

Bond Market-Related Costs and Taxation

This chapter details the typical costs incurred by issuers and investors in the Japan bond market, with a particular emphasis on costs associated with bond and note issuance and settlement.

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers or investors (as explained in this document), and follow the life cycle of a bond or note in the Japan bond market.

A. Costs Associated with Bond and Note Issuance

1. Filing of Securities Registration Statement and Other Statutory Documents

All bond and note issuances via a public offering in Japan require the filing of an SRS or SR with the FSA through EDINET via the Local Finance Bureau (e.g., the Kanto Finance Bureau if bonds or notes are to be issued in Tokyo) of the MOF. For details and conditions of the application and filing process, please refer to Chapter II.G.

In Japan, no filing fee for the SRS and other statutory documents (such as the SR, or documents for incorporation) is charged by the FSA. This also applies to nonresident issuers of Samurai Bonds.

2. Standard Underwriting Fee Schedule for Public Offering Bonds

Public offers of bonds and notes in Japan often feature the creating of an underwriting syndicate. Table 34 details the market-typical fees charged by these underwriters for their service in issuing corporate bonds via a public offering in Japan.

3. Standard Fiscal Agent Fee

Table 35 provides the standard fees—tiered according to maturity—charged by fiscal agents for their services to an issuer of a corporate bond issued via a public offering in Japan.

Table 34: Standard Underwriting Fee Schedule for a Public Offering of Bonds
(basis points)

Maturity ^a	Subsovereign and Agencies	Corporate	
		Prime	Standard
2 years	12.5 ^b	12.5 ^b	30.0
3 years	17.5	17.5	35.0
5 years	22.5	22.5	40.0
7 years	27.5	27.5	40.0
10 years	30.0	30.0	45.0
12 years	30.0	30.0	45.0
15 years	35.0	35.0	50.0
30 years	47.5	47.5	^c

^a Gross fee consists of management fee (5) + underwriting fee (5) + selling concession (= total gross fee less management fee and underwriting fee).

^b Exception to 2-year maturity; SSA and prime issuers may get cap on total amount of management fee, which may result in the actual gross fee fall to a range of 10.8–11.5 bps.

^c Fee not easily available; due to long date maturity feature, few investors may have appetite for buying a 30-year nonprime issuer's bonds.

Source: ABMF-J member.

Table 35: Standard Fiscal Agent Fee for a Public Offering of Corporate Bonds

Maturity	Total Payable Amount for a JPY10 Billion Bond
3 years	JPY12 million
5 years	JPY13 million
7 years	JPY14 million

Source: ABMF-J member.

4. Legal Fees (optional)

In the event of a domestic issuance of bonds or notes in Japan, the arranger (lead underwriter) of the bonds or notes will support the issuer in raising the necessary documentation, as part of their service provision. As such, no separate legal fees would be incurred in this instance.

However, in case of a nonresident issuer issuing Samurai Bonds, it is common practice for a Japanese law firm to be appointed to help raise the necessary Japanese documents and corresponding versions translated into English. In turn, the securities firm(s) that are participating in the deal will typically only review the documents when actual issuance transactions are imminent. Such legal fees are based on time and effort spent, and are typically not disclosed in the public domain.

B. Ongoing Costs (Agent Fees) for Issuers of Corporate Bonds and Notes, and Commercial Paper

Fees to the Fiscal Agent, Paying Agent, and Other Agents

Table 36 gives an overview of the various ongoing service fees charged by the agents typically servicing a corporate bond or note, or commercial paper—the fiscal agent and or paying agent, and the Commissioned Company for Bondholders—during the life cycle of such instrument issued in Japan.

Table 36: Standard Fee Rates for Applicable Agent Services

Fee Item	Portion and Rating	Rate
Coupon Payment Fee (one time: twice a year)	Total Outstanding Amounts	JPY0.075 per 10,000 for JPY1
Redemption Fee	Total Redemption Amounts	JY0.075 per 10,000 for JPY1
Paying Agent for commercial paper issuance and redemption	Per one payment	Several thousand yen per issue or redemption
Agent Fee Related to Bonds		
a. Fiscal Agent Annual Fee (Yearly) (Outstanding Amount)	Total Outstanding Amounts (JPY10 billion)	JPY0.075 per 10,000 for JPY1 (JPY75,000)
a. CCB (Commissioned Company for Bondholders) Fee	-AA	1 bps/p.a. x Outstanding Amount
	A	2 bps/p.a. x Outstanding Amount
	BBB	4.5 bps/p.a. x Outstanding Amount
In case of the CCB attached bonds, both of above fees (a. + b.) will be charged.		

bps = basis points, p.a. = per annum.
Source: ABMF-J Member.

C. Costs Associated with Deposit, Withdrawal, Settlement (Set-Up, Book-Entry, and Transfer Fees) for Japan Securities Depository Center Account Holders

JASDEC is the central depository and settlement center for corporate bonds and notes and commercial paper issued in the Japan market. The comprehensive fee schedule for commercial paper and corporate bonds, which is included in Tables 37–40 and is also available in the public domain, effectively details JASDEC's service provisions to issuers and investors as account holders.

JASDEC does not distinguish between the settlement of ordinary transactions and those transfers as a result of securities lending or repo transactions. Therefore, the cost is the same for all transactions.

Table 37: Short-Term Corporate Bonds—Participation in the Book-Entry System

Item of Service Fees	Parties to Pay	Service Contents	Rates
Account opening fees and system connection preparation fees	JASDEC Participants	Processing for opening accounts and setting up a system connection	1. In the case where a party to pay newly becomes a JASDEC Participant: JPY200,000 Provided, however, that, when two or more Classified Accounts are opened with the same account name, the account opening fees and system connection preparation fees shall be JPY200,000, increased by the amount calculated based on the rate set forth in (2) below for each of such Classified Accounts in excess of one.
			2. In the case where Classified Accounts are opened (excluding the cases falling under (1) above): JPY50,000 per account Provided, however, that, when Classified Accounts are opened with the same account name for the first time, the account opening fees and system connection preparation fees shall be the amount calculated based on JPY50,000 per Classified Account to be opened, minus JPY50,000.
System connection preparation fees	Issuers	Processing for Issuer registration	JPY50,000
	Persons appointed as Issuing Agents or Paying Agents; except for persons who have already been appointed as Issuing Agents or Paying Agents	Processing for setting up a system connection	JPY50,000
Terminal connection fees	All users of the Integrated Web Terminal (excluding Fund Settlement Corporations)	Use of system resources through a continuous terminal connection	The rate of fees for use of system when the number of user IDs of an operational user is between one and five: JPY10,000 per month, for each company The rate of fees for use of system when the number of user IDs of an operational user is six or more: a. Rate applicable to five user IDs: JPY10,000 per month for each company b. Rate applicable to the number of user IDs in excess of five: JPY1,000 per month for each user ID.
Fixed fees to be borne by Indirect Account management institutions (intermediary)	Parties approved as Indirect Account management institutions (intermediary)	Processing of the approval as Indirect Account management institutions (intermediary)	JPY50,000 for each approval

JASDEC = Japan Securities Depository Center.

Source: JASDEC.

Table 38: Short-Term Corporate Bonds—Book-Entry-Related Fees

Item of Service Fees	Parties to Pay	Service Contents	Rates
New record service fees	Issuers relating to the new record	Administration of the Information of the Issue and administration of the balance of issue from the time of issuance until the time of redemption	JPY0.19 per 10,000 for JPY1 of the subscription price (for each issue), for each subscription (annualized rate) The monthly amount shall be equal to the amount calculated based on the annualized service fee rate set forth above, multiplied by the number of calendar days during the issue period (including the Issue Date but excluding the Redemption Date) and divided by 365; provided, however, that, if the foregoing amount exceeds JPY100,000, the monthly amount shall be JPY100,000.
Book-entry transfer service fees	Issuers and Purchaser JASDEC Participants relating to the new record	Processing for increasing the details recorded in the Transfer Account Book	In the case of the DVP settlement: JPY100 per transaction
			In the case of the non-DVP settlement: JPY50 per transaction
Purchase and cancellation service fees	Transferor JASDEC Participants and Transferee JASDEC Participants relating to the book-entry transfer	Processing for changing the details recorded in the Transfer Account Book	In the case of the DVP settlement: JPY100 per transaction Provided, however, that the rate of fees for the book-entry transfer implemented between the classified accounts of the same JASDEC Participant shall be JPY50 per transaction.
			In the case of the non-DVP settlement: JPY50 per transaction Provided, however, that the rate of fees for the book-entry transfer implemented between the Classified Accounts of the same JASDEC Participant shall be JPY25 per transaction.
	Issuers and Obliteration Applicant JASDEC Participants relating to the obliteration	Processing for decreasing the details recorded in the Transfer Account Book	In the case of the DVP settlement: JPY100 per transaction
			In the case of the non-DVP settlement: JPY50 per transaction
Purchase and Cancellation Applicant JASDEC Participants	Processing for decreasing the balance in the Transfer Account Book through purchase and cancellation	JPY50 per transaction	
Account balance administration service fees	JASDEC Participants	Administration of the Transfer Account Book during the holding period	JPY0.065 per 10,000 for JPY1 of the monthly average account balance, for each JASDEC Participant (annualized rate) The monthly amount shall be equal to the amount calculated based on the annualized service fee rate set forth above, multiplied by the number of calendar days during the applicable month and divided by 365.

DVP = delivery versus payment, JASDEC = Japan Securities Depository Center.

Source: JASDEC.

Table 39: Corporate Bonds—Participation in the Book-Entry System

Item of Service Fees	Parties to Pay	Service Contents	Rates
Account opening fees and system connection preparation fees	JASDEC Participants	Processing for opening accounts and setting up a system connection	<p>1. In the case where a party to pay newly becomes a JASDEC Participant: JPY200,000</p> <p>Provided, however, that, when two or more sets (<i>kumi</i>) of the Classified Accounts are opened with the same account name, the account opening fees and system connection preparation fees shall be JPY200,000, increased by the amount calculated based on the rate set forth in (2) below for each set (<i>kumi</i>) of the Classified Accounts in excess of one. In such case, Trust Account (1), Trust Account (2), Trust Account (3), Trust Account (4) and Trust Account (5) (hereinafter referred to as Each Trust Account in the Holding Account) and Customer Account and Nonresident, Etc. Account (hereinafter referred to as Customer Account, Etc.) shall be treated as having the same account name.</p>
			<p>2. In the case where Classified Accounts are opened (excluding the cases falling under (1) above): JPY50,000 per set (<i>kumi</i>)</p> <p>Provided, however, that, when Classified Accounts are opened with the same account name for the first time, the account opening fees and system connection preparation fees shall be the amount calculated on JPY50,000 per set (<i>kumi</i>) of the Classified Accounts to be opened, minus JPY50,000. In such case, Each Trust Account in the Holding Account and the Customer Account, Etc. shall be treated as having the same account name.</p>
System connection preparation fees	Parties appointed as the Issuing Agents and the Paying Agents	Processing for setting up a system connection	JPY50,000
Terminal connection fees	All users of the Integrated Web Terminal (excluding Fund Settlement Corporations)	Use of system resources through a continuous terminal connection	<p>The rate of fees for use of system when the number of user IDs of an operational user is between one and five: JPY10,000 per month for each company</p> <p>The rate of fees for use of system when the number of user IDs of an operational user is six or more:</p> <p>a. Rate applicable to five user IDs: JPY10,000 per month, for each company</p> <p>b. Rate applicable to the number of user IDs in excess of five: JPY1,000 per month, for each user ID in excess of five</p>
Fixed fees to be borne by Indirect Account management institutions (intermediary)	Parties approved as Indirect Account management institutions (intermediary)	Processing of the approval as Indirect Account management institutions (intermediary)	JPY50,000 for each approval

JASDEC = Japan Securities Depository Center.
Source: JASDEC.

Table 40: Corporate Bonds Book-Entry-Related Fees

Item of Service Fees	Parties to Pay	Service Contents	Rates
New record service fees	Issuers relating to the new record	(i) Administration of the Information of the Issue, (ii) administration of balance, and (iii) notice to Paying Agents of information concerning the redemption and interest payment, from the issuance until the redemption	With respect to the total issue amount of each issue: 1. Rate applicable to the portion equal to or less than JPY100 million: JPY0.95 per 10,000 for JPY1 2. Rate applicable to the portion equal to or more than JPY100,000,001 and less than or equal to JPY500 million: 80% of the rate set forth in (1) above 3. Rate applicable to the portion equal to or more than JPY500,000,001 and less than or equal to JPY1 billion: 60% of the rate set forth in (1) above 4. Rate applicable to the portion equal to or more than JPY1,000,000,001 and less than or equal to JPY5 billion: 40% of the rate set forth in (1) above 5. Rate applicable to the portion equal to or more than JPY5,000,000,001 and less than or equal to JPY10 billion: 20% of the rate set forth in (1) above 6. Rate applicable to the portion equal to or more than JPY10,000,000,001 and less than or equal to JPY50 billion: 10% of the rate set forth in (1) above 7. Rate applicable to the portion equal to or more than JPY50,000,000,001 and less than or equal to JPY100 billion: 5% of the rate set forth in (1) above 8. Rate applicable to the portion equal to or more than JPY100,000,000,001: 2.5% of the rate set forth in (1) above
Book-entry transfer service fees	Transferor JASDEC Participants and Transferee JASDEC Participants relating to the book-entry transfer	Processing for changing the details recorded in the Transfer Account Book	In the case of DVP settlement: JPY100 per transaction Provided, however, that the rate of service fees for the book-entry transfer implemented between the Classified Accounts of the same JASDEC Participant shall be JPY50 per transaction. In the case of the non-DVP settlement: JPY50 per transaction Provided, however, that the rate of service fees for the book-entry transfers implemented between the Classified Accounts of the same JASDEC Participant shall be JPY25 per transaction.
Purchase and cancellation service fees	Purchase and Cancellation Applicant JASDEC Participants	Processing for decreasing the balance under the Transfer Account Book through purchase and cancellation	JPY50 per transaction

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Table 40 continued

Item of Service Fees	Parties to Pay	Service Contents	Rates
Account balance administration service fees	JASDEC Participants	Administration of the Transfer Account Book during the holding period	<p>With respect to the monthly average account balance for each JASDEC Participant: (annualized rate)</p> <ol style="list-style-type: none"> Rate applicable to the portion equal to or less than JPY500 billion: JPY0.065 per 10,000 for JPY1 Rate applicable to the portion equal to or more than JPY500,000,000,001 and less than or equal to JPY1 trillion: 60% of the rate set forth in (1) above Rate applicable to the portion equal to or more than JPY1,000,000,000,001 and less than or equal to JPY5 trillion: 40% of the rate set forth in (1) above Rate applicable to the portion equal to or more than JPY5,000,000,000,001 and less than or equal to JPY10 trillion: 20% of the rate set forth in (1) above Rate applicable to the portion equal to or more than JPY10,000,000,000,001 and less than or equal to JPY20 trillion: 10% of the rate set forth in (1) above Rate applicable to the portion equal to or more than JPY20,000,000,000,001 and less than or equal to JPY30 trillion: 5% of the rate set forth in (1) above Rate applicable to the portion equal to or more than JPY30,000,000,000,001: 2.5% of the rate set forth in (1) above <p>The monthly amount shall be equal to the amount calculated based on the annualized service fee rates set forth above, multiplied by the number of calendar days during the applicable month and divided by 365; provided, however, that, if the foregoing amount is less than JPY100,000, the monthly amount shall be JPY100,000.</p>
New Record Service Fees			
Scale	Total issue amount of each issue	Rate	
Range 1	The portion up to JPY100 million	Base rate = 0.95bp	
Range 2	The portion over JPY100 million and up to JPY500 million	80% of base rate	
Range 3	The portion over JPY500 million and up to JPY1 billion	60% of base rate	
Range 4	The portion over JPY1 billion and up to JPY5 billion	40% of base rate	
Range 5	The portion over JPY5 billion and up to JPY10 billion	20% of base rate	
Range 6	The portion over JPY10 billion and up to JPY50 billion	10% of base rate	
Range 7	The portion over JPY50 billion and up to JPY100 billion	5% of base rate	
Range 8	The portion over JPY100 billion	2.5% of base rate	

DVP = delivery versus payment, JASDEC = Japan Securities Depository Center, JPY = Japanese yen.
Source: JASDEC. <https://www.jasdec.com/en/system/sb/rule/fee/new.html>

D. Other Fees and Costs

Table 41 details a number of other typical fees incurred by the issuer and/or market participants in the context of a corporate bond or note issuance in Japan.

Table 41: Other Typical Fees and Costs in the Context of Corporate Bond Issuance

Item	Details
Credit Rating Fee	Credit rating fee will vary greatly depending on the target, content, and size.
Stamp Duty	The buyer pays a stamp duty of JPY200 per trade for physical certificate transfers. JASDEC-held securities are exempt from stamp duty.
Registration Costs	Registrars do not charge to register equity share certificates, but may pass on their agents' costs in terms of transporting and processing the registration documents. For bonds other than JGBs, registrars charge JPY800–JPY1,200 for registration per transaction.

JASDEC = Japan Securities Depository Center, JGB = Japanese Government Bond.
Source: JASDEC.

E. Taxation (Withholding Tax on Interest Income, Etc.)

Residents and nonresidents investing in the bond market in Japan are subject to a number of taxes on fixed-income securities, as detailed in this section. The taxation treatment for nonresidents or foreign juridical persons is highlighted in Table 42, while the treatment for resident Japanese investors is displayed in Table 43. The application of the various taxes, or corresponding concessions, is explained in subsequent sections.

Table 42: Taxation Treatment for Nonresident Investors (Foreign Juridical Persons)

Applicable Taxes	Type of Book-Entry Bonds	Tax Rate
Withholding Tax	Government and Municipal	Exempt ^a
	Corporate	Exempt ^a
Capital Gains Tax	Government	Exempt ^a
	Corporate	Exempt ^a
Value-Added Tax	Both	Not applicable

^a For application of exemptions, please refer to sections below; otherwise, a withholding tax of 15.315% will apply.
Source: ADB Consultants for SF1 based on data from PricewaterhouseCoopers Services LLP.

Table 43: Taxation Treatment for Resident Japanese Investors

Applicable Taxes	Type of Bonds	Tax Rate (%)
Income Tax or Corporate Tax	Government	20.315
	Corporate	20.315
Value-Added Tax	Both	8 ^a

^a The value-added tax rate is expected to increase to 10% in 2017.
Source: ADB Consultants for SF1.

1. Tax-Exemption System for Interest and Profits from Redemption on Corporate Bonds in Book-Entry Form Held by Nonresidents or Foreign Juridical Persons

This section provides an outline of the applicable taxation system for nonresident investors or foreign juridical persons prior to and following the 2013 Tax Reform.

(a) *Prior to the 2013 Tax Reform*

Interest on corporate bonds in book-entry form received by foreign investors had been exempt from tax in the same manner as JGBs and local government bonds, subject to certain procedural requirements.⁵³ However, the scope of this tax exemption had been limited to corporate bonds in book-entry form issued on or before 31 March 2013.

In June 2010, a tax-exemption system for interest and profits from redemption on corporate bonds in book-entry form held by nonresidents or foreign juridical persons was enacted as a 3-year temporary measure (Japanese Bond Income Tax Exemption Scheme).

Although this measure was introduced with a view to further promote investment in Japanese corporate bonds by nonresidents, etc. and to vitalize Japan's financial and capital markets as well as smoothing corporate fundraising activities, it remained effective as a temporary measure only until the end of March 2013.

(b) *Following the 2013 Tax Reform*

The FSA, JSDA, and market participants requested to upgrade the aforementioned temporary measure to a permanent system due to the recognition that such a tax-exemption system had been widely adopted worldwide as a permanent regime and the temporary treatment had led to a deficiency in the international competitiveness of corporate bonds issued in Japan.

In April 2013, this temporary tax exemption measure became permanent. Interest and profits from redemption of corporate bonds in book-entry form received by foreign investors have since been permanently exempt from tax, while still subject to certain procedural requirements.

2. Foreign (non-Japanese domestic) Corporate Bonds Issued by Japanese Resident (including AMBIF bonds issued outside Japan)

This section explains the applicable taxation for bonds and notes issued outside Japan by Japanese resident issuers. This treatment also applies to bonds and notes, which are issued under AMBIF in other ASEAN+3 markets.

Effective 1 April 2010, the Japanese Tax Act (Act on Special Measures Concerning Taxation) instituted a new tax certification procedure. Under the act, a bondholder that is a Specially Related Person to the Issuer had previously not been entitled to withholding relief on the interest payment and was subject to a 15.315% Japanese withholding tax.

⁵³ These concessions were introduced for JGBs in September 1999 and for local government bonds in January 2008.

As a result of the 2010 amendment, the exemption from Japanese taxation available under the act will remain in force indefinitely.⁵⁴ Under the rules, issuers and paying agents will not be required to withhold Japanese tax from interest paid to holders that establish their status as Gross Recipients.

(a) A Gross Recipient for this purpose is

- (i) a beneficial owner that is, for Japanese tax purposes, neither (a) an individual resident of Japan or a Japanese corporation, nor (b) an individual nonresident of Japan or a non-Japanese corporation that in either case is a person who has a special relationship with the issuer of the Securities as described in Article 6, paragraph (4) of the act (such a person is hereinafter referred to as a Specially Related Person of the Issuer);
- (ii) a Japanese designated financial institution holding securities for its own proprietary account; or
- (iii) an individual resident of Japan or a Japanese corporation whose receipt of interest on the securities is made through a payment handling agent in Japan as defined in Article 2-2 paragraph (2) of the Cabinet Order.

(d) Illustration of the Case of the Gross Recipient Being a Nonresident Investor

- (i) If the recipient of interest on the bonds is an individual nonresident of Japan, or a non-Japanese corporation having no permanent establishment within Japan, or having a permanent establishment within Japan but where the receipt of the interest on the bonds is not attributable to the business of such individual nonresident of Japan or non-Japanese corporation carried on within Japan through such permanent establishment, no Japanese income tax or corporate tax is payable with respect to such interest whether by way of withholding or otherwise, if such recipient complies with certain requirements, including, among others
 - (a) if the relevant bonds are held through a certain participant in an international or foreign clearing organization or a certain financial intermediary prescribed by the Special Taxation Measures Act and the relevant Cabinet Order (together with the Special Taxation Measures Act and the ministerial ordinance and other regulations thereunder) (each, a Participant), the requirement to provide, at the time of entrusting a Participant with the custody of the relevant bonds, certain information prescribed by the law to enable the Participant to establish that the recipient is exempt from the requirement for Japanese tax to be withheld or deducted (Interest Recipient Information), and to advise the Participant if such individual nonresident of Japan or non-Japanese corporation ceases to be so exempted (including the case where it became a Specially Related Person of the Issuer); and
 - (b) if the relevant bonds relating thereto are not held by a Participant, the requirement to submit to the relevant paying agent a Written

⁵⁴ The Amendment, which amended Article 6 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957) (as amended by the 2010 Amendment), was implemented by Article 3-2-2 of the related Cabinet Order (Cabinet Order No. 43 of 1957, as amended in April 2010 by Cabinet Order No. 58 of 2010), and entered into force on 1 April 2010.

Application for Tax Exemption (*Hikazei Tekiyo Shinkokusho*), together with certain documentary evidence.

Failure to comply with such requirements described above, including the case where the Interest Recipient Information is not duly communicated, as required under the law will result in the withholding by the Issuer of income tax at the rate of 15.315% of the amount of such interest.

- (ii) If the recipient of interest on the bonds is an individual nonresident of Japan or a non-Japanese corporation having a permanent establishment within Japan and the receipt of interest is attributable to the business of such individual nonresident of Japan or non-Japanese corporation carried on within Japan through such permanent establishment, such interest will not be subject to a 15.315% withholding tax by the Issuer, if the recipient provides the Interest Recipient Information or submits the Written Application for Tax Exemption as set out in (i). Failure to do so will result in the withholding by the Issuer of income tax at the rate of 15.315% of the amount of such interest. The amount of such interest will be aggregated with the recipient's other Japanese source income and will be subject to regular income tax or corporate tax, as appropriate.
- (iii) Notwithstanding paragraphs (i) and (ii) above, if an individual nonresident of Japan or a non-Japanese corporation mentioned above is a person who has a special relationship with the Issuer (that is, in general terms, a person who directly or indirectly controls or is directly or indirectly controlled by, or is under direct or indirect common control with, the Issuer) within the meaning prescribed by the Cabinet Order under Article 6, Paragraph 4 of the Special Taxation Measures Act (such person is referred to as a Specially Related Person of the Issuer) as of the beginning of the fiscal year of the Issuer in which the relevant interest payment date falls, the exemption from Japanese withholding tax on interest mentioned above will not apply, and income tax at the rate of 15.315% of the amount of such interest will be withheld by the Issuer. If such individual nonresident of Japan or non-Japanese corporation has a permanent establishment within Japan, regular income tax or corporate tax, as appropriate, collected otherwise by way of withholding, could apply to such interest under Japanese tax law.
- (iv) If an individual nonresident of Japan or a non-Japanese corporation (regardless of whether it is a Specially Related Person of the Issuer) is subject to Japanese withholding tax with respect to interest on the bonds under Japanese tax law, a reduced rate of withholding tax or exemption from such withholding tax may be available under the relevant income tax treaty between Japan and the country of tax residence of such individual nonresident of Japan or non-Japanese corporation.

For instance, Japan has an income tax treaty with Thailand, whereby the above-mentioned withholding tax rate is reduced to 10% only if the Thai resident who is the recipient of the interest is a financial institution as defined under that treaty. Japan also has income tax treaties, conventions, or agreements whereby the above mentioned withholding tax rate is reduced, generally to 10%, with, among others, Australia; Austria; Belgium; Canada; Denmark; Finland; France; Germany; Hong Kong, China; Ireland; Italy; Luxembourg; the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Switzerland; and the US. Japan signed with the United Kingdom and Sweden protocols amending the tax treaties between the respective governments, whereby interest paid to qualified United Kingdom and Swedish residents is generally exempt from Japanese

withholding tax, which apply to interest to be payable on or after 1 January 2015. Japan and the US have also signed an amending protocol generally exempting interest from Japanese withholding tax; however, this amending protocol has not yet entered into force. Under the current income tax treaty between Japan and the US, certain limited categories of qualified US residents receiving interest on the bonds may, subject to compliance with certain procedural requirements under Japanese law, be fully exempt from Japanese withholding tax for interest on the bonds. Under the income tax treaties with Australia, France, the Netherlands, and Switzerland, similar exemptions to those provided in the current income tax treaty between Japan and the US will be available (provided that no exemption will apply to pension funds in the case of Australia).

In order to avail themselves of such reduced rate of, or exemption from, Japanese withholding tax under any applicable income tax treaty, individual nonresidents of Japan or non-Japanese corporations which are entitled, under any applicable income tax treaty, to a reduced rate of, or exemption from, Japanese withholding tax on payment of interest by the Issuer are required to submit an Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Interest (as well as any other required forms and documents) in advance through the Issuer to the relevant tax authority before payment of interest.

- (v) Under the Law,
 - (a) if an individual nonresident of Japan or a non-Japanese corporation that is a beneficial owner of the bonds becomes a Specially Related Person of the Issuer, or an individual nonresident of Japan or a non-Japanese corporation that is a Specially Related Person of the Issuer becomes a beneficial owner of the bonds, and
 - (b) if such bonds are held through a Participant, then such individual nonresident of Japan or non-Japanese corporation should notify the Participant of such change in status by the immediately following interest payment date of the bonds.

As described in (iii), as the status of such individual nonresident of Japan or non-Japanese corporation as a Specially Related Person of the Issuer for Japanese withholding tax purposes is determined based on the status as of the beginning of the fiscal year of the Issuer in which the relevant interest payment date falls, such individual nonresident of Japan or non-Japanese corporation should, by such notification, identify and advise the Participant of the specific interest payment date on which Japanese withholding tax starts to apply with respect to such individual nonresident of Japan or non-Japanese corporation as being a Specially Related Person of the Issuer.

3. Relevance for AMBIF Bonds and Notes Issued outside Japan

As a regional initiative, AMBIF encourages the issuance of corporate bonds and notes by issuers resident in ASEAN+3 markets, such as Japan, in member countries of ASEAN+3 in which they are not resident (cross-border issuance). This is expected to generate a number of tax-related issues for consideration of parties involved in a bond or note issuance, such as those detailed in F.2 earlier.

It is, hence, of particular importance that specific AMBIF bonds and notes related tax practices and procedures for regional nonresident investors should be developed accordingly and continuously.

F. Taxation for Resident Japanese Investors (Integration of Taxation on Financial Income and Gains)

The integration of taxation on financial income and gains for Japanese resident individuals commenced with effect from 1 January 2016 (金融所得一体課税の開始).

This integration of financial income taxation for resident individuals is a system aiming to implement an integral taxation of income arising from a wide range of financial instruments.

To facilitate individual investors' participation to the financial and securities markets, it is essential to create an environment where such investors will easily invest in a variety of financial instruments.

Previously, given the fact that stock dividends and its capital gains or loss could not be aggregated with interest, profit or loss from the transfer or redemption on bonds (including corporate bonds), the range of aggregation for the profits and losses among financial instruments was very limited, resulting in individual investors not being well motivated to invest in multiple types of financial products.

The comprehensive taxation method under the self-assessment taxation system has become a basic principle in the overall taxation system in Japan. However, depending on the type of financial instruments described in Table 44, the separated and withheld taxation method (c) or the self-assessed separated taxation method by filing tax returns (a) has been imposed, respectively, on the income and capital gains generated from these financial instruments. In addition, for each type of financial instrument, there was a difference in the tax rate. And, the extent of profit-loss offsetting among different financial products was very limited. In addition, differences existed in the taxation methods between the system for public and corporate bonds and the system for listed shares. Therefore, it was hard for individual investors to make effective investment in diversified financial products.

Consequently, with a view of expanding the range of aggregation for profits and losses relating to financial instruments, and creating an environment to promote active participation of individual investors to the market, an overall reform of taxation methods regarding public and corporate bonds and bond investment trusts (profit and loss aggregation with stock, etc. becoming possible) has started effective January 2016. This reform is now known as “integration of taxation on financial income and gains.”

In the past, the tax law regarding investments in financial instruments by Japanese resident individuals had been revised many times. In contrast, for the corporate bond market, it had been repeatedly pointed out that the withholding tax system on interest payment—which generated serious segregation issues between taxable bonds and nontaxable bonds—created impediments for the liquidity of the market. However, following the changes from this taxation reform, the need and rate of the withholding tax to be deducted will be judged on the basis of the taxation attribute of the bondholder on the coupon payment date. At the same time, interest of corporate bonds held by nontaxable persons or organizations on the coupon payment date will be exempted from tax during the term, regardless of its holding

period. Moreover, the previous market practice of deducting the withholding tax equivalent amount upon the delivery and receipt of accrued interest will also be phased out.

As Table 44 indicates, the previously “separated and withheld taxation method (c)” had been applied to “bonds, such as government bonds, public bonds, and corporate bonds.” It has been changed to the “self-assessed separated taxation method by filing tax returns (a)” in the same manner as for listed shares. Effective 1 January 2016, the taxation scheme for each financial instrument has been changed as follows:

- Capital gains arising from sales and redemptions of bonds are taxed as “separate taxation by and upon filing individual income tax returns (a)” and capital losses are recognized and used to offset profits subject to a limitation as shown in category A of Table 44.
- For bond investors, an expansion of the scope of profit or loss offset arising from listed shares has become possible.
- Furthermore, this tax reform includes changes to the “separated taxation method (a)” for capital gains or losses arising from the sales of shares and bonds held together in specified accounts (*tokutei kouza*).
- Specified accounts (*tokutei kouza*) were introduced in Japan in order to simplify the filing and tax payment procedures of individual investors. A securities company will create a specified account annual transaction report, which compiles the trading gains or losses for 1 year, and is delivered to investors by the end of January of the following year. Once selected, the withholding account in the specified account tax return is not required for that part. However, the profit-loss offsetting of the income of more than one withholding account must be accomplished on the final tax return.

This will simplify and increase the efficiency of tax procedures for individual investors.

As for the tax rate, in the past, tax on the interest from public and corporate bonds was 20.315% using the “withholding tax method (c),” while the capital gain from a sale was tax-free. Effective 1 January 2016, the tax rate has been changed to a generally applicable rate of 20.315% (15.315% national income tax + 5% local tax) based on the “self-assessed separated taxation method by and upon filing tax returns (a).”

Under the new tax rule, the “separated and withheld taxation method (c)” was abolished. With this change any withholding of tax is no longer applicable. This also resulted in being able to effect settlement using the gross amount in all cases for resident individuals. This change is expected to simplify the tax-related handling procedures in financial institutions and at institutional investors.

Table 44: Summary of Taxation System for Financial Products for Japanese Resident Individuals before and after Reform

	Income		Capital Gains or Losses		Category for Profit-Loss Offsetting After (from 1 Jan 2016)
	Before	After (from 1 Jan 2016)	Before	After (from 1 Jan 2016)	
Listed shares and publicly offered stock investment trusts	Separated taxation by filing (a) (tax rate 20.315%)		Separated taxation by filing (a) (tax rate 20.315%)		A
Specified bonds (b) (specified public and corporate bonds) and publicly offered bond investment trusts	Separated and withheld as a final tax (c) (tax rate 20.315%)	Separated taxation by filing (a) (tax rate 20.315%)	Tax-free (Exempt from taxation)	Separated taxation by filing (a) (d) (tax rate 20.315%)	
Nonlisted shares and privately offered investment trust	Not applicable for separated taxation by filing		Separated taxation by filing (a)		B
General bonds (bonds other than specified bonds)	Separated and withheld as a final tax (c)		Tax-free (exempt from taxation)	Separated taxation by filing (a) (e)	
Bank deposits	Separated and withheld as a final tax (c)		-		
Derivatives	Separated taxation by filing (a) (f)				

Notes:

- (a) Self-assessed separated taxation method by and upon filing tax returns is a method in which, rather than tax being deducted before payment, taxpayers who understand the financial transactions-related income and tax rate, pay via a tax return. On the other hand, general taxation is a method in which the tax rate is determined depending on the sum of the various types of income (e.g., salary and interest income).
- (b) Specified bonds include Japanese Government Bonds and foreign government bonds, publicly offered bonds, listed bonds, bonds issued by corporates with a filed securities report within 6 months prior to issuance, and bonds issued on or before 31 December 2015 excluding discount bonds where tax is withheld at the time of issuance.
- (c) Separated and withheld taxation is a final tax method in which the payer makes a withholding of the tax portion within the income from financial instruments, etc. In other words, the tax amount is deducted before interest, etc. is paid.
- (d) Profit-loss offsetting is newly allowed. Profit-loss offsetting is available among category A.
- (e) Profit-loss offsetting is newly allowed. Profit-loss offsetting is available among category B.
- (f) To be deliberated, paying attention to contribution to achievement of comprehensive exchanges.

Source: ABMF SF1 based on information from the Financial Services Agency.