

Draft Five-Year Plan for Startup Development

1. basic concept

- The Kishida administration is promoting efforts to realize "new capitalism. Startups embody the very idea of "new capitalism" that transforms social issues into engines of growth to realize a sustainable economic society.
- Japan's leading electronics and automobile manufacturers were also founded in the immediate postwar period by young people in their 20s and 30s,
They started their history as start-ups founded by young people in their 20s and 30s immediately after the end of World War II, and have since become global companies that are driving the Japanese economy.
- However, as of 2022, although a diverse range of challengers have been born, the rate of start-ups and the number of unicorns (unlisted companies with market capitalization exceeding 100 billion yen) remain low compared to the United States and Europe.
- On the other hand, it has become clear that even existing large companies using old technologies can achieve sustainable growth if they engage in open innovation to introduce new technologies through M&A or collaboration with startups.
- Against this backdrop, this year will be the first year of startup creation, and we will realize a second boom in startups following the postwar startup period. To this end, we will create an ecosystem that nurtures startups in Japan by accelerating startups and promoting open innovation by existing large companies.
- In creating the startup ecosystem, we will not fall into the Galapagos way of thinking, but will take the perspective of creating startups that boldly take on the challenges of the global market.
- The Cabinet has so far established a minister in charge of startups, clarified the centralized command post function for implementation, and approved a budget measure of 1 trillion yen, the largest ever, for startup development in this fiscal year's comprehensive economic stimulus measures and supplementary budget to overcome high prices and realize economic revitalization, The overall picture of Japan's startup fostering measures by the public and private sectors shall be compiled as a five-year plan in order to mobilize all policy resources over multiple years from the perspectives of building human resources and networks, diversifying funding and exit strategies for business growth, and promoting open innovation.

2. Goals

- In order to create an ecosystem that nurtures startups and realize a second startup boom in Japan, it is necessary for the public and private sectors to work together to achieve a set of major goals.
- It is important to focus not only on the "number" of startups (the number of new businesses), but also on the growth, or "expansion" of the scale of the startups. Therefore, we focus on the amount of investment in startups as an indicator that encompasses both the absolute number of startups and the expansion of the scale of startups that have been established.
- This investment amount has increased 2.3 times over the past five years (from 360 billion yen (2017) to 820 billion yen
(The current investment amount is currently in the 800 billion yen range ¹, but through the implementation of this 5-year plan, the public and private sectors will work together to achieve the major goal of increasing this amount to over 10 times (10 trillion yen) by FY2027, five years from now.
- Furthermore, in the future, we aim to create 100 unicorns and 100,000 startups to make Japan the largest startup hub in Asia and one of the world's leading startup clusters.

3. Package Direction

- Countries with higher average entry and exit rates of companies (an indicator of creative destruction) have higher economic growth rates per capita. Furthermore, young firms (start-ups) contribute more to value-added creation. On the other hand, Japan's start-up rate is only 5.1%, compared to 9.2% in the U.S. and 11.9% in the U.K. ², and the closure rate is also lower, at 8.5% and 10.5%, compared to
²The closure rate is 3.3%, compared to 8.5% in the U.S. and 10.5% in the U.K. ³.
- First, Japan should foster a large number of start-up leaders and accelerate their entrepreneurial activities. Therefore, in order to discover and nurture young human resources with excellent ideas and technologies, practical entrepreneurship training will be conducted, utilizing mentors and educational institutions in Japan as well as overseas. In addition, by dispatching young human resources to countries around the world for training, we will develop human resources who can take charge of startup entrepreneurship in Japan and build a global network of such human resources.
- In the U.S., the start-up rate in the 1980s was 12%⁴, while it is currently (2019) 9%⁵, and while the number of start-ups itself is decreasing, the amount of venture capital investment is increasing (from \$30 billion in 2008 to \$60 billion in 2015)⁶. In other words, support for promising companies is increasing and plays a significant role in fostering startups.

- Therefore, in Japan, along with securing start-up bearers, the supply of funds, including public capital, should be expanded. To this end, in addition to fostering domestic venture capital, we will work to attract foreign investors and venture capital. In addition, from the perspective of diversifying startups' business development and exit strategies, especially for deep-tech startups that require time to grow, the government will promote environmental improvements related to stock options, etc. and expansion of public procurement for startups.
- From the perspective of open innovation, the amount of investment by operating companies in Japan in start-ups is extremely low compared to the U.S., China, and Europe (\$40.2 billion in the U.S., \$11.5 billion in China, \$9 billion in Europe, and \$1.5 billion in Japan (2020))⁽⁷⁾. The number of M&A deals for startups is also extremely low in Japan compared to the U.S. and Europe (1,473 in the U.S., 244 in the U.K., France 60 in Germany, 49 in Germany, and 15 in Japan (2020))⁸.
- It is important to promote the development of an environment to promote open innovation between existing companies and startups, since acquiring startups is important both as an exit strategy for startups and as a measure to promote open innovation in existing large companies.
- Based on the above, this 5-year plan for startup development will promote the following three major initiatives in an integrated manner.
 - (1) Establishment of human resources and networks for startup creation
 - (2) Enhancement of funding for startups and diversification of exit strategies
 - (iii) Promotion of open innovation
- In addition, the fact that public support has been provided is said to serve as a certification effect (endorsement) for the startups that have received support, stimulating further private investment. The Cabinet has already approved the largest-ever budgetary measure (approximately 1 trillion yen) for startup development in the recent comprehensive economic stimulus package, and the government will continue to mobilize all of its policy resources, while setting KPIs for the effectiveness of the policy and conducting follow-up by the minister in charge of startups, to ensure that the public and private sectors are working together to achieve a major direction. The government will continue to mobilize all of its policy resources and work toward the realization of a major direction in the public and private sectors.
- With regard to deep tech, a new industrial field that could become the core of the next generation of industries, the government will clarify priority fields, etc. In addition, efforts related to entrepreneurship education and startup creation support specific to individual fields of deep tech, such as agriculture and medicine, will be strengthened.

- Tax measures will be considered in the future tax reform process.

Pillar 1: Build human resources and networks for startup creation

- As mentioned above, the rate of start-ups and closures in Japan has remained low compared to the U.S. and major European countries, and the percentage of those who consider starting a business as a desirable career choice is 25% in Japan, the lowest among developed and major countries, compared to 79% in China and 68% in the U.S.⁹.
- According to a survey of start-ups, 60% of respondents answered that "business culture, and climate" need to be improved in order to increase the number of entrepreneurs in Japan¹⁰. Therefore, it is necessary to promote the development of human resources who aspire to start startups from their young age, such as teenagers and people in their 20s.
- Regarding support for startup creation at Japanese universities, the percentage of universities that provide commercialization support, facilities, and entrepreneurship education to startups remains low, and this should be improved.
- In addition, a framework should be enhanced to provide support to those who actually intend to start a business, so that the technology and knowledge possessed by the entrepreneur can be effectively linked to the business.
- Incubators" that lend facilities and equipment to start-ups are gradually being established in Japan, but it is not enough for start-ups to be created simply by having entrepreneurs live in the same facilities and equipment; it is essential that experienced entrepreneurs act as "mentors" (advisors) to provide detailed advice. It is becoming clear that it is not enough for entrepreneurs to simply reside in facilities and equipment, but that it is essential for experienced entrepreneurs to act as "mentors" (advisors) and provide detailed advice.
- Furthermore, it has been found that startups that receive support from "accelerators" that provide a mentoring function are more likely to succeed (acquire or exit) earlier than startups that do not receive such support¹¹.
- (11) These findings suggest that accelerator-mentors are able to provide useful information to startups. Since opportunities to receive support from mentors are still limited in Japan, it is necessary to ensure such opportunities.
- To this end, the following specific efforts will be promoted to build human resources and networks for startup creation.

(1) Expansion and horizontal development of support programs by mentors

- As a program to select and support young human resources in Japan, in the IT field, the "Early Project" (Information-technology Promotion Agency, Japan) has been identifying talented human resources as mentors (screening for adoption) and providing guidance on projects (about 70 people per year) to top runners in the industrial and academic world. The project has so far helped 300 people to start or commercialize their own businesses.
- Since it is meaningful to expand this program on a large scale to foster startups, we will expand it to other corporations (such as the New Energy and Industrial Technology Development Organization and the National Institute of Advanced Industrial Science and Technology) and also to young human resources development efforts centering on technical college students, high school students, and university students, thereby increasing the overall scale of training to "70 mentors per year. 70 persons per year".

In addition, the scale of training will be expanded from "70 mentors per year" to "500 mentors per year" in five years' time.
- In addition, the JCMT will consider further expanding the number of young human resources to be trained by mentors to include the Japan Agency for Medical Research and Development, the Japan Science and Technology Agency, the Japan Aerospace Exploration Agency, and the National Agriculture and Food Research Organization (NARO), among others.
- In addition, support will be provided to carry on the achievements of the "Cross-National Vation Program," and efforts will be made to discover top talent from Asia and other foreign countries and to strengthen the attraction of such talent to Japan. In addition, with the support of overseas accelerators, business strategy formulation, mentoring with experts, network expansion, etc. for domestic startups will be conducted on a global basis. (1) Expand the global startup acceleration program, which provides support from overseas accelerators to develop business strategies, mentoring with experts, network expansion, etc.

(2) Creation of a base for entrepreneurship development overseas ("Dejima" project)

- The dispatch of 20 young entrepreneurs to Silicon Valley will be expanded to 1,000 over the next five years. In doing so, the program will be structured to recruit a wide range of human resources, including students and female entrepreneurs. In addition, from the perspective of securing opportunities to receive guidance from mentors, which is still limited in Japan, the program will be expanded to other cities around the world, including Silicon Valley, Boston, New York, San Diego, and Austin, which are centers of innovation in the U.S., and Israel, Singapore, and Northern Europe. In addition, internship training at startups, venture capital firms, accelerators, etc. will be added to the program. In addition, Japanese business offices will be established in Silicon Valley and Boston.

(3) Strengthen entrepreneurship education, including the creation of entrepreneurship training programs for Japan at U.S. universities.

- In Japan, there are limitations in providing educational programs that have global strengths in entrepreneurship development.

Japan has limitations in providing educational programs that have global strengths in entrepreneurship development. Therefore, the creation of an MBA program for entrepreneurship education in Japan by a U.S. university should be considered to create an environment in which students can obtain a degree while working in Japan.

(4) One University, One Exit Movement

- Although most university-launched startups are located in metropolitan areas such as Tokyo, Kanagawa, Kyoto, Osaka, and Fukuoka, they are being born all over Japan, and there is potential in rural areas as well.
 - In an effort to encourage the creation of university startups, research universities around the country are launching a campaign called "50 Startups per University, 1 Exit per University,"
- (4) Support for the creation of startups at universities, elementary schools, junior high schools, and high schools

(5) Support for startup creation at universities, elementary, junior high, and high schools

- In light of the current situation where nearly half of university students also wish to work in startups, it is important to provide entrepreneurship education and opportunities to receive support from mentors and accelerators to those students who wish to do so.
- With the participation of overseas accelerators and venture capitalists, mainly in the startup ecosystem base cities (8 cities), the program will support the commercialization of university-originated research results for more than 5,000 projects in 5 years, including global development.
- For this purpose, a new five-year fund of 100 billion yen, ten times the current amount, will be created in the Japan Science and Technology Agency.
- Promote the introduction of a "cross-appointment system" that allows researchers to sign employment contracts with both companies and universities.
- Provide incubation facilities for universities. In addition, universities and national research institutes (National Institute of Advanced Industrial Science and Technology, AIST, etc.) and management personnel in large companies.
- In addition, a new support program for entrepreneurship education for elementary, junior high, and high school students will be established by inviting entrepreneurs as lecturers, and the implementation of entrepreneurship education for elementary, junior high, and high school students will be expanded by utilizing class time for integrated studies, etc.
- Furthermore, high schools and technical colleges that systematically engage in entrepreneurship education and STEM fields

¹²Strengthen support for educational opportunities for elementary, junior high, and senior high school students who are highly capable in STEM fields.

- Currently, 16,000 undergraduate and graduate students and 1,400 high school students are supported to study abroad annually. However, some undergraduate and graduate students who are educated in Europe and the U.S. feel burdened by the large amount of scholarship repayments, and in order to widely root the entrepreneurial spirit in Japan, we will also support junior and senior high school students. In addition, it is meaningful for junior and senior high school students to study abroad and gain study experience in foreign countries in order to have the entrepreneurial spirit take root in Japan. For this reason, we aim to expand support over the medium to long term.

(6) Strengthening Entrepreneurship Education at Colleges of Technology

- With regard to technical colleges, collaboration among technical colleges should be pursued and entrepreneurship education should be actively provided at technical colleges, taking advantage of their "high technological capabilities."
- In addition, for technical colleges that are engaged in entrepreneurship education utilizing AI and deep tech, environmental improvements, such as space for prototyping, will be provided to enable free production activities and practical classes.

(7) Global Start-up Campus Initiative

- In order to contribute to the global development of human resources and research seeds of Japanese universities and research institutes, a global start-up campus will be established with public and private funding, combining international joint research and incubation functions in the field of deep technology by attracting top overseas universities and inviting excellent researchers to the campus.
- In doing so, we will promote the establishment of long-term and stable cooperative relationships with top overseas universities, etc., and will aim to realize strategic management of the campus by establishing its own endowment (university fund) for campus management.
- In addition, the creation of the campuses will stimulate research and development at domestic universities and promote transformation. Furthermore, without necessarily waiting for the completion of campus facilities and equipment, joint research and researcher exchanges with overseas universities and other institutions will be implemented in advance to promptly create startups. Through these efforts, we will foster doctoral students and young researchers who will be active globally, not only in the academic field, but also in start-ups and venture capital.
- Through the use of entrepreneurship development and incubation programs owned by overseas universities and the formation of networks with top overseas venture capitalists, access to overseas ecosystems and global inner circles will also be made possible.
- By collaborating with domestic and foreign companies, improve the ability of domestic companies to create innovations through joint research and entrepreneurship development programs at the campus.

- In collaboration with related local governments, the campus will be made a truly global campus by integrating measures such as the development of a living infrastructure for foreign human resources from the perspective of strengthening the ecosystem as part of urban planning.
- This concept will be a free "place of practice" that is not bound by the rules of existing organizations, and from this perspective, under the Minister in charge of startups as a command post function, the creation of campuses will be coordinated with various measures in a centralized and efficient manner.

(8) Intellectual property strategy for startups and universities

- In order to enable startups to smoothly utilize intellectual property held by universities and other entities and develop their businesses, the following issues should be considered: review of the rules for handling non-exclusive licenses for patents shared by universities and companies, and the establishment of an environment that facilitates the utilization of shares and stock acquisition rights of startups, including the removal of restrictions on universities when they acquire intellectual property rights from universities in exchange for shares and stock acquisition rights. The committee will study the establishment of an environment that facilitates the use of startup shares and stock acquisition rights, including a review of the rules for handling implementation rights, etc., and the removal of restrictions on universities acquiring intellectual property rights in exchange for shares and stock acquisition rights, and compile "Guidelines for University IP Governance" within this fiscal year. In addition, support for overseas patent applications by universities will be strengthened.
- At the same time, with regard to the "Open Patent Information Database," which registers patents with the intention of licensing (assigning or licensing) to third parties, the database will be enhanced and public-private partnerships will be strengthened, including the transfer of data to the private sector. At the same time, the government will also consider how to provide incentives for licensing patents owned by the company to third parties.

(9) Expanding the number of players in the research field

- In order to promote the participation of Japanese researchers in the international top circle of research through joint research, as well as to attract outstanding young researchers from overseas and strengthen their connections, the support for international joint research ("Grant-in-Aid for Scientific Research on Innovative Areas") which requires the participation of young researchers, will be expanded as a whole.
In order to promote the participation of Japanese researchers and to attract outstanding young researchers from overseas and strengthen their connections, we will provide support for international joint research that requires the participation of young researchers ("Grant-in-Aid for Scientific Research on Innovative Areas"), with the requirement that young researchers' expenses account for 70% of the total expenses.
- To realize world-class research universities, support will be provided through a 10 trillion yen university fund based on the Law on International Universities of Research Excellence. D. students and improve the research environment, and aim to increase the number of doctoral students who are provided with an amount equivalent to living expenses to three times the previous level (approximately 70% of those entering the doctoral program) by FY2025.
- As a measure to further support doctoral degree holders, we will implement measures to increase the starting salary for those who have completed doctoral programs in the national public service in FY2023.

D. degree on the business cards of civil servants. In the private sector, encourage private companies to change their mindset toward the use of doctoral degrees.

(10) Attract more foreign entrepreneurs and investors

- Currently, as a start-up visa (a program to promote foreign entrepreneurial activities), foreign entrepreneurs are allowed to enter Japan and stay for a maximum of one year, but those who confirm this are limited to local governments authorized by the government.
- In order to further accelerate the attraction of foreign entrepreneurs, not only local governments but also private organizations such as venture capitalists and accelerators authorized by the government will be able to perform the start-up visa confirmation procedures and extend the maximum period of stay.
- In addition, we will facilitate the granting of status of residence to overseas angel investors to enable them to operate in Japan. In addition, procedures for opening bank accounts will be facilitated.
- (10) Facilitate the granting of university entrance qualifications to foreign children who have graduated from international schools, and develop the necessary infrastructure for life in Japan to attract highly skilled global human resources, such as multilingual and online services at administrative and medical facilities.

(11) Establishment of an environment that supports re-challenge

- In 2022, the Employment Insurance Law was amended to establish a new system under which unemployment benefits, which would originally disqualify a person from receiving benefits after one year of separation from employment in principle, will not be counted in the period of receipt for up to three years while the person is engaged in business as an entrepreneur. (11) The Government will work to create an environment that encourages entrepreneurs to take a second chance by, for example, providing sufficient publicity about this program.

(12) Promote the formation of a domestic entrepreneurial community

- In Japan, the environment including regulatory reform, expansion of the J-Startup system, and development of incubation facilities should be promoted to create a further entrepreneurial community that accelerates global expansion.
- Utilize PEAKS¹³, a university support forum, etc., as a place for universities, startups, venture capitalists, and other related parties to share and train each other on best practices for ecosystem building, etc.

Pillar 2: Strengthen funding for startups and diversify exit strategies

- In the U.S., a wide variety of financing options are available depending on the stage of growth: IPOs, public offerings, private equity funds, venture capital, and corporate venture capital, all of which are much larger than in Japan.
- In terms of venture capital investment in 2021, Japan remains small in terms of both the amount and number of investments (230 billion yen, 1,400 investments) Moreover, compared to the amount of investment in 2020, the amount of investment in the U.S. (¥36.2 trillion, 17,100 cases) has doubled, while the amount of investment in Japan is only 1.5 times as large, and growth is also low ¹⁴.
- Comparing firms that have received venture capital investment with those that have not, firms that have received investment are more active in employment growth and innovation. This confirms that venture capital has the ability to evaluate and nurture startups in a significant way.
- In order to increase venture capital investment in Japan, we will promote the expansion of public capital investment in venture capital through limited liability investment, including overseas venture capital, and the expansion of government support for startups in cooperation with venture capital.
- In addition, from the perspective of diversifying the business development and exit strategies of start-ups, the environment for stock options and expansion of public procurement will be promoted.
- To this end, the following specific measures will be promoted to strengthen the supply of funds to start-ups and diversify exit strategies.

(1) Reinforcement of the functions of the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMEs) to invest in venture capital

- The Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMEJ), which has a proven track record of investment, will newly strengthen its ¥20 billion investment function with a view to making limited liability investments in domestic and foreign venture capital firms with financial strength and startup development know-how.
- In addition, a new medium-term goal and plan from FY2024 for the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMEs) to further strengthen the limited liability investment function and support the development of domestic venture capital, including the establishment of a limited investment framework for venture capital run by young capitalists, (1) Consideration will be given to revising the maximum amount of the debt guarantee program for deep-tech start-ups.

(2) Strengthen the investment function of the Innovation Network Corporation of Japan (INCJ)

- INCJ has invested 120 billion yen in startups over the past four years through its funds.

INCJ has invested in startups over the past four years through a 120 billion yen fund.

- The new fund will be launched to double the size of this investment, and legislation will be submitted in 2024 to extend the investment period to 2050 (the current period is 2034).
(The current deadline is 2034), thereby strengthening the investment function.
- (3) Reinforcement of the investment function of public-private funds, etc.
- (3) Strengthen limited liability investment in domestic and foreign venture capital by public funds, including public and private funds other than the Organization for Small & Medium Enterprises and Regional Innovation, ETIC, to provide sufficient risk money to realize investment in startups of more than 10 times the size in five years.
- Regarding public-private funds, in order to strengthen the collection of information and the attraction of investors from overseas, and to strengthen the network between overseas venture capital and Japanese startups, we will collaborate with the New Energy and Industrial Technology Development Organization and the Japan External Trade Organization (JETRO) to develop their functions as overseas bases and overseas In doing so, we will strengthen the function of overseas bases and the function of investment in overseas venture capital, in cooperation with the New Energy and Industrial Technology Development Organization and the Japan External Trade Organization. In doing so, we will obtain collaboration and cooperation from gatekeepers (advisors) such as private-sector financial institutions with discerning capabilities.
- In addition, we will strengthen the unified dissemination of information on cooperation among government-affiliated startup support organizations and increase the effectiveness of the centralized contact point.
- (3) Further utilize the specific investment operations of the Development Bank of Japan (DBJ).
- (4) Strengthen support measures for R&D start-ups by the New Energy and Industrial Technology Development Organization (NEDO)
- In order to bridge the gap between the technological seeds of R&D start-ups and their commercialization, the New Energy and Industrial Technology Development Organization (NEDO) provides subsidies for the remaining 2/3 of the amount, on the condition that accredited venture capital invests 1/3 of the amount equivalent to the cost of practical application development.
- In the future, the subsidy cap will be increased, the support menu will be expanded, and the number of eligible venture capitalists will be expanded to include overseas venture capitalists. For this purpose, a new fund of 100 billion yen for five years (20 billion yen per year), three times the size of the current fund (6 billion yen per year), will be created. In this case, efforts will be made to simplify the procedures, considering the burden on startups.
- (5) Strengthen support for drug discovery ventures by the Japan Agency for Medical Research and Development
- The JMEDC will provide support to drug discovery ventures in a way that limits the scope of support to infectious disease-related ventures.

The JMEDC subsidizes the remaining 2/3 of the amount of the venture capital investment, on the condition that the approved venture capital invests 1/3 of the amount equivalent to the development cost for practical use.

- In the future, the scope of support will be expanded to include drug discovery fields other than infectious disease-related fields, where it is difficult to raise funds, and a 10-year fund of 300 billion yen (30 billion yen per year) will be added to the fund for this purpose. In this case, efforts will be made to simplify the procedures, considering the burden on startups.

(6) Strengthen connections with advanced overseas ecosystems

- In Boston, venture capital firms in the biotech field have developed a model for creating and nurturing startups that has enabled biotech startups to exit the market at an early stage, by providing support in collaboration with universities, hospitals, and pharmaceutical companies from the basic research stage before launching a company. This is one example of how the company is realizing the early exit of bio-startups. (6) Strengthen the connection between such world-leading ecosystems and Japan's drug discovery startup ecosystem.

(7) Measures to encourage investment in startups

- In order to supply funds to startups from individuals such as founders, a preferential taxation system should be developed for selling shares held and reinvesting them in startups.
- With regard to the angel taxation system, consider simplifying and putting online procedures, such as reducing the number of application documents required to receive tax benefits.
- Consider measures for the treatment of social entrepreneurs (impact startups) in the future.

(8) Promotion of investment from individuals to venture capital

- Taking into consideration the fact that many individual funds are invested in venture capital in other countries, measures to further promote investment in startups by individuals through venture capital, including tax measures, should be considered, while taking investor protection into consideration.

(9) Improvement of the environment for stock options

- In Japan, the amount of money raised through IPOs is smaller than in the U.S. and Europe, and it has been pointed out that startups are pursuing IPOs too hastily. It is important to allow startups, particularly those in the deep-tech sector, that need time to commercialize their businesses or that wish to remain unlisted for a long period of time to expand their businesses, to flexibly choose the timing of their IPOs.

- Stock options, which are used globally as employee compensation for startups, should also be able to be used with flexibility in the timing of exercise (listing) according to the growth speed of the startup's business and with a simplified procedure.
- For this reason, we will extend the exercise period of stock option tax-qualified stock options for start-ups.
- In addition, for tax-qualified stock options, the obligation to entrust the custody of stock certificates, which is currently required when the options are exercised at the time of non-listing, will be made unnecessary and further relaxed.
- In the U.S., the so-called stock option pool, in which a certain size of stock option issue limit is set in advance and stock options are flexibly granted to employees, is widely used. In Japan, the Companies Act requires that stock options be granted to employees within one year of the establishment of a stock option limit based on a resolution at a general shareholders' meeting, and such flexible issuance of stock options is not permitted. In Japan, the environment for the realization of stock option pools should be improved, including a review of the measures in the Companies Act and taxation measures, while referring to the example of the U.S.
- In addition, issues related to the use of stock option pools and the handling of stock options at the time of employee retirement, and other issues related to the use of stock options by startups should be organized and clarified in the guidelines.
- In the case of unlisted companies, the rules on how to measure the price of class shares are unclear, which hinders the granting of stock options as compensation. Clarify the rules for calculating the price of class shares through guidelines and other means. At the same time, there are comments that it is not clear when a special resolution of a general meeting of class shareholders is required for class shares. Therefore, we will conduct necessary studies, including clarification of the requirements, while taking into account actual needs.
- (9) Investigate the actual status of trust-type stock options (a system in which stock options are granted via a trust company) and take necessary measures according to the results.
- (10) Establish an environment for the use of RSUs (Restricted Stock U n i t s : shares with post-delivery transfer restrictions).
- RSUs are rights to be granted shares after a certain enrollment period, and are commonly used in the U.S. as compensation and incentives for employees from startups with limited cash reserves.

In the U.S., RSUs are generally utilized as compensation and incentives for employees from startups with limited cash reserves. On the other hand, in Japan, the Financial Instruments and Exchange Law requires that the annual

On the other hand, in Japan, it is unclear whether RSUs are subject to the disclosure requirements for new share issuance of 100 million yen or more per year under the Financial Instruments and Exchange Law, and some say that this is an obstacle to the introduction of RSUs. We will clarify the treatment of this issue.

(11) Improve the environment for the use of equity investment-type crowdfunding

- Equity investment crowdfunding is a mechanism where unlisted companies issue shares and collect funds from many people in small amounts via the Internet. (12) SBIR (SBIR is a type of SBIR that is used to raise funds from investors.

(12) Overhaul the SBIR (Small Business Innovation Research) system and promote public procurement

- (12) Overhaul the SBIR (Small Business Innovation Research) system and promote public procurement
(The SBIR (Small Business Innovation Research) system in the U.S. has been overhauled and public procurement has been promoted. The SBIR system (Small Business Innovation Research) should be drastically expanded to provide support to startups, with reference to the SBIR system in the U.S.
- The percentage of contracts for property, construction, and services procured by the national government, independent administrative agencies, and other government-related organizations from SMEs that have been in business for less than 10 years is only about 1% (77.7 billion yen (FY2020 results)). Expand the ratio of procurement from start-ups to more than 3% (300 billion yen scale) as soon as possible.
- The Minister in charge of startups will follow up on the implementation status of the measures and encourage the ministries in charge to correct the situation if it is not achieved.
- Under the current SBIR program, the R&D-related subsidies from each ministry are combined to support startup R&D in the FS research phase of business ideas ("Phase 1") and the R&D phase toward commercialization ("Phase 2"), with a total of 7 billion yen. In addition to its expansion, a new large-scale technology development and demonstration phase ("Phase 3") is also being supported.
("Phase 3") will also be added to the scope of support.
- In doing so, the Cabinet Office will not only consolidate R&D-related subsidies from each ministry and designate them, but will also create a new five-year fund of 200 billion yen (40 billion yen per year) through the Cabinet Office to back up "Phase 3".
- In addition, promote the use of startups, including the use of J-startup selected companies, in a wide range of government procurement, including public infrastructure (railroads, electricity, water supply, etc.).

- In order to expand the participation of startups in government procurement, the bidding qualification system should be examined, including consideration of rules regarding negotiated contracts and point-approval measures in large-scale government research.
- To comprehensively promote public procurement by local governments, promote the following measures
 - Unify documents that differ from one local government to another and encourage online procedures.
 - Promote a cross-sectional review of procurement participation requirements that differ from one local government to another, and encourage procurement by local governments and private businesses through visualization of the status of public procurement by the government.
 - Take measures such as giving more points to procurement from startups when reviewing the adoption of the Digital Rural City National Initiative Grant to promote digital implementation in local areas.
 - Catalog the specifications of services provided by IT companies, including startups, and provide them to the local governments and private businesses that meet their requirements.
A digital marketplace that catalogs the specifications of services provided by IT companies, including startups, and makes it easier for the government to procure services that meet its requirements will be demonstrated in FY2023, with the aim of introducing it as soon as possible.
- (13) Revise the system to eliminate the need for personal guarantees for business owners
 - 77% of the respondents answered "having debts and personal guarantees" as the risk of failure as considered by those interested in starting a business. In fact, 47% of business owners currently grant personal guarantees when borrowing from private financial institutions, including loans with credit guarantees, at the time of start-up ¹⁵.
 - A new credit guarantee system that does not require personal guarantees for start-ups less than 5 years from inception will be established. 12 billion yen will be provided to compensate credit guarantee associations for losses incurred for this purpose.
 - In addition, JFC will establish a loan requirement that does not require a management guarantee for startups less than 5 years after their establishment. In addition, JFC will continue to provide capital-based loans to start-ups with insufficient cash flow and to small and medium-sized enterprises (SMEs) whose financial conditions have temporarily deteriorated. For these purposes, additional capital injection into JFC and other measures will be taken.
 - At the same time, the relevant ministries and agencies will compile measures to establish financing practices that do not rely on management guarantees by the end of this year.

(14) Development of IPO Process

- In line with the "Review of the IPO Process" issued in April this year, the securities industry and competition authorities will steadily review the system and improve its operation based on this review. In addition, we will work to realize listing examinations for companies that have difficulty in assessing corporate value, such as deep-tech start-ups that utilize new technologies in cutting-edge areas, and to utilize direct listing, in which only existing shares are listed without issuing new shares.

(15) Consideration of SPACs (Special Purpose Acquisition Companies)

- The amount raised per IPO in Japan is small at \$0.06 billion, compared to \$300 million in the U.S. and \$200 million in Europe. According to an international comparison by a U.S. research firm, the number of unicorn companies (private companies with a market capitalization of over \$1 billion) is 633 in the U.S.
In contrast, Japan has only six unicorn companies. In contrast, Japan has only 6 companies ¹⁶.
- With regard to SPACs (Special Purpose Acquisition Companies), the necessary institutional arrangements, if introduced, will be studied in light of trends in the international financial markets, while giving due consideration to investor protection.

(16) Development of a secondary market for unlisted stocks

- Currently, private trading systems (PTS) operated by securities firms are not allowed to handle unlisted stocks, even for professional investors. In order to allow start-ups to grow while remaining unlisted, the relevant Cabinet Order of the Financial Instruments and Exchange Law will be revised during FY2023 to allow the handling of unlisted shares for professional investors.
- At the same time, the government will promote the development of an environment for facilitating transactions in the secondary market, such as by advancing private-sector efforts to standardize data on unlisted companies' securities, etc.

(17) Review of the private placement system for specified investors

- In July of this year, the Japan Securities Dealers Association (JSDA) revised its rules regarding the private placement system for specified investors, which allows startups to solicit applications for newly issued securities only from professional investors as a means of raising funds. On the other hand, some start-ups have voiced their concerns about the heavy administrative burden associated with the Specified Securities Information (corporate information, business performance, etc.) newly required to be provided or published under the new rules. In light of this, the new rules will be reviewed as necessary, taking into account actual needs and investor protection, while following up on how the new system is being utilized.

(18) Tax measures related to departure tax, etc. to encourage overseas expansion

- In order to promote overseas expansion of startups, when a startup expands overseas

(19) Confirm and make it known that when a manager himself/herself is posted overseas, he/she can leave the country by guaranteeing the company without having to offer his/her own startup's share certificates as collateral. In the same way, employees, etc., are not required to provide share certificates as collateral if they pledge their shares.

(19) Environmental improvement regarding Web3.0

- Cryptographic assets issued and held by a corporation engaged in the cryptographic assets business on its own behalf, if held continuously for business operations, will not be subject to year-end fair market value taxation for corporate income tax purposes.
- For other crypto assets as well, the tax treatment will be discussed based on the examination of the legal and accounting treatment.
- Accounting treatment for cryptographic assets In March 2022, the Accounting Standards Board of Japan (ASBJ) issued a summary and publication of issues related to accounting treatment, and discussions are underway. Based on these discussions, we will promote the development of an environment that allows for audits by certified public accountants and auditing firms.
- Clarify that the investment targets of Limited Partnerships for Investment (LPS) include businesses that handle so-called security tokens, which are tokens of securities, and encourage diversification of investment in businesses that handle cryptographic assets and tokens by including businesses that handle other cryptographic assets and tokens as investment targets. In addition, the plan encourages the diversification of investment in businesses that handle crypto assets and tokens by making other businesses eligible for investment.
- In addition, the benefits and challenges of blockchain-based DAOs (decentralized autonomous organizations), which are expected to be utilized for regional development and solving social issues, should be promptly clarified.
- Discover new use cases and provide support for the international development of art, games, and other content businesses using digital technology.
- Secure and nurture human resources in Japan who are responsible for blockchain technology and other advanced digital-related technologies.
- To encourage collaboration between overseas personnel with advanced technology and expertise and Japanese startups, develop an environment in which overseas personnel can play an active role, including attracting overseas personnel and creating opportunities for exchange of Web 3.0 personnel from Japan and abroad in cooperation with the private sector.

(20) Establishment of business growth security interest

- In order to create an environment where start-ups, etc. that do not have many tangible assets can raise growth capital in the most appropriate way, financial institutions will provide security interests in the value of the business itself, such as the value of the business and its future potential, without requiring real estate collateral, etc.

It is effective for financial institutions to evaluate and provide loans based on the value of the business itself, such as its value and future potential, without relying on real estate collateral, etc.

- Therefore, we aim to submit a related bill to the Diet as soon as possible in order to establish a system that allows startups to raise growth capital from financial institutions using their entire business as collateral.

(21) Circulation of personal financial assets and long-term investment funds of the GPIF, etc. to venture investments

- Japan's personal financial assets, amounting to ¥2,000 trillion, should be circulated to nurture start-ups, while long-term investment funds of the GPIF, etc. should be circulated to venture investments and infrastructure development.
- To this end, the Asset Income Doubling Plan will be promoted in order to circulate individual financial assets to nurture startups through the promotion of venture investments by angel investors, etc. and investments in domestic venture funds by pension funds, etc.
- In addition, public institutional investors such as the GPIF, etc., should seek to create an environment for expanding the supply of funds to domestic start-ups, which are the engine of growth, through investment in domestic venture funds from the perspective of the interests of insured persons, etc., such as sustainable growth of the overall market and risk reduction and performance improvement through diversified investments.
- With regard to corporate pension plans, encourage listed companies to accept the Stewardship Code, which aims to increase medium- and long-term investment returns for beneficiaries, and to take initiatives in terms of human resources and management based on the Corporate Governance Code.

(22) Promote financing of startups by banks, etc.

- In monitoring the supply of funds to startups through loans to banks, etc. based on the Financial Administration Policy, etc., the status of support for startups should also be checked and followed up flexibly through hearings, etc.
- Normally, the Banking Law prohibits banks from investing more than 5% of their capital in business companies. However, the Banking Law was amended in 2021 to expand the exception to allow banks to invest more than 5% of their capital in startups established within 10 years. Going forward, the Bank will conduct sufficient publicity activities and follow up on the implementation status to encourage banks to actively invest in start-ups.
- In addition to the above, the JFC's start-up support program, for example, should be expanded to include financial businesses (fintech companies) after screening to ensure that there is no risk of lending again, in order to improve the environment for banks to promote financing for start-ups in Japan.

(23) Establish an eco-friendly environment for social entrepreneurship.

(23) Development of Ecosystem for Social Entrepreneurship and Promotion of Impact Investment

- In Japan, when the younger generation considers establishing a start-up business, they often aim to solve social issues such as environmental problems or child-rearing problems. In fact, the leading motivation for starting a startup in Japan is "to solve social issues and help society" (73.7% (2021 questionnaire survey targeting startups)⁽¹⁷⁾)
- To this end, we will support the development of educational programs and networking related to social entrepreneurs (impact startups) at universities in Japan, and promote the creation of centers to foster social entrepreneurs.
- Promote programs to send young people who aspire to become social entrepreneurs overseas.
- The private sector is expected to take an active role in providing services that have been provided by the public sector in order to meet diverse needs in detail. In Japan, which is said to be a country with advanced issues, we will take the lead in the world in recognizing social issues as energy for growth and build a mechanism to solve them into the economy and society.
- To this end, in order to promote impact investment and strengthen support for social enterprises, etc., we will study the reform of new and existing corporate forms that assume public roles in the private sector, and the establishment of a Japanese certification system for impact startups, based on international certification.
- In order to support social entrepreneurs (impact startups), the following items will be considered
 - Preferential measures in public procurement
 - Listing on the list of recommended companies from the government to local governments
 - Matching with local governments
 - Support measures for investment
 - Utilization of Furusato tax payment and corporate version of Furusato tax payment
 - Utilization of dormant deposits
 - Expansion of performance-linked projects (e.g. Social Impact Bond) by national and local governments
 - Support by investment funds
- Compile basic guidelines for the expansion of impact investment and encourage the spread of impact investment.

(24) Attract overseas start-ups and strengthen overseas expansion of domestic start-ups

- Promote dissemination of information on Japanese startups and support systems to overseas venture capitalists, startups, and entrepreneurs, and strengthen business matching. Startups will be positioned as a priority area in the action plan to be newly formulated around next spring by the FDI Promotion Council, and related measures will be enhanced.
- (24) Strengthen networking and other measures at global events related to startups, as well as promote the matching of global human resources and technological demonstration and joint research overseas.

(25) Improvement of the environment to attract overseas investors and venture capital

- Private equities held by funds are often valued at fair value (market value) overseas, whereas in Japan they are often valued at acquisition cost. In order to enable international comparisons of the performance of Japanese venture capital and to promote the attraction of foreign investors, we will clarify the practical treatment of audit considerations and accounting procedures for venture capital and promote the introduction of fair value evaluation in Japan.
- With regard to the investment targets of Limited Partnerships for Investment (LPS), currently, the acquisition and holding of shares issued by foreign corporations is allowed only when the LPS is authorized by the Industrial Competitiveness Enhancement Law, and the investment is 50% or more of the total capital contribution of all partners. From the perspective of facilitating overseas investment by venture capitalists, the upper limit of the foreign investment ratio in the laws and regulations concerning LPSs should be eliminated. In addition, the accounting rules for LPSs should be clarified by placing them in the laws and regulations to clarify their treatment.
- There are opinions that there are cases where the Japanese contract format, etc. becomes a barrier to entry for foreign investors, or venture managers and employees cannot operate under the same conditions as overseas in terms of taxation, labor laws, etc. While taking into account the actual practices of overseas investors, we will create and disseminate model contracts in line with global standards, and promote the development of a world-class environment that makes it easier for overseas investors and top global human resources in Japan and overseas to operate in Japan's startup ecosystem.

(26) Strengthen startup creation in local regions

- In addition to the initiatives of the startup ecosystem base cities and J-Startup, support for startups by regional universities will be strengthened by expanding investment from national universities in regional funds in which regional financial institutions participate.
- Promote investment in regional startups by regional financial institutions, and promote cooperation between large corporations and regional

Provide active support for startups by regional financial institutions through promotion of investment in regional startups by regional financial institutions, promotion of human resource matching between large corporations and small and medium-sized enterprises including startups in the region, and other measures.

- Support the development of next-generation satellite offices where startups in various fields and the businesses that support them can gather, and where the entrepreneurial community, including local universities and financial institutions, can serve as a base for their activities.
 - Promote the use of PFI, etc. for mutual aid social businesses (i.e., multiple businesses working together to develop facilities, equipment, and digital infrastructure that can be shared with local social services).
 - (26) There are limited venues where companies in the deep tech field can conduct demonstration experiments while ensuring safety, so create and expand venues for deep tech demonstrations with the cooperation of local governments and surrounding businesses and residents.
- (27) Support for startup creation in Fukushima
- In Fukushima Hamadori, work to develop a demonstration field so that demonstrations of robots, drones, flying cars, etc. can be smoothly conducted in an environment more similar to actual use.
- (28) Utilization of startups at Expo 2025 Osaka-Kansai
- (28) Proactively utilize startup technologies at Expo 2025 Osaka-Kansai, which will be named the "Testing Ground for the Future Society".

6. third pillar: promoting open innovation

- It is not easy for existing blue-chip firms to maintain their growth rates. The old argument for disruptive innovation was that firms that had been using old technologies would inevitably lose out to firms that entered the market using new technologies. However, recent studies have confirmed that even firms that have been using old technologies can sustainably survive if they work with start-ups to introduce new technologies. Investment in startups is important to promote open innovation by existing large firms.
 - To this end, the following specific efforts will be promoted to promote open innovation.
- (1) Tax measures to promote open innovation
- (1) Tax measures, etc. to promote open innovation (M&A)

In order to promote open innovation, tax measures should be provided for the acquisition of existing shares issued by a start-up company, with the tax measures limited to those that contribute to the growth of the start-up company. In doing so, the tax measures should be sufficiently effective.

- In addition, the preferential tax treatment for research and development taxation should be expanded in the case of collaboration with startups.
- (2) Consideration should be given to measures to promote investment from business companies to venture capital.
- (2) Revision of rules for public offerings
 - Currently, the Japan Securities Dealers Association's (JSDA) self-imposed regulations stipulate that, in principle, funds must be allocated within one year when a public offering is made, which has hindered M&A by large companies to start-ups. The voluntary regulations will be revised in the future, such as by eliminating the uniform deadline for appropriation of funds, and will be enforced by the end of FY2023.
- (3) Establishment of private liquidation legislation for business restructuring
 - With the Corona disaster, the outstanding debt of Japanese companies continues to increase, and more than 30% of companies consider their debt to be a stumbling block to business restructuring. In European countries, there is a legal system for business restructuring by changing rights by majority vote under the approval of the court without requiring the consent of all lenders, but this system does not exist in Japan.
 - Therefore, in order to facilitate business restructuring by Japanese companies, a bill to facilitate private liquidation for business restructuring should be submitted to the Diet so that private liquidation (debt restructuring) can be conducted by a majority resolution of creditors and court approval, without requiring the consent of all creditors.
- (4) Smooth labor transfer to start-ups
 - In order to foster start-ups, it is important to review Japan's employment practices, such as a working style based on lifetime employment, prohibition of side jobs and dual employment, and an emphasis on lump-sum hiring of new graduates, and to facilitate the movement of human resources.
 - In order to give workers the opportunity to move to start-up companies, the "Guidelines for Facilitating Labor Mobility" should aim to simultaneously resolve the following three issues: facilitation of unemployment-free labor mobility between companies and industries, investment in people for reskilling (relearning to move to growth fields), and structural wage increase against the backdrop of these three issues. The "Guidelines for Facilitating Labor Mobility" will be compiled by June 2023.
 - In compiling the guideline, we will also take into consideration the migration of human resources to start-up companies.

In particular, we will promote the smooth movement of labor to start-up companies.

- In particular, in order to contribute to the smooth movement of labor to start-ups, the labor policy will strengthen the promotion of side jobs and dual employment, and support companies that send out personnel for side jobs and companies that accept personnel for side jobs. In addition, support for start-ups in the form of secondment by personnel from large companies will be strengthened.
 - To commercialize start-ups, consultation and support by experts in management, legal affairs, intellectual property, etc. will be strengthened. In addition, support will be strengthened by linking IP strategy specialists to startups through venture capital.
 - (4) The "Guidelines for Governance of Intellectual Property and Intangible Assets" will be revised within this fiscal year after examining how information disclosure and governance should be in cases where a large company divests its management resources, such as intellectual property and human resources, to a start-up.
- (5) Study on further acceleration of organizational restructuring
- From the perspective of realizing the potential of management resources (human resources, technology, etc.) possessed by large companies and creating start-ups originating from large companies, it is important to promote spin-offs. For this reason, the case where a company retains a part of its equity in a spin-off company should be exempted from taxation.
 - Other measures to promote bold business restructuring will be considered.
- (6) Expand voluntary application of International Financial Reporting Standards (IFRS) to facilitate M&A
- Japanese accounting standards stipulate that goodwill should be amortized regularly using the straight-line method or other methods. Some say that this accounting standard has made companies cautious about M&A because the cost of amortization of goodwill continuously depresses the earnings of the acquiring company. Therefore, we urge companies to expand the voluntary application of International Financial Reporting Standards (IFRS), which do not amortize goodwill.
- (7) Collect and organize data to gain an overall picture of the startup ecosystem
- In order to accurately grasp the trends surrounding the start-up ecosystem and to be able to consider necessary policies, data should be collected and organized in a way that allows for international comparisons.
- (8) Promote openness of data on public services and infrastructure
- Compared to large companies, startups lack the human resources to gather information, and are not able to access information on public services and infrastructure held by the government and consider the possibility of using their own technology.

It is not easy for startups to access information on public services and infrastructure owned by the government and to consider the possibility of using their technology.

- The national and local governments should provide information on public data that can be used by start-ups on the Internet.

(9) Strengthen networking between large companies and start-ups

- Strengthen networking through J-Startup and the Japan Open Innovation Venture Creation Council (JOIC).

(Above)

<List of sources and notes

¹INITI & L "Japan Startup Finance

²Small and Medium Enterprise White Paper (2022 edition) Small and Medium Enterprise Agency

³Small and Medium Enterprise White Paper (2022 edition) Small and Medium Enterprise Agency

⁴Decker, Ryan &., John C. Haltiwanger, Ron S. Jarmin and Javier Miranda. "Declining Business Dynamism : Implications for Productivity?" (2016)

⁵Small and Medium Enterprise Agency, "Small Business White Paper (2021 Edition)"

⁶PwC/NVC & "MoneyTree Report"

⁷CB Insights, "The 2020 Global CVC Report

⁸Mitsubishi Research Institute, "Research and Study on the Way of Management Integration between Large Corporations and Venture Businesses" (Survey commissioned by the Ministry of Economy, Trade and Industry in 2008)

(8) Mitsubishi Research Institute, "Research and Study on Management Integration between Large Corporations and Venture Businesses" (Survey commissioned by the Ministry of Economy, Trade and Industry in 2008)

⁹Global Entrepreneurship Monitor, "Adult Population Survey

¹⁰Venture White Paper 2021, Venture Enterprise Center Foundation

¹¹Yu, Sandy. (2020). How Do Accelerators Impact the Performance of High-Technology Venture? Management Science, 66(2), 530-552.

¹²STEM fields is the collective term for the fields of Science, Technology, Engineering and Mathematics (i.e.

¹³Leader's Forum on Promoting the Evolution of Academia for knowledge Society

¹⁴Venture Enterprise Center, "Most Recent Quarterly Survey of Investment Trends Q4 2021 (October-December)" (released March 4, 2022); NVC & PitchBook "The Q4 2021 PitchBook-NVC & Venture Monitor" (released January 13, 2022)

¹⁵Japan Finance Corporation, "FY2019 Survey on Entrepreneurship and Entrepreneurial Attitudes," Hiroshi Uchida, Chari Guo, Kei Hatakeda, Yuji Honjo, and Nobuyoshi Kemori, "Summary of the Results of the Survey on Financing for Starting a Business in Japan." (2018)

¹⁶From CB Insights, "The Complete List of Unicorn Companies" (as of July 2022), Preferred Networks (deep learning) Smart News (news app) Smart HR (HR software), Spybar (biomaterials) Liquid (virtual currency) and Playko (mobile game development).

¹⁷Venture Enterprise Center, "Venture White Paper 2021.