

The 2024 amendments of Japanese Financial Instruments and Exchange Act to the legal framework governing the investment management business primarily addressed the regulation of outsourcing its business processes and activities. First, for investment management firms in general, the registration requirements have been relaxed in cases where accounting-related operations or compliance guidance are outsourced to designated service providers. Second, with respect to the core function of asset managers, namely investment discretion, the reforms now allow the delegation of full investment authority over all assets under management. This development has paved the way for investment management firms that separate portfolio management from administrative operations and focus exclusively on fund management functions. In an environment characterized by increasing specialization and functional division, the proper outsourcing of investment management functions may generate benefits not only for the firms themselves but also for investors and the capital market more broadly.

This article traces the historical development and current status of entry regulations for asset managers, highlighting their growing complexity and diversification, and examines the underlying causes. It then considers the limits to outsourcing functions within the investment management business that cannot, in principle, be outsourced, as well as the supervisory regulatory considerations that arise where outsourcing is permitted. Building on this analysis, the article evaluates the present framework and discusses the desirable future direction of outsourcing regulations. Finally, it also emphasizes the need for clearer civil law rules governing outsourcing and identifies this as an important agenda for future reform.