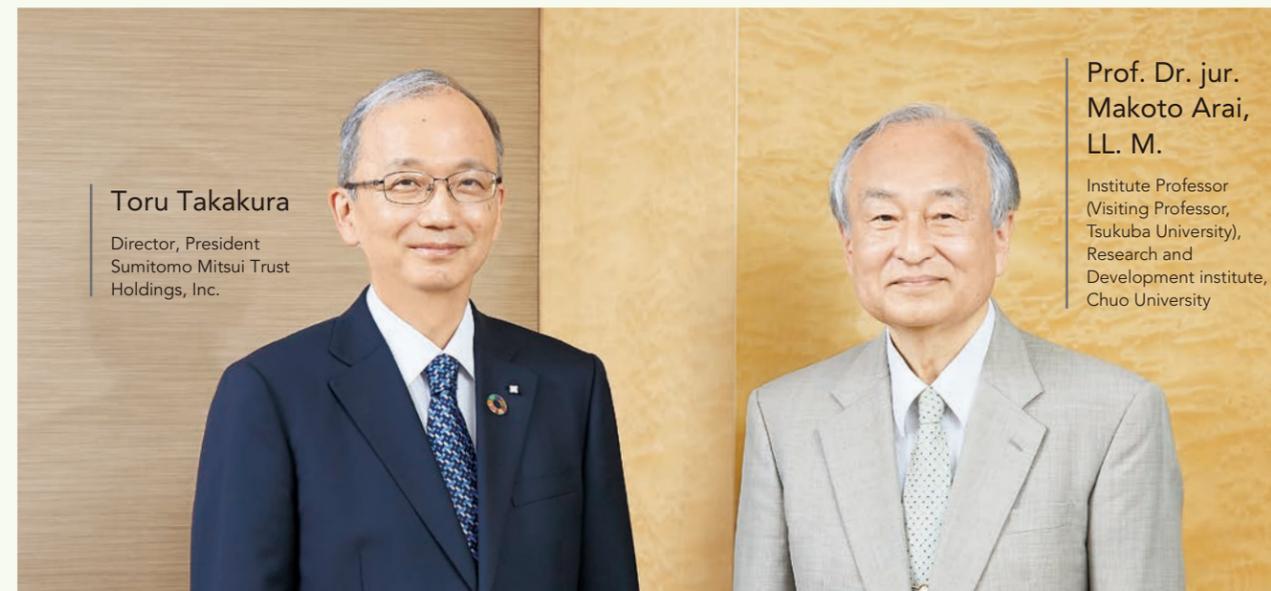


Special
Interview

Pioneering the future with the power of trusts

The year 2022 marks the 100th anniversary of the enactment of Japan's Trust Act and Trust Business Act in 1922. We invited Institute Professor Makoto Arai of Research and Development institute, Chuo University, who specializes in civil law and trust law, to discuss this milestone.



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Reflections on the 100th anniversary of the enactment of Japan's Trust Act and Trust Business Act

Arai This year, 2022, marks the centenary of the enactment of Japan's Trust Act and Trust Business Act.

During the Taisho era (1912-1926), there were approximately 500 trust companies, but many of them were engaged in a motley range of businesses far removed from "trust," such as real estate brokerage, high-interest lending, and investment, all under the name of "trust." In order to rectify the confusion in the trust industry, the Trust Act, which is the basic law that defines the concept of trust and its legal framework, and the Trust Business Act, which regulates the industry, were

established. In addition, the Act on Engagement in Trust Business Activities by Financial Institutions was enacted in 1943 to allow merger between trust companies and banks with the objective to stabilize the business foundations of trust companies.

Since then, trusts have been utilized mainly in the areas of loan trusts, corporate pensions, land trusts, and asset liquidation, which supported Japan's postwar reconstruction and rapid economic growth by providing stable funds to major industries. In this context, 80 years after the enactment of the original two trust acts, the revised Trust Business Act and the revised Trust Act were enacted in 2004 and 2007, respectively.

Japan's legal system is based on the continental (or civil) law system, but our trust law is unique in a way that it incorporated Anglo-American (or common) law, which takes a different approach, and that was groundbreaking. To reach a fair

decision when the law is not explicitly defined, Anglo-American or common law resolves issues systematically through the accumulation of precedents, whereas continental or civil law resolves issues individually by statute. Japan learned both of these systems, which formed our trust related practices.

Takakura Looking back at our history, when I joined The Sumitomo Trust and Banking Co., Ltd. in 1984, loan trusts were our main product. We contributed to Japan's rapid economic growth in the post-war period by channeling funds entrusted by individual clients into capital investment in major domestic industries, the so-called heavy manufacturing industries.

Rolling stock trusts, which are one of the movable property trusts, were also being utilized. I remember there were many trains and subway carriages with a trust bank nameplate, clearly identifying them as trust property.

Arai In essence, a trust is a framework for the custody and management of property on behalf of a third party. There is an anecdote that illustrates the integrity of Japan's trust



practice and spirit. During World War II, Japan seized control of U.S. assets in Japan as enemy property, and it is said that after the war, when the property was returned, the U.S. commended Japan for its prudent management practices. This is an example that truly embodies the spirit of trusts.

Takakura There's a similar anecdote in our company archives. During the wartime regime, our personnel were dispatched to Java Island in Southeast Asia at the request of the Japanese government to survey enemy property, and they were highly praised for their work. Both are examples of trust companies being highly valued for their property management capabilities. I understand that the current Trust Act is characterized by the coexistence of civil trusts and commercial trusts, but after 100 years of history, it seems to me that we are now returning to the usefulness of trusts in the administration of property.

The value that trusts bring to society

Arai Looking back on the history of the Trust Act and the Trust Business Act and their respective revisions, trusts had the momentum to become a driving force in society at critical junctures.

Takakura Indeed, over time, trusts have provided various products and services while flexibly changing their forms and schemes to meet the changing needs and concerns of society and clients.

In the current age, we face social issues such as a super aging society, climate change, and digitalization, and I believe that trusts are indispensable for solving these issues.

For example, baby boomers are now around 75 years of age, and over the next 10 to 15 years, various concerns that needs to be addressed will materialize. We consult our clients regarding their plans, including their thoughts on inheritance and other future matters that could arise after they pass away, while they are still fully capable of making their own decisions, and then we execute on their wishes, from financial planning to how to pass the baton to the next generation through inheritance. We recognize that, as a trust bank, it's important to make steady efforts to continuously provide products and services that utilizes the best use of such trust functions.

We offer support for a super aging society through a wide range of products including "100-Year Passport" for dementia, "solitary trust," which handles not only clients' inheritance and property management, but also their posthumous affairs, and will trusts. We also actively support family members who are trustees in civil trusts. I believe that as the population ages, there will be an increasing need for these services.

As for digitalization, I believe it's essential not only to improve client convenience, but also to enable us to bring forth new products by combining trust and digital technology. For example, we have been entrusted with the proper management of forest resources through a forestry trust. This wouldn't have been possible without the latest forest surveying technology, namely laser sensing using drones. I believe we can create new value by combining existing trust schemes with the latest digital technology.

With regard to climate change, achieving carbon neutrality by 2050 will require a huge amount of capital globally. Of course, there are occasions when we provide funds to our

clients, but in order to meet a huge financial need, it is necessary to attract investors' funds. Using a trust, we can tailor a scheme that is easier for investors to invest. By utilizing our trust function, we can connect clients requiring capital with investors who have investment needs.

Arai The trust is a beneficial framework for society in that sense it's equipped with the ability to change in line with the needs and changes of society. I believe that times of great social change are precisely the times when the power of trusts can be exercised.

Takakura In today's uncertain and fast-changing world, the usefulness of trusts have become increasingly apparent. I believe that by being attentive to people with different ideas and in different positions in accordance with the times would entice social harmony, so I would like to use our trust function to contribute to the stability of society.

Pioneering the future with trusts

Arai As I mentioned earlier, trusts have become a driving force in society at critical junctures in each new era. Where do you think we should focus our efforts in the future with trusts?

Takakura We have identified the economic, social, and environmental impacts of the Group's corporate activities as our "impact materiality." In this context, we're tackling the themes I mentioned earlier: population decline and super aging society issues, climate change, and technological (digital) innovation.

On the other hand, it's not necessarily true that the knowledge, know-how, and talent we have accumulated up to now are sufficient to deal with these themes, so we're also creating fields where people with new skills and insights can take on challenges.

For example, we have recruited people with doctoral degrees who have worked in manufacturers' research laboratories, and we have established a specialized team to work on the theme of climate change. Over the years, we have started proof-of-concept projects in collaboration with several companies and issued impact evaluations using the findings, and based on the results, we have identified and understood our clients' challenges and proposed solutions.

Going forward, we'll continue to create new solutions by integrating our knowledge and know-how accumulated as a

trust bank.

Arai What are your thoughts on financial inclusion?

Takakura Financial inclusion is an important part of our impact materiality. Financial inclusion generally means making financial services accessible to people who don't have access to them. However, I believe that one aspect of financial inclusion is to offer individual clients, who are individual investors, to access a range of products that is appropriate for the clients' risk appetite and knowledge. For example, we use a trust scheme to provide sophisticated investment technology, on a smaller scale, to smaller pension funds. In addition, we have created a business process to provide this knowledge to individual clients in the form of fund wraps and investment trusts.

Similarly, with respect to seniors passing on their assets to future generations, I believe it's important to transform the services used by people with substantial assets into a form that can be used by everyone else.



Arai Finally, what's your view on the "power of trusts"?

Takakura A trust is based on credibility. These days, the term "fiduciary" is often used to describe this concept. The business of a trust bank is to accomplish the wishes of its clients, who believe in us and entrust us with this responsibility. I believe this is what fiduciary is all about.

We must remember that our continued existence as a trust bank group is a consequence of our pursuit of the best interests of our clients, and not the other way around.

In the next 100 years, we'll continue to pursue the best interests of our clients and, as a trust bank group, refine our expertise to provide solutions that exceed our clients' expectations of value in order to realize their aspirations.

Arai Thank you very much for inviting me today.