

MEMO# 35220

March 28, 2023

Japan's Doubling Asset-Based Income Plan and Updates to the NISA Program

[35220]

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TO: ICI Global Members

Global Regulated Funds Committee

Global Regulated Funds Committee - Asia SUBJECTS: International/Global RE: Japan's Doubling Asset-Based Income Plan and Updates to the NISA Program

In November 2022, the Kishida administration of Japan published the Doubling Asset-based Income Plan,[\[1\]](#) an economic policy to increase household asset-based income, especially for the middle class, and promote investment in the financial market. The authorities have outlined seven policy pillars of reforms and initiatives intended to support the Plan. The most significant immediate policy action is the pillar to enhance the NISA (Nippon Individual Savings Account) program, which is a tax-exempt investment initiative[\[2\]](#) modeled after the British ISA (individual savings account) and designed to encourage individuals in Japan to shift their assets from cash and deposit-based savings to long-term investments.

The newly enhanced NISA program, expected to take effect in January 2024, brings several updates and improvements to the previous program, which the government had introduced in 2014. ICI Global is supportive of the enhancement of the NISA program, such as a higher contribution limit, broader investment options, and making the program permanent, as it should aid individuals in saving and investing to meet their long-term financial goals.

Pillar 1 of the Doubling Asset-based Income Plan: NISA program updates

Program Objectives

In order to help meet its overall objective of doubling asset-based income, especially for middle-class citizens, the government has set two interim goals related to the NISA program:

- Double the total number of NISA accounts from 17 million to 34 million in five years.
- Double the amount of NISA account purchases from JPY 28 trillion (USD 212 billion[\[3\]](#)) to JPY 56 trillion (USD 424 billion) in five years.

The original NISA program had been steadily growing in popularity since its launch in 2014, with a 10% increase in account openings every year.^[4] However, around 40% of existing NISA accounts have remained dormant without any trading activities.^[5]

Key Changes to NISA Program Parameters

To encourage more usage, the Doubling Asset-based Income Plan has introduced a number of key enhancements to the NISA program, including: allowing for higher annual contributions; significantly increasing maximum tax-exempt account holdings size; and eliminating the limitations on the tax-exempt holding period. The reforms also will provide additional certainty to NISA users by making the program permanent, whereas the original NISA was a temporary program, and accounts were rolled over into a taxable account at the end of a set eligibility period. Unlike the previous program, in which the tax-exemption was subject to a cumulative life-time limit, users also will now be able to take advantage of the tax benefits on a recurring basis if the assets are sold, provided their total account size does not exceed the maximum limit at any one given time.^[6]

The new NISA program will have two types of accounts, down from three under the previous program. These will be 1) an enhanced version of the existing "Tsumitate" (installment) account, in which individuals pre-commit to a specific monthly contribution, and 2) a new "Growth" plan, which provides greater flexibility in contributions and broader investment options. Meanwhile, the previous "General" and "Junior" plans will be discontinued.

NISA accounts opened under the previous program will continue to operate based on the rules and parameters of that program. There will be no restrictions on current NISA participants opening accounts under the new NISA program, meaning that these investors can take advantage of the tax benefits of both programs simultaneously until their previous NISA account reaches its pre-set time limit and those benefits expire.

Additional details on the plan update and criteria can be found in Chart 1.

Eligible Investment Products

The eligibility criteria for investment products under the Tsumitate plan will remain the same as under the previous program, with a focus on diversified, long-term investments, and low fees. Details on the eligible investment product types for the Tsumitate plan can be found in Charts 2 and 3.

The new Growth plan is intended to offer a wider range of investment options compared to the Tsumitate plan. However, the eligibility criteria and exclusion criteria for investment products under the Growth plan, especially the interpretation of the definitions of high leverage and of the allowed uses of derivatives for hedging purpose are still under discussion. The Japanese Financial Services Agency (JFSA) reportedly expects to limit the eligible investments trusts for the Growth plan to around 2,000 out of the current universe of about 6,000.^[7] The exclusion criteria that the authorities have disclosed thus far are below.

- Securities that are under supervision for delisting.
- Investment Trusts with a defined maturity period of less than 20 years.
- Highly leveraged investment trust, including the use of derivatives other than for allowed hedging purposes.

- Investments Trusts with monthly distribution.

For the investment trusts to be eligible for the Tsumitate plan, asset managers must register with the JFSA.[8] For the Growth plan, asset managers can voluntarily register Japanese domiciled investments trusts with the Japan Investment Trust Association (JITA) and be added to the publicly available list.[9] The submission formats for both plans are currently under discussion.[10]

Chart 1: Comparison of the previous and the new NISA program[11]

[View chart as a PDF.](#)

Chart 2: Eligibility for Tsumitate plan[12]

[View chart as a PDF.](#)

Chart 3: List of eligible indices for Tsumitate plan[13]

[View chart as a PDF.](#)

Other Pillars of the Doubling Asset-based Income Plan

Pillar 2: iDeCo program updates

The iDeCo (individual-type Defined Contribution pension plan), which was established in 2001, is under review for a reform to incentivize the plan usage. As of March 2022, only 2.39 million[14] people participate in iDeCo compared to the 67.25 million[15] participants in the public pension. The proposed reforms include raising the eligibility age to 70, increasing the annual contribution limit, raising the highest age to start receiving benefits, and simplifying the application process using the "My Number"[16] system. These reforms will be discussed in more detail throughout the fiscal year 2023 (April 2023 to March 2024).

Pillar 3: Training sophisticated and neutral certified financial advisors

The authorities will establish a new public organization in 2024 to promote training of financial advisors. The government aims to improve the quality of financial advice provided to retail investors by enhancing training and certification programs for financial advisors. In parallel, to increase the availability of neutral financial advice for investors with limited experience who are seeking to use the government-sponsored programs, the government is considering easing registration requirements for certain types of financial advisors whose remit will be specifically limited to advice on Tsumitate NISA or iDeCo for individual retail investors.

Pillar 4: Supporting employers to incentivize employees in building asset-based income

The government plans to encourage companies to utilize neutral certified advisors (as established through Pillar 3) in the workplace to provide investing advice to employees, and will consider preferential tax treatment for corporates that provide incentives for employees to invest in workplace Tsumitate NISA and employee shareholding associations. The government will also consider targeted support for small and medium-sized enterprises. Pillar 4 also includes facilitating labor mobility, investing in reskilling, and increasing structural wages, as well as promoting efforts to improve the economic stability of employees.

Pillar 5: Enhancing financial and economic education

Pillar 5 focuses on promoting financial and economic education for individuals at all stages of life, including in schools, workplaces, and through online resources, to improve financial literacy and encourage long-term planning and investment. The new public organization from Pillar 3 will play a significant role in implementing financial and economic education programs. The authorities are also encouraging private digital services to collaborate with the government's newly developed "public pension simulator," a digital service that provides individuals with simulations of different savings and investment scenarios.

Pillar 6: Create an open and international financial center

The government is continuing its effort to establish Japan as an international financial center, through measures such as relaxing regulations on foreign financial institutions, promoting the use of English in financial transactions, and attracting foreign talent to the industry.^[17] However, the authorities have not announced major new initiatives beyond those in the earlier April 2022 announcement.^[18] Pillar 6 also includes plans to support startups, promote impact investment, and reform corporate governance. Further information regarding these measures will be made available during 2023.

Pillar 7: Ensuring customer-oriented business conduct

Pillar 7 focuses on improving the quality of business conduct by all stakeholders in the investment chain. The goal is to establish a "virtuous circle of funds" where investment returns are distributed to households, creating stable household-based financial asset. The government restated its expectations and concerns about the asset management industry, specifically its previously stated concerns regarding what it views as high fees, inadequate governance in sales practices, and the need for potential regulation, which were initially raised in the JFSA's report on the same topic in May 2022.^[19]

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Notes

^[1] See Provisional Translation of the Doubling Asset-based Income Plan, November 28 2022, available at https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/dabiplan2022en.pdf.

^[2] The tax exemptions apply to capital gains, dividends, and interest earned on the investments made in the NISA accounts. Individuals do not need to file tax returns for the investment returns earned through the NISA plans.

^[3] Program targets and limits are all JPY-denominated. USD equivalent values are provided throughout the memo for reference only, using the prevailing average exchange rate at the time of writing.

^[4] See NISA program account openings and usage data report by Japan Securities Dealers Association, September 30, 2022, available in Japanese at

<https://www.jsda.or.jp/shiryoshitsu/toukei/files/nisajoukyou/nisaall.pdf>. Preliminary account openings and usage data is available at <https://www.fsa.go.jp/policy/nisa/20230224.html>.

[5] See Challenges to achieve doubling the asset base of the working population, by The Investment Trust Association Japan, March 2023, available in Japanese at https://www.toushin.or.jp/files/statistics/67/20230309jita_report_11.pdf.

[6] Annual contribution limits remain binding, while the maximum tax-exempt holdings amount is available on a recurring basis.

[7] See "NISA already competing for customers, decision made to make the program permanent from January 2024," March 28, 2023, Nikkei Shimbun, available in Japanese at <https://www.nikkei.com/article/DGXZQOUB273EK0X20C23A3000000>

[8] The investment trusts that are already registered under a previous NISA program to the Tsumitate do not need to re-register. The eligibility and registration will be automatically transferred.

[9] Inclusion to the publicly available list for the Growth plan is not required by law and is only for the convenience of retail investors and distributors. Both Japanese and foreign domiciled funds are potentially eligible for the Growth plan, but JITA will only list Japanese domiciled funds on its publicly available list.

[10] The previous Tsumitate NISA submission forms are available in Japanese at <https://www.fsa.go.jp/common/shinsei/shoken.html>.

[11] ICI Translation and modification, original charts available in Japanese at <https://www.fsa.go.jp/policy/nisa2/about/index.html>.

[12] ICI Translation and modification, original chart available in Japanese at page 13 <https://www.fsa.go.jp/policy/nisa/20170614-1/03.pdf>.

[13] ICI Translation and modification, original chart available in Japanese at page 12 <https://www.fsa.go.jp/policy/nisa/20170614-1/03.pdf>.

[14] iDeCo participants data is available in Japanese at https://www.ideco-koushiki.jp/library/pdf/join_overview_R0403.pdf.

[15] Public pension participants data is available in Japanese at https://www.mhlw.go.jp/topics/bukyoku/nenkin/nenkin/toukei/dl/k_r03.pdf.

[16] "My Number" is a national identification system used for social security and tax in Japan. Additional details available at <https://www.kojinbango-card.go.jp/en/>.

[17] See Website for the Japan as an International Financial Center initiative, available at <https://www.fsa.go.jp/internationalfinancialcenter/en/>.

[18] See International Financial Center Initiative, April 2022, available at <https://www.fsa.go.jp/en/financialcenter/summary.pdf>.

[19] See Progress Report on Enhancing Asset Management Business 2022, Section I, May 2022, available at https://www.fsa.go.jp/en/news/2022/20220527/20220527_4.pdf.

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