Group will work to support the objectives of both governments to expand bilateral and overall T&T activity in Japan and the United States.

Supplement on Energy
Global Energy and U.S.-Japan Cooperation
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Energy Policy at a Crossroads

Historic developments in energy supply and demand, in innovative energy technologies and in energy market evolution are creating new opportunities, as well as the urgent need for closer collaboration between the U.S. and Japan on energy policies. This arises not only from new developments in our two respective countries, but also at the global level. The U.S. Shale Revolution, and the historic overhaul of the Japanese energy market through the Electricity Business Act reforms and the new Energy Basic Plan, are key drivers of this new dynamic. Yet global developments, such as slowing demand in some developing countries, and the need to deal with climate change, also factor into the global energy equation. Against this backdrop, U.S.-Japan energy cooperation can help leverage opportunities, surmount challenges, and deliver on our commitments both to ensuring sustainable and secure energy supplies for our economies, as well as to protecting our environment.

Japan and the U.S. currently have dramatically different positions in the global energy arena. Japan is almost totally dependent on energy imports, particularly since the disasters of March 11, 2011 resulted in the shutdown of Japanese nuclear reactors. At the same time, the United States, thanks to the Shale Revolution, is becoming a net energy exporter. Although the two nations' energy positions differ dramatically, the Japan-U.S. Business Council and the U.S.-Japan Business Council (hereinafter "The Councils") believe that our countries share important common goals and can partner with each other, at both the private and public sector level, to help identify and implement a cooperative energy policy that will promote economic growth, bilateral cooperation on technology and development, and an overall strengthening of the U.S.-Japan relationship. To help realize this partnership, the Councils make the following recommendations.

Establish a Comprehensive, High-Level Strategic Energy Dialogue

In 2013, the Councils called in their Joint Statement for the establishment of a "comprehensive high-level strategic energy dialogue," incorporating the public and private sectors from both countries, that would identify key issues of energy strategy

holistically across all major energy sectors. Throughout the past year, the Councils have cooperated in laying the foundation for such a Strategic Energy Dialogue (“SED”), which will be realized in a series of meetings around the 51st Joint Conference this November.

The governments of Japan and the United States have previously initiated sector-focused bilateral energy dialogues such as the U.S.-Japan Clean Energy Policy Dialogue, the U.S.-Japan Renewable Energy Business Roundtable and the U.S.-Japan (Nuclear) Roundtable. The Councils recognize the value of these dialogues, but believe that a comprehensive public-private dialogue can strengthen bilateral energy cooperation by taking a cross-cutting approach across all sectors and ensuring private sector, commercially focused input into all discussions.

To this end, the Councils salute the presence of Japanese and U.S. energy officials at the 51st Joint Conference Energy Breakout to join these strategic discussions with the private sector. In addition, we warmly welcome the enhanced collaboration of the past year, symbolized by the holding of two additional meetings in Tokyo during November, organized with the cooperation of the Councils and the American Chamber of Commerce in Japan. Together with the Joint Conference Energy Breakout, we recognize these coordinated meetings as the first set of cross-cutting, public-private sector discussions under our call for an SED, a template that we hope to deepen in both regularity and participation over the coming years. This SED will aim at developing more specific and detailed recommendations to address the following energy policy areas.

Addressing Global Climate Change

Achieving the necessary greenhouse gas (GHG) reductions for effective global warming countermeasures will necessitate of course a shift to renewable energy resources, including wind, solar, power reactant storage and distribution system and new technologies like Biomass. Yet it will also require development of additional clean energy technologies, including high-efficiency, low-carbon fossil fuel power as well. These technologies should include, most prominently, high-efficiency natural gas-fired thermal generation, which will allow Japan to leverage the expected supply of North American LNG assured by recent LNG export approvals, for which the US and Japanese business communities have been united in advocacy. Indeed, Japan can be a main beneficiary of an expected “Golden Age of Gas,” wherein the world transitions from dependence on Middle Eastern oil to dependence on the natural gas produced in North America and the Asia-Pacific region.

Additional fossil technologies include combined cycle technology, coal gasification,

carbon capture, utilization and sequestration (CCUS), as well as ultra-supercritical coal-fired thermal power generation.

Moreover, nuclear power, with its low GHG emissions, remains as important and environmentally necessary base load power component. Subject of course to strict safety requirements, the Councils support the Japanese Government's moves to restart nuclear power generation in Japan.

Collectively, renewables, low-carbon fossils, and nuclear will make critical contributions to reducing GHG emissions from the supply side. In addition, improved energy grid technology, and regulatory frameworks that advance a competitive, efficient grid system, with fair access for the variety of technologies, will ensure more effective energy management. Promoting new technologies to enhance energy efficiency including "Zero Energy Building" will save energy consumption and reduce CO2 emission. Thus, those advance demand as well as supply side efforts to address climate change. We will examine each of these areas in turn.

Japan and Nuclear Energy

Considering Japan's current high degree of dependence on energy imports, it is vital that Japan construct an energy mix that balances demonstrable safety, energy security, economic efficiency, and competition. As a step in that direction, the Councils appreciate that the Japanese Government's Basic Energy Plan, approved by the Cabinet this spring, states that nuclear power remains a "key base-load power source."

While final energy mix guidelines await further clarity on the pace of nuclear plant restarts, the Councils hope that in considering this balanced energy mix, investments in spent fuel disposal and reprocessing continue to be facilitated, and that nuclear plants that have demonstrated safety features will be restarted promptly.

While making the greatest efforts to restart nuclear power plants, Japan must also strive to maintain its expertise of nuclear power gained over many decades, and continue to work globally to promote safe nuclear power generation. In this regard, the Councils applaud the Japanese Cabinet's recent decision to approve the Convention on Supplementary Compensation for Nuclear Damage (CSC), and urge that the Japanese Diet ratify the CSC in the current Extraordinary Diet session. The CSC is important not only to Fukushima recovery efforts, but also is of the utmost importance in strengthening U.S.-Japan cooperation to provide safe nuclear power to third countries.

The Japanese public and private sectors must combine their efforts to rebuild trust in the safety of nuclear power among the Japanese people. The Councils believe that U.S.-Japan public private cooperation can play a major role in these efforts.

Seizing the Shale Gas and the LNG Opportunity

As a result of the Shale Revolution, shale gas and oil production in the United States has expanded rapidly, and LNG exports from the United States will soon become a reality. These expanded exports could not come at a more opportune time, as Japan has seen increased dependence on natural gas imports since the disasters of March, 2011. Desiring a stable, long-term supply of natural gas while avoiding price shocks and political risk, the addition of the U.S. LNG imports to Japan's supply mix is a fortunate development. Similarly, the Councils recognize that the U.S. also benefits greatly, with Japan investing in U.S. resource development and production projects and serving as a large, stable market for U.S. LNG.

The Shale Revolution has just begun, but the Councils expect that Japan-U.S. cooperation will have more significance than just a supplier-buyer relationship. For example, Japan possesses many leading technologies used in natural gas liquefaction facilities and LNG tankers – technologies that when applied to the United States market, will enable the U.S. to benefit along with Japan. Conversely, many U.S. companies possess technology in downstream technologies such as high-efficiency gas turbines, that will benefit from increased gas-based generation, and which can help Japanese utilities and new independent power producers lower the cost of energy generation. And of course, as the lower GHG producing fossil fuel technology, high efficiency gas has a unique role to play in avoiding climate change. In sum, these developments amount to a win-win scenario.

Clean Coal Technology

The Councils believe that in the mid-to-long term, fossil fuels will remain a key component of the energy mix for many fast-growing economies in regions such as ASEAN. Therefore, we recognize that the adoption of clean, efficient methods for utilizing fossil fuels will continue to play an important role. The Councils recognize that for certain developing countries and economies, a diverse portfolio of fossil fuels cannot quickly be shifted entirely to gas, or readily be replaced by other non-fossil sources, and thus high efficiency coal-fired power generation, carbon capture, utilization, and sequestration (CCUS) technologies, and other clean coal technologies (CCT) must continue to be developed. It is important that U.S.-Japan cooperation in this area also be strengthened.

Accelerating Development of Renewable Energy

The increasing frequency of extreme weather phenomena shows the importance of undertaking global warming countermeasures. Against this backdrop, the Councils appreciate both Obama and Abe Administrations' determined resolve to tackle the global climate problem and minimize the harmful impacts of climate change on our world.

For its part, the Japanese government is also encouraging industry to develop various renewable energy sources. To further accelerate renewable energy deployment, for example, the Japanese government is endeavoring to streamline regulations that can hinder renewables development, such as through plans to shorten the environmental impact assessment process for new renewables projects. The Councils call on the Japanese government to quickly implement these plans, as well as to address other hurdles such as application of unnecessarily strict building codes to wind towers. The Japanese government is also focusing research and development investments on high-efficiency renewable technologies, large-scale energy storage systems, and streamlining the electricity distribution system, moves that the Councils commend, along with the U.S. and Japanese governments initiating a public-private roundtable to promote joint development of renewable energy technologies.

The Councils urge both the U.S. and Japanese governments to foster a stable investment climate for renewable technologies to provide private industry with long-term certainty that government policy towards renewable energy will be predictable and strive towards economic efficiency. Among other aspects, this policy must assure fair and competitive access to energy grids for renewable power sources, including wind, solar, geothermal and Biomass. Under the umbrella of this stable policy, U.S. and Japanese industry can develop new technologies that reduce costs, improve production efficiency, and increase the competitiveness of renewable energy.

An Approach for Long-Term Energy Development

The Councils believe that an effective dialogue on energy security requires long-term planning focused on achieving a higher degree of energy self-sufficiency.

Large reserves of methane hydrates are estimated to lie in the seas surrounding Japan, but because the reserves are located in deep water, within a low-temperature, high-pressure environment, it is currently very difficult to extract the resource economically.

Hydrogen is another energy source with great potential in the future. Hydrogen can be

derived in many ways from a great variety of materials, and can be stored and transported in various states as a solid, liquid, or gas. Highly energy efficient, hydrogen also has a negligible environmental impact.

Thirty years ago, no one could have predicted the Shale Revolution that the United States is currently enjoying, enabled by the production of an energy resource previously considered uneconomic. In the same way, the Councils believe that through great efforts undertaken by the U.S. and Japan, there is a chance that resources such as methane hydrates or hydrogen could ignite a similar energy revolution in the future.

Development of these new energy resources will require long-term investments that cannot be borne alone by the private sector. With a view to securing a stable energy future, significant government investment will be needed. The Councils urge the U.S. and Japanese governments to advance a bold investment strategy to secure our energy future.

SUPPLEMENT on HEALTHCARE INNOVATION
Visionary Goals and Recommendations
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The R&D-based pharmaceutical and medical device industries continue to play a constructive role in improving the health and welfare of people in the world, including emerging markets, by driving economic growth and job creation, as well as developing innovative healthcare solutions that support the lengthening of the average healthy lifespan and reduction of the economic burden of disease. Accordingly, Japan-U.S. Business Council and the U.S.-Japan Business Council (hereinafter “the Councils”) ask both governments to implement healthcare policies that embody the below visionary goals. The Councils recognize and welcome that good progress has been made over the last several years in improving the competitiveness and attractiveness of the markets in both countries. In particular the Councils applaud Pharmaceuticals and Medical Devices Agency (PMDA) for steadily decreasing medical device and pharmaceutical approval times as well as Japan’s introduction of a pilot program that provides price stability for pharmaceuticals over the patent/exclusivity period. In addition, the Councils welcome the increased levels of cooperation that the two governments have shown on third market issues as well as on free trade initiatives such as the Trans Pacific Partnership (TPP). The Councils offer the following specific recommendations under each visionary goal as a means to advance such progress.

Section I: Pharmaceuticals and Medical Devices

1. R&D Process Visionary Goal - The U.S. and Japanese markets have R&D systems that facilitate collaboration across the private, academic and public sectors and allow for efficient translational, pre-clinical, and clinical development that spurs innovative R&D. The Councils welcome plans to establish a medical research and development control tower function (Japan Agency for Medical Research and Development) to ensure the steady implementation of government efforts to promote and prioritize medical research and development. The Councils also welcome the Forerunner Package Strategy which was published in July by Japan’s Ministry of Health, Labor and Welfare (MHLW) and describes significant advances in Japanese pharmaceutical and biotech regulation, approval and recommendations as well as research and development policies.

Pharmaceuticals and Medical Devices Recommendations

- Pursue and support policies that reduce the barriers between the private, academic and public sectors for collaboration globally.
- Make permanent the upper limit of 30% to Japan's R&D tax credit system.
- Introduce a permanent U.S. R&D tax credit system for long-term R&D innovation.

2. Regulatory Approvals Visionary Goal - The U.S. and Japanese markets have regulatory systems that are transparent, predictable, and efficient that foster simultaneous global development and result in first-in-world approvals through a minimization of country-specific requirements and maximization of international standards and common practices.

Pharmaceuticals

The Councils welcome Japanese government plans to promote global harmonization of regenerative medicine regulations. The Councils are also encouraged by Japan's new membership in the Pharmaceutical Inspection Co-operation Scheme (PIC/S), which will result in improvement in harmonization of manufacturing site inspection practices based on the PIC/S Good Manufacturing Practice (GMP) guide. The Councils offer the following recommendations.

- Further improve the expertise of PMDA reviewers, including in the areas of clinical research and practice as well as in new areas of medical specialization.
- Enhance Japan's coordination capacity in the "Tripartite" exercise to promote multinational clinical trials with China and Korea to further facilitate the broader and more flexible use of East-Asian clinical trial data as the basis of establishing safety and efficacy.
- The Councils will cooperate and begin to prepare for PDUFA VI in the U.S.
- Encourage PMDA to focus more on the clinical impact of data as well as to develop the capacity to accept newer statistical methodologies and study designs.
- Increase regulatory efficiency by the U.S. Food and Drug Administration (FDA) and Japan's PMDA more actively sharing GCP inspection reports with the aim of reducing on-site inspections.

Medical Devices

The Councils applaud Japan's passage of the new Pharmaceuticals and Medical Devices Law that establishes a separate chapter for medical devices and appreciate the close consultation with industry facilitated by MHLW and PMDA on the implementing regulations. In addition, the 5-year Action Program for the Speedy Approval of Medical Devices that ended in March of 2014 established performance goals for medical device approvals, tripled PMDA staffing, and substantially improved the approval process. The

Councils offer the following recommendations to both governments:

- Continue FDA consultations with industry on implementation of the U.S. Medical Device User Fee and Modernization Act.
- Establish more efficient regulatory processes in the U.S. to ensure patients have timely access to safe and effective medical devices.
- Establish mutual recognition between the U.S. and Japan of good clinical practices and quality management audit results.

3. Evaluation of Innovation Visionary Goal - The U.S. and Japanese markets have pricing and reimbursement systems that fully recognize the value of innovation in transparent, predictable and efficient processes that maximize patient access and physician choice as well as encourage innovative R&D.

Pharmaceuticals & Medical Devices Recommendations

- Ensure that if any new health technology assessment (HTA) or other pricing/reimbursement approach is introduced in Japan or in the U.S., it promotes innovation without restricting patient access or physician choice, and does not cause a drug or device lag.
- Ensure that the price revision process in Japan is not conducted annually, or in an ad-hoc manner.

Pharmaceuticals

- The Japanese pricing system pilot that provides for price stability over the life of the patent and/or exclusivity period makes the Japanese market more attractive. It should be made standard policy on April 1, 2016. Combined with policies to promote greater use of generic medicines, this is a budget neutral policy that supports innovation and reduction of the drug lag.
- Abolish the anti-innovative application of the “Special Re-pricing for Market Expansion Rule,” such as Domino-style price reductions for all other drugs with similar pharmacological modes of action but different safety and efficacy profiles.
- Promote strong language guaranteeing reimbursement and pricing transparency provisions for third countries in TPP.
- Ensure that the Foreign Price Adjustment rule continues to take into consideration the cost of global R&D and rewarding innovation.

Medical Devices

- The Councils appreciate several measures taken in the 2014 price revisions to better reward innovation in Japan’s reimbursement system, including targeted improvements

to the C1/C2 premium reimbursement application process, the “single room” system to reward innovative products within existing functional categories, and continuation of the device-lag elimination premium. However, the Councils continue to seek the following fundamental changes to pricing and reimbursement policies in Japan and the U.S.: Eliminate Japan’s Foreign Average Price (FAP) rule for medical devices and transition to a product-based, market-oriented pricing system that allows for the full evaluation of innovative medical technologies and enables Japan to effectively execute its Health and Medicine Strategy.

- In line with Japan’s Health and Medicine Strategy, consider reimbursement policies that facilitate a stable and predictable environment that encourages investment in the medical device sector.
- Repeal the U.S. “Medical Device Excise Tax” that took effect in 2013 as part of the Affordable Care Act (Obama Care), so that it will not undermine the industry’s ability to develop innovative products and therapies.

4. IPR Protection Visionary Goal - The U.S. and Japanese markets have Intellectual Property Rights (IPR) systems that fully provide protections for inventions and data as well as transparent, predictable and effective means of enforcement and redress to ensure full protection of innovators rights and spur further innovations. Furthermore, the U.S. and Japan cooperate to promote the highest possible IPR standards in trade architectures such as TPP by, for example, stressing that IPR is neither a barrier to medicines nor an impediment to economic development.

Pharmaceutical Recommendations

- Adopt a 12-year period of data protection for biologics in Japan.
- Extend the data exclusivity period in the U.S to 8 years (and 10 years for orphan drugs) for small molecules.
- Press for the highest possible IPR standards in TPP.
- Shorten patent approvals in Japan from 2 years 6 months to 1 year 10 months, which is equivalent to that of Korea and China.
- Improve “patent linkage” in Japan by insuring that no generic applications are approved until there is a resolution of any patent issues in the court.
- Apply a "Patent Box" system to reduce the tax rate for royalty income.

Medical Devices

- Establish a harmonized patent term extension system to ensure the same scope of patented inventions subject to the extension.
- Strengthen the IP transfer bridge between academic institutes and companies with

manufacturing and sales capabilities, and restrict patent right enforcement by non-practicing entities.

Section II: Promotion of Healthy Lifestyles

1. Community-based Care Visionary Goal: The U.S. and Japan adopt policies that support and facilitate the optimal utilization of healthcare goods and services within a community-based system for the treatment of chronic and terminal patients. Such an approach will improve patients' quality of life, lower overall healthcare expenditures, leverage recent advances in remote-care, alleviate physician shortages, all while better serving aging populations.

Recommendations

- 1) Community-care systems should be established that include coverage of not only terminally ill patients but also patients suffering from chronic illnesses.
- 2) Policies should be adopted to alleviate the financial burden on patients associated with both modifications to and installation of additional capacities in the home needed to facilitate home care.
- 3) Reimbursement should be increased to fully cover the maintenance costs associated with homecare devices.
- 4) Treatment of patients using tele-medicine should be encouraged through appropriate reimbursement of healthcare providers for services provided via tele-medicine. Manufacturers also should be rewarded through reimbursement system for the investment associated with the development and servicing of hardware and software tailored for home use.
- 5) Japan should better integrate its healthcare insurance and nursing care systems so as to ensure seamless provision of quality healthcare to patients as they transition from the hospital or clinical setting to the home.

2. Vaccine Policy Visionary Goal: Eliminate "Vaccine Gap" in Japan and establish infrastructure to accelerate access to innovative and global standard vaccines. The recent spread of infectious diseases such as dengue fever and ebola across national borders underscores the increasing importance of collaboration among countries on prevention and control measures.

Recommendations:

With this vision in mind, the Councils respectfully recommend that the Government of

Japan takes following actions with a strong leadership to reform the current vaccination system steadily based on the Basic Immunization Plan enforced in April 2014.

- 1) Develop measurable objective and timeline for the Basic Immunization Plan in order to execute the plan steadily.
- 2) Fully support the advisory committees on immunizations and relating organizations including National Institute of Infectious Diseases in order to promote science-based discussion and decision-making about vaccination-related issues.
- 3) Establish a standard process, criteria and timeline for adoption of new vaccines into the National Immunization Program.
- 4) Set a target vaccination rate of each recommended vaccine and take measures to achieve the target rate.
- 5) Establish a sustainable financing system for recommended vaccines that designates the federal government as a funding body of vaccination costs in order to promptly achieve uniform vaccination to those wishing to receive vaccines nationwide.
- 6) Organize an expert team in charge of vaccine communication to enhance risk communication and education of public, healthcare provider and media for promotion of informed vaccine decision-making by conveying detailed and accurate information about risks and benefits of vaccinations.
- 7) Strengthen collaboration between government, industry and academia for vaccine R&D.
- 8) Streamline the national testing system to realize flexible vaccine supply.

3. Diagnostics Visionary Goal: The U.S. and Japan recognize the innovative medical diagnostic industry as an important driver of job and export growth, support the use of innovative diagnostics for early diagnosis and treatment to improve patient Quality of Life and help extend the healthy lifespan of the population, and use pricing incentives for the use of innovative diagnostics to improve efficiency in health spending. The Councils welcome the adoption by the PMDA of a new action program in April 2014 to increase the number of reviewers and accelerate reviews of innovative new in-vitro diagnostic (IVD) products. We also applaud the new E3 rule that was introduced to reward innovation based on relative effectiveness and convenience, as well as inclusion in the new Pharmaceutical and Medical Devices Law of a separate chapter for in vitro diagnostic products.

Recommendations

- 1) In line with this vision, the Councils urge the Government of Japan to take the following steps:

- (A) Continue efforts to create a robust regulatory pathway and reimbursement policy suitable for companion diagnostics; and
 - (B) Implement new E3 rule appropriately by providing pricing incentives for innovation by differentiating among reimbursement prices of various IVD products based on their relative value and quality, including potential for faster and more accurate diagnosis at point of care.
- 2) The governments of the U.S. and Japan collaborate in global efforts to streamline and harmonize the regulatory pathway for the development of companion diagnostics for use in the growing area of personalized medicine.

4. Regional Leadership Visionary Goal

Based on the shared understanding that improved health can lead to increased worker productivity, the U.S. and Japanese governments collaborate in the Asia Pacific region on improving health and welfare as a way to lay a strong foundation for sustainable economic growth and greater international trade. The Councils welcome the strong collaboration between the U.S. and Japanese governments during 2014 in promoting capacity building and best practice sharing in the medical sector among the 21 APEC member economies.

Recommendations

- 1) Continue collaboration between the FDA and the PMDA in the APEC Regulatory Harmonization Steering Committee to promote regulatory convergence through 2020 based on capacity building and best practice sharing in the areas of biopharmaceuticals and medical devices.
- 2) Strengthen collaboration between the MHLW and the U.S. Department of Health and Human Services to support the creation of a robust “roadmap” for the implementation of the APEC “Healthy Asia Pacific 2020” vision statement that was endorsed by APEC Ministers in 2014.
- 3) Continue collaboration on the adoption of codes of ethics by industry associations based on the APEC Kuala Lumpur Principles for the medical device industry and Mexico City Principles for biopharmaceutical industry.

SUPPLEMENT on FINACIAL SERVICES
51st Japan-U.S. Business Conference
Japan-U.S. Business Council / U.S.-Japan Business Council
November 14, 2014

Japan- U.S. Business Council and the U.S.-Japan Business Council (hereinafter "The councils") believe that a vital pillar of sustainable growth for the global economy, including Japan and the U.S., is a robust financial services industry based on market principles, effective regulation, transparency and strong institutions with global reach. The financial industry promotes long-term growth not only as an employer, but also through the financial support of governments, businesses and consumers. To support this critical function, the Councils urge both governments to adopt the following measures and principles, which will contribute to the health and sound regulation of financial services in both countries.

■ **Transparency:** The Councils believe transparency contributes to policy effectiveness by reducing uncertainty in the decision-making of market participants, and promotes financial and systemic stability by enabling better understanding of government policies. Transparency is critical to the confidence that commercial entities require to make management and investment decisions, and is undeniably in the interests of consumers as well. In this regard, the Councils urge regulators in both countries to continue to expand the dialogue with the financial industry and consider views of market participants when crafting and implementing new regulations.

■ **International Coordination and Regulatory Consistency:** The Councils are of the view that, as regulatory bodies finalize a large array of new and globally significant regulations, it is crucial to harmonize this activity between jurisdictions in order to avoid fragmentation and rising costs to end users of financial services, which will impede economic growth. When local conditions in any two jurisdictions choose separate paths to arrive at similar outcomes, regulators of any given jurisdiction should avoid applying rules on an extraterritorial basis.

The Councils believe the International Organization of Securities Commissions could play a pivotal role in facilitating cross-border coordination of regulatory outcomes. The Councils wholehearted endorse the IOSCO Task Force on Cross Border Regulation, and its focus specifically on the promotion of dialogue, the coordination between jurisdictions of timetables for the implementation of new regulations, and the development of mechanisms for cross-border consultation as issues emerge. A speedy completion of the IOSCO proposals, and their implementation, would in turn enhance the smooth function of a global financial market place.

Moreover, structural banking reforms in individual jurisdictions lead to regulatory fragmentation

across national jurisdictions and thus pose the risk of decreasing the efficiency of the global financial system and reducing systemic resilience globally. Accordingly, the Councils urge regulators to promote greater international regulatory consistency through the development of effective resolution regimes based on strong mutual trust, so as to rebuild a resilient international financial system that benefits the global economy.

■ **Assuring Liquid Financial Markets:** The Councils welcome the continued efforts by regulatory authorities, in the wake of the 2008 crisis, to shore up the global financial system through the overhaul of the regulatory system currently underway. There is a concern, however, that the cumulative impact of all these new reforms will constrain liquidity and thereby hinder market making functions and access to financing for the broader economy. In the years ahead, the financial industry will have to grapple with: i) Basel III's introduction of higher capital charges, liquidity and leverage ratios; ii) restrictions on proprietary trading and market making by such regulations as the Volcker rule; iii) introduction of additional capital buffers and potentially other requirements on systemically important financial institutions at both the national and global levels, iv) shadow-banking regulations; and v) new margin requirements on a variety of derivative transactions, along with other local regulatory initiatives.

All of these rules encourage institutions to restrain liquidity. Investors, by turn, will invest less in illiquid markets, hampering the ability of corporations or consumers to borrow or raise capital. The drag on growth will be considerable. The Councils specifically warn against any more regulations that might further constrain liquidity, such the introduction of restrictive leverage ratios that fail to allow for the netting of offsetting positions when calculating the denominator.

■ **Total loss absorbing capacity ("TLAC"):** The Councils understand that regulatory authorities are making a concerted effort to work on the "Too Big to Fail" issue, avoiding reoccurrence of another financial crisis. However, as Resolution regimes differ significantly by country, as do the development of regimes for covering costs associated with resolution, each jurisdictions resolution regime and business models should be taken into account in determining the amount of total loss absorbing capacity ("TLAC"). The one-size-fits-all approach in the development of TLAC for Global Systemically Important Banks (G-SIBs) is likely to create new risks for the global financial system.

■ **Margin Requirements for Non-Centrally Cleared Derivatives:** IOSCO and the Basel Committee on Banking Supervision have put in place global proposals on margin requirements, and national regulators are now proposing local implementation rules. The Councils urge national regulators to resist the temptation to unnecessarily "gold plate" the international regulators, and specifically call on US Prudential Regulators and the Commodity Futures Trading Commission to rethink recent proposals

to require margining on swap transactions between affiliates, or to require mandatory segregation of margin with a third party custodian.

■ **Equity Financing Treatment under Net Stable Funding Ratio:** The Basel Committee on Banking Supervision's Net Stable Funding Ratio, as currently proposed, will dramatically raise the cost of crucial equity market functions that support investor access and facilitate capital formation. Those cost increases could drive equity market activity into the largely unregulated shadow banking system, thereby increasing systemic risk. The Councils call on the regulatory authorities of Japan and the US to contribute to the revision of these rules to exclude stock borrowing transactions from the classification as "loans" for the purposes of the funding ratio and to otherwise reduce Required Stable Funding assumptions for equity securities to levels that reflect observed funding costs.

■ **Accounting for Differences between Banking and Insurance:** As Insurance provides a mechanism for the pooling and transfer of the financial consequences of risk, insurance companies are a source of financial strength and stability during times of economic distress, including the 2008 financial crisis. However, recent regulatory changes threaten to both undermine that role and impede their ability to serve their customers. The Councils call on the US and Japanese Governments to ensure that the International Association of Insurance Supervisors, as it develops a global insurance capital standards(ICS) as well as a basic capital requirements(BCR) and Higher Loss Absorbency (HLA) for global systemically important insurers, take fully into account the difference between insurers and banks. Any global insurance capital standard should be capable of easy implantation, while ensuring sufficient capital to protect solvency, cover risks comprehensively, and provide a basis for comparison among insurers which are currently under different solvency regimes. G20 and FSB should not enforce a deadline for the new standards at the expense of meaningful results.

As governments seek common ground related to accounting and valuation standards in the context of development of the new standards, the Councils urge the two Governments to exercise care to avoid introducing volatility, which would be at odds with the stable, long-term nature of most of life insurance liabilities, and consequently not to force companies to exit long term guaranteed businesses.

■ **Ensuring Inclusive Growth:** The Councils encourage the United States and Japan to exert their leadership within the G-20, FSB and the Basel processes so that policies do not impede prudent financial intermediation and jeopardize growth among small and medium enterprises ("SMEs"). Such cooperation should extend as well to other regional fora where the United States and Japan have leadership roles, such as APEC, where initiatives are being developed to promote financial inclusion and inclusive growth.

■ **Level Playing Field:** Like regulation for like products and service providers (i.e. a level playing field) is a key regulatory principle for strengthening financial and capital markets and avoiding market inefficiencies and competitive distortions in the markets. The Councils urge both governments to avoid distortions that arise when one market participant enjoys favorable treatment over another. It is important to establish a level playing field between mutual aid cooperatives (kyosai) and FSA-regulated private sector financial service providers. The Councils also welcome the Abe administration’s clear vision regarding postal reform and stand ready to play a constructive role as the Government continues to take steps to create a level playing field between the postal financial institutions and the private sector.

■ **U.S. Insurance regulation:** Over the past 150 years, the U.S. State-based regulatory system for insurance has been responsive to the needs of the local marketplace. The Councils welcome continued efforts to further modernize U.S. state-based insurance regulation. In addition, the Councils will continue to monitor further progress closely, and are encouraged by the recent developments in the field of U.S. reinsurance regulation, including recent reforms easing rules requiring offshore reinsurers to post collateral, and the creation of “certified reinsurers.”

■ **Commercial Finance:** Japan’s commercial finance laws should be updated to promote a competitive and transparent asset based lending market. The Councils recommend modernization of the Civil Code and relevant lending laws so as to achieve (1) a more uniform and exclusive system for registration and perfection of security interests, eliminating risks of “hidden liens”; (2) broad coverage by such system of various classes of collateral, encompassing movable and immovable property as well as intangibles such as receivables; (3) a clear legal infrastructure for DIP financing with adequate lender protections; and (4) a uniform set of commercial lending regulations that would enhance clarity and regulatory parity among lenders. Such measures would encourage liquidity for business and ultimately business growth. In this regard, the Councils acknowledge progress made by the Ministry of Justice’s Study Group on amendments to the Civil Code Law of Obligations, expected to be adopted in 2015. The Study Group’s recommendations to clarify the assignability of accounts receivable for security purposes, notwithstanding non-assignment clauses, will facilitate asset-based lending and is particularly welcome; though, it is hoped that the amendments will ultimately also address the other issues noted above.

■ **Neutrality in the Consumption Tax:** The Government of Japan should ensure that its consumption tax regime is consistent with global best practices for value-added taxes (VAT). In particular, the consumption tax law and related regulations should be revised to ensure neutrality in the treatment of sales of financial services offered through sales agents.

■ Promote Ease of Cross-Border Funding for Multinational Affiliates: Promotion of cross-border investment requires allowing multinationals to flexibly fund operations in other countries. In this regard, the Councils gratefully acknowledge the revision of the Cabinet Ordinance under Japan's Money Lending Business Law, effective as of April 1, 2014, exempting such affiliate lending from impractical registration requirements. This move completely addresses a recommendation made by the Councils in 2013, and brings Japan into line with other major markets (U.S., UK, Germany, Hong Kong, Singapore) that do not restrict or require money lending registration merely for affiliate funding. The Councils appreciate the leadership of the FSA in driving these changes, which will improve the efficiency of regional operations of Japanese and Japan-based firms.