



# Financial Services Agency



# Financial. Services Agency

## Table of contents

---

<b>1</b>	Introduction
<b>2</b>	The Role of the FSA History of the FSA Changes in Financial Administration The Role of the FSA Affairs handled by the FSA
<b>4</b>	Flow of Work at the FSA
<b>6</b>	Policy measures of the FSA
<b>8</b>	The organization of the FSA
<b>10</b>	Planning and Coordination Bureau
<b>11</b>	Inspection Bureau
<b>12</b>	Supervisory Bureau
<b>13</b>	Securities and Exchange Surveillance Commission
<b>14</b>	Certified Public Accountants and Auditing Oversight Board
<b>15</b>	Regional Offices
<b>16</b>	FSA Website

## Introduction

---

Having achieved normalization of the issue of non-performing loans, which had long crippled the Japanese economy, Japan's economy continues to be severe. Under this situation, it is essential to create a vibrant financial system – which may be referred to as the lifeblood of the economy – in order to strongly support sustainable growth and development of Japan's economy. As part of such efforts, it is necessary to continuously ensure the stability of the financial system that efficiently allocates funds and assumes a settlement function. It is also important to develop an environment in which people can use a wide range of financial instruments and services with a sense of security and trust, to enhance fairness and transparency of the market, and to facilitate the supply of funds for various investment needs both within and outside Japan, and to increase the appeal of the Japanese financial/capital market as an international financial center.

Under these circumstances, the Financial Services Agency (FSA) is making all-out efforts to tackle such crucial challenges by planning financial systems and through the strict inspection and supervision of private financial institutions and monitoring of securities transactions based on transparent and fair administration, focusing on market discipline and the principle of self-responsibility.

Also, the FSA is striving for qualitative repletion of Japan's financial system by adjusting the practical measures of financial regulations and supervision to the finance-related environmental changes, including technological innovation and globalization of the financial system.

This booklet was created for the purpose of introducing the FSA's role, the nature of its organization, and the policy measures to people in an easy-to-understand format, by using as many figures and photos as possible. We hope that the booklet will help deepen people's understanding of the FSA and financial administration.



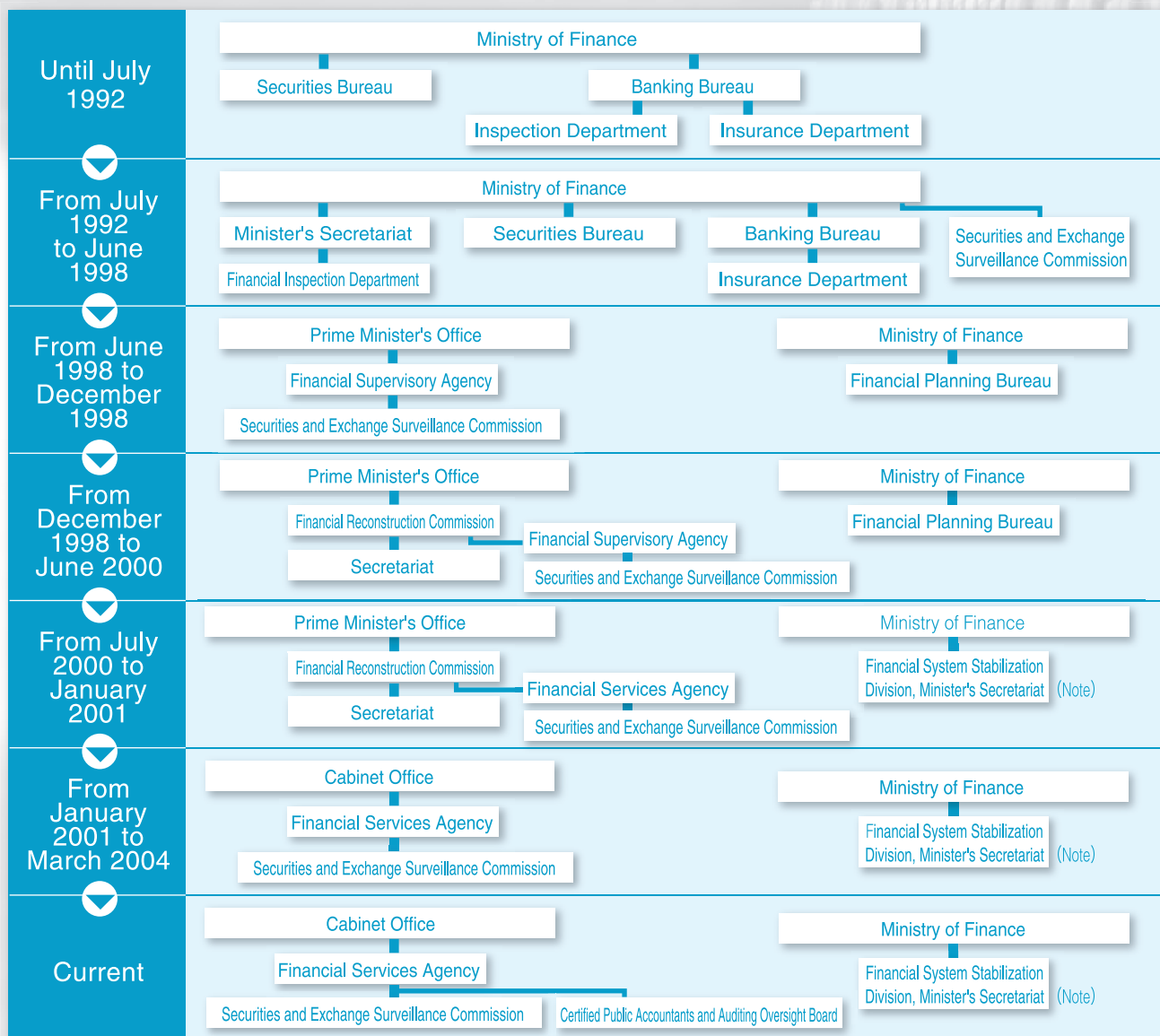
Common government offices No.7

# The Role of the FSA

## History of the FSA

June 1998	The Financial Supervisory Agency was established as an administrative organ (external organ of the Prime Minister's Office) responsible for inspection and supervision of private sector financial institutions and surveillance of securities transactions. With the establishment of the Financial Reconstruction Commission (FRC) in December of the same year, the Financial Supervisory Agency became an organization under the jurisdiction of the FRC.
July 2000	The Financial Services Agency (FSA) was established under the jurisdiction of the FRC through reorganization of the Financial Supervisory Agency. With this change, the FSA became responsible for planning of the financial system for which the Ministry of Finance had been responsible.
January 2001	By the reorganization of central government ministries, the FSA became an external organ of the Cabinet Office and, with concurrent abolishment of the FRC, the FSA took over the business concerning disposition of failed financial institutions.

## Changes in Financial Administration



Note: Concurrently responsible for planning and policymaking concerning the system for disposal of failed financial institutions and concerning financial risk management.

# Financial Services Agency

## The Role of the FSA

The FSA is responsible for ensuring stability of Japan's financial system, protection of depositors, insurance policyholders and securities investors, and smooth finance through such measures as planning and policymaking concerning the financial system, inspection and supervision of private sector financial institutions, and surveillance of securities transactions. The FSA thereby plays extremely important roles for the sound development of the national economy.



## About the Symbol of the FSA

The letters F, S and A, the acronym of the English title of the Agency - the "Financial Services Agency" - are juxtaposed into a visual design. The central part representing "S" symbolizes the smooth flow of finance, and the protection extended from both sides is visually rendered.

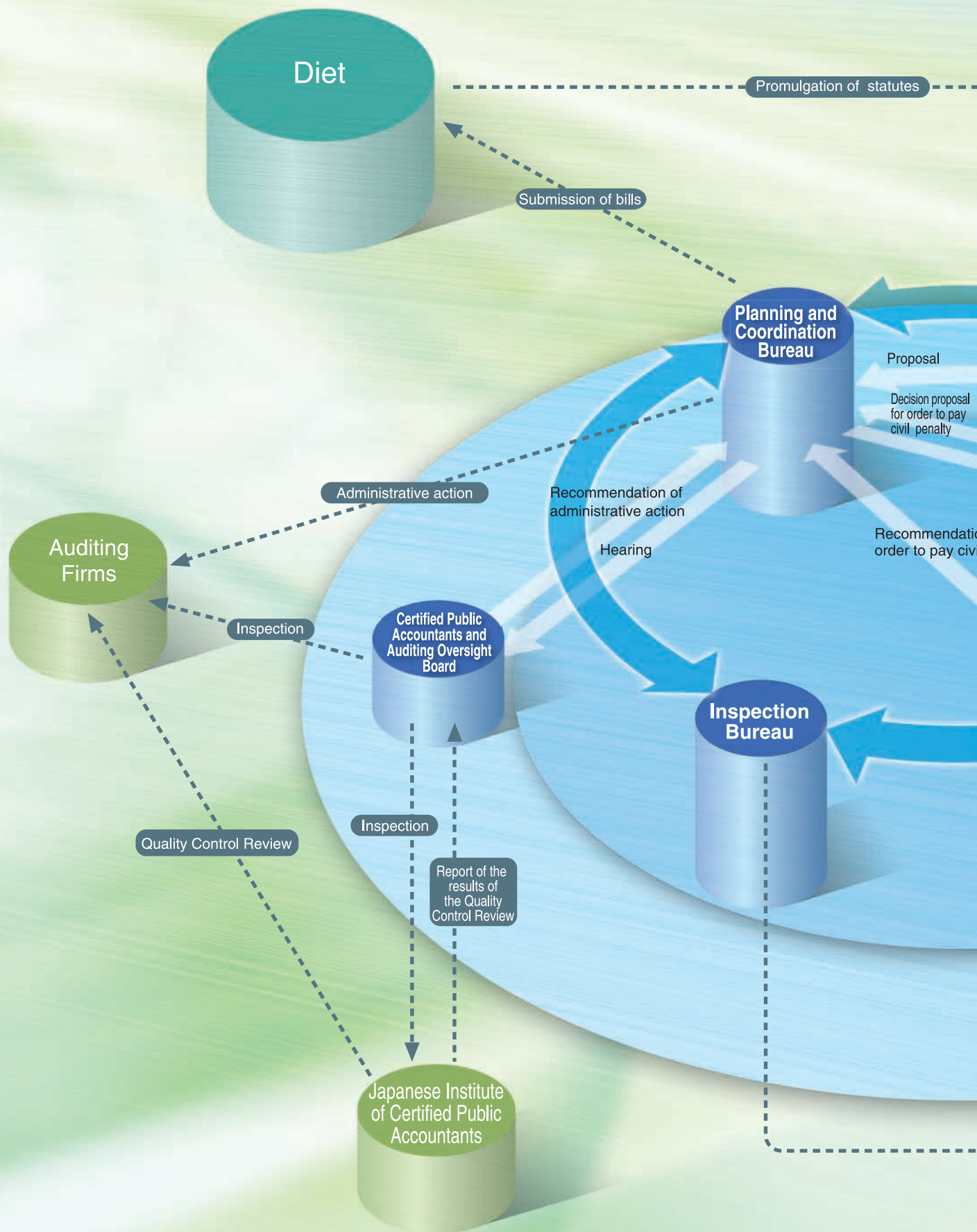
The motif color of light blue represents the smooth flow of finance and the transparency of the administration of the Agency.

## Affairs handled by the FSA

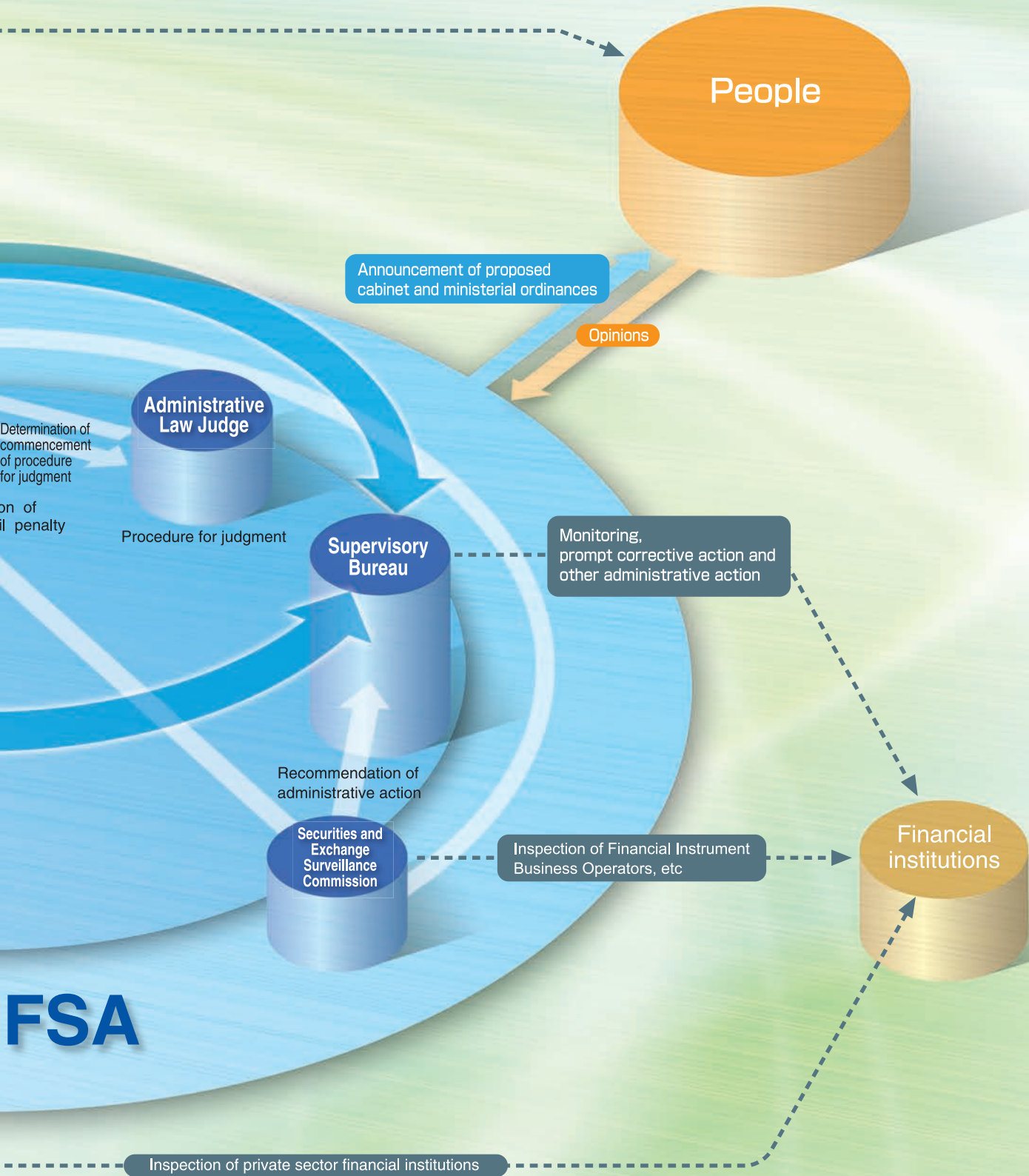
- ▶ Planning and policymaking concerning the financial system
- ▶ Inspection and supervision of private sector financial institutions, including banks, insurance companies and Financial Instrument Business Operators, as well as market participants, including exchanges
- ▶ Establishment of rules for trading in markets
- ▶ Establishment of business accounting standards and others concerning corporate finance
- ▶ Supervision of certified public accountants and auditing firms
- ▶ Participation in activities of international organizations and bilateral and multilateral fora on financial issues to develop internationally consistent financial administration
- ▶ Surveillance of compliance of rules in markets



# Flow of Work at the FSA



# Financial Services Agency

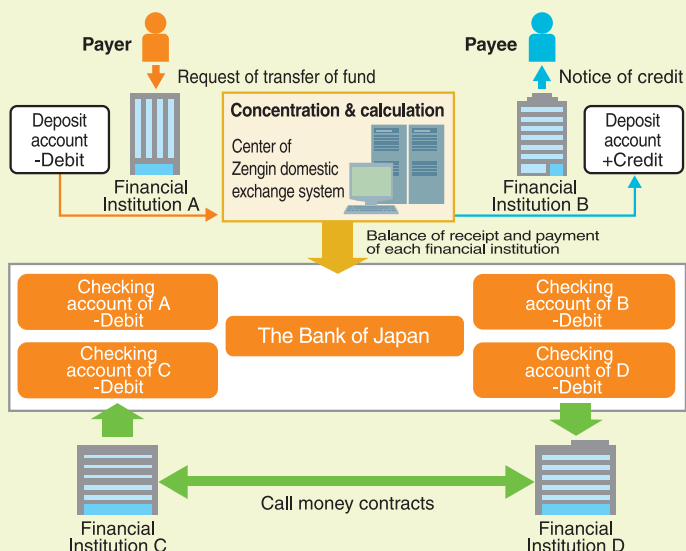


# Policy measures of the FSA

**Financial regulation and supervision have three major policy objectives: “establishment of a stable financial system,” “protection of users and improvement in user convenience,” and “establishment of fair and transparent financial markets.” While the authorities of many other nations in the world have shared these policies for a long time without any essential changes, the environment surrounding the financial world, including technological innovation and globalization of the financial system, is changing continuously. It is the FSA’s major task to strive for qualitative improvement of financial regulation and supervision by adjusting the measures to these changes.**

## Ensuring stability of Financial System

The financial system broadly offers financial intermediation functions and settlement functions in an economy. The financial intermediation functions mean to supply necessary funds to individuals and corporations that need funds from other individuals and corporations that have extra funds. The settlement functions refer to the practice with which payment for goods and borrowing or lending money is undertaken without cash transactions. These financial functions ensure efficient allocation of funds, and assure smooth settlement that sustains economic activities. It is clear that these functions are both indispensable for the sound development of economy. From this viewpoint, the FSA is implementing various policy measures to establish a sound financial system.





## Establishing Fair and Transparent Market

A financial/capital market is a place where many investors and fund-raising corporations participate in trading financial instruments, and where the fair prices of financial instruments are found in an efficient manner. Full-fledged functioning of the market is premised on securing the trust of its participants. If unfair trade is practiced, or information on a corporation that raises funds is false, investors would not be able to make investments free from anxiety. Therefore, the FSA is implementing various measures to facilitate fair trade among the participants of the market in accordance with the financial rules, and to assure transparency of the market by proper information disclosure of corporations.



## Protection of Users and Improvement of Convenience

Finance is a function that can be established only when trust or reliability exists. Without trust, users of financial services cannot comfortably conduct the transactions of financial instruments, or supply funds. However, there are limitations to the ability of users of financial services to sufficiently comprehend by themselves the business conditions of financial institutions or the risks relevant to financial instruments. For this reason, the FSA is pursuing improvement in the rules for the protection of users, as well as appropriate implementation of the rules at inspections and supervision so that users can use various services without undue anxiety.



# The organization of the FSA (As of October, 2016)

- Prime minister
- Minister for Financial Services
- State Minister
- Parliamentary Vice-Minister



Commissioner

Vice Minister for International Affairs



Securities and Exchange Surveillance Commission

Chairperson

Commissioner (2)

Certified Public Accountants and Auditing Oversight Board

Chairperson

Commissioner (9)

Administrative Law Judge

Planning and Coordination Bureau

- Vice Commissioner for Policy Coordination
- Deputy Director-General of the Planning and Coordination Bureau (6)
- Deputy Commissioner of the Planning and Coordination Bureau (11)

Inspection Bureau

Supervisory Bureau

Executive Bureau

- Deputy Secretary-General of the Executive Bureau (2)

Executive Bureau

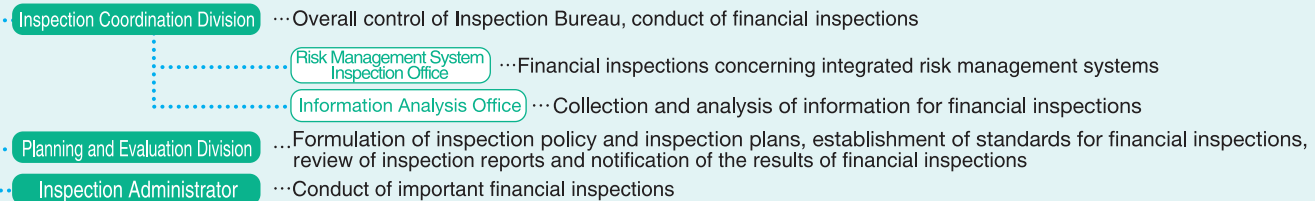
# Financial Services Agency

## Administrative judgment on civil penalty

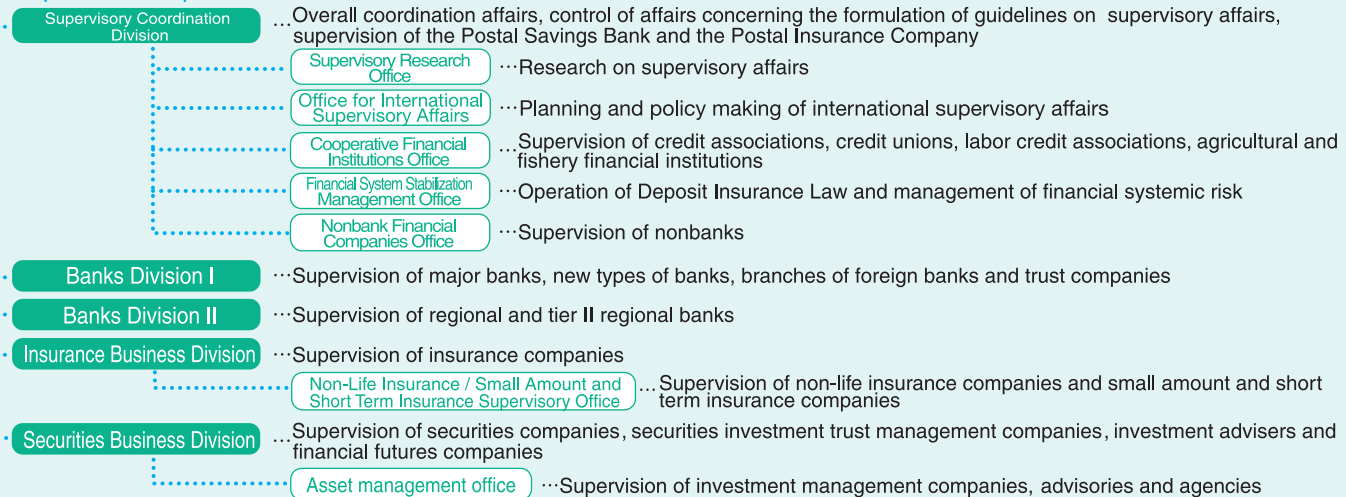
### Overall coordination of the FSA and planning and policy-making concerning financial system



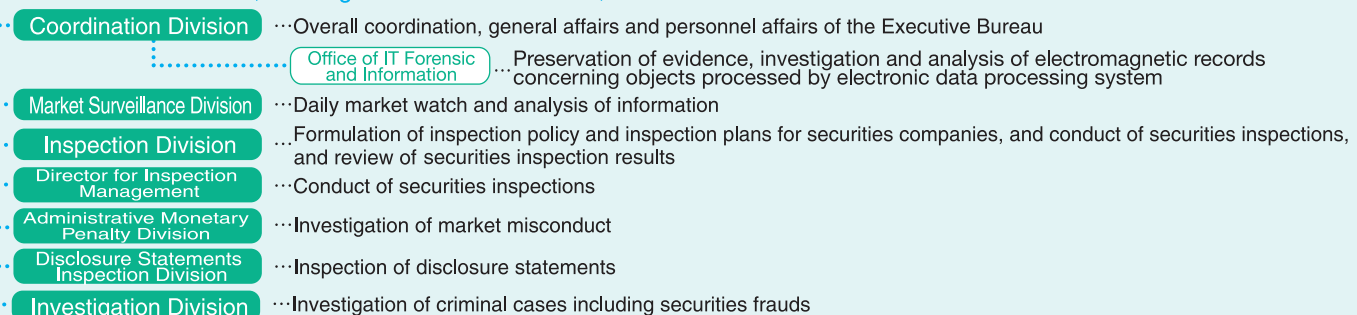
### Inspection of private-sector financial institutions



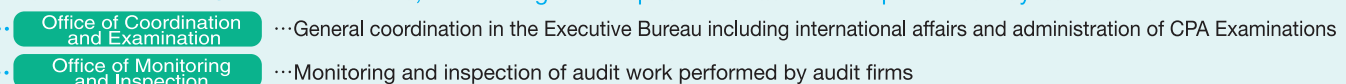
### Supervision of private-sector financial institutions



### Market surveillance, inspection of securities companies, investigation of market misconduct, inspection of disclosure statements, investigation of criminal cases, etc.



### Administration of CPA Examinations, monitoring and inspection of audit work performed by audit firms





## Establishment of a stable and dynamic financial system, development of efficient and fair financial markets and coordination of administrative activities of the FSA

The functions of the Planning and Coordination Bureau are divided into two primary areas – overall coordination of affairs regarding the entire FSA, and planning and policy making concerning finance-related statutes, regulations and systems.

Overall coordination business extends to wide-ranging activities including liaison and coordination with the Inspection and Supervisory Bureaus, liaison with the Diet, public relations, information disclosure, policy evaluation, international activities including active participation in various international dialogues and cooperation with overseas financial authorities, research work and training programs aimed at raising the standards of FSA staff.

Planning and policy making activities include the establishment of rules to be observed by financial institutions through legislation, amendment and abolition of finance-related statutes and regulations such as the Banking Law, Insurance Business Law and Securities and Exchange Law, establishment of a stable and dynamic financial system and development of efficient and fair financial markets so that the people can conduct asset management without undue anxiety and corporations can smoothly raise funds and capital. Furthermore, in planning and policy making concerning finance-related statutes and regulations and financial systems, the FSA adopts opinions from wide-ranging circles, utilizing the process of public comments.

In September 2015, the FSA also started to publish “Strategic Directions and Priorities,” which indicates what goals the FSA aims to attain during a program year, and how. In particular, these policy guidelines attach importance to implementing the “PDCA” (plan-do-check-act) cycle to continuously assess progress toward the goals. The FSA publishes “Progress and Assessment of the Strategic Directions and Priorities” as the results of this assessment. Strategic Directions and Priorities will reflect the outcome of the review in the next program year.



General Meeting of Financial System Council

## Creation of a vibrant financial system through inspections for the benefit of users

The Inspection Bureau conducts inspections of financial institutions in order to ensure the soundness and appropriateness of financial institutions' services in accordance with the Banking Act and other related laws for the benefit of general users, including depositors.

In the past, on-site inspections by the FSA mainly examined whether financial institutions complied with minimum requirements based on the Financial Inspection Manual. In response to changes in the global and domestic financial environment, the FSA has been substantially reviewing how to examine and evaluate financial institutions.

Specifically, the Inspection Bureau and the Supervisory Bureau work together to detect latent management risks and issues at financial institutions by having them report on their status and submit data, and analyzing such data (off-site monitoring). Where necessary, the Inspection Bureau carries out on-site inspection (on-site monitoring) in an appropriate manner, focusing on the risks and issues of financial institutions.

The FSA seeks to ensure constructive dialogue with financial institutions from the point of view that the quality of financial services in Japan will be further improved when individual financial institutions take the initiative to seek best practices by exercising their creative ingenuity in a manner appropriate to their respective situations.

Through such dialogue, the FSA has urged financial institutions to try to appropriately assess the viability of borrower companies' businesses and their growth potential (i.e. business feasibility evaluation), instead of relying too much on collateral and guarantees.

The FSA's monitoring policy is laid out every program year in "Strategic Directions and Priorities," and the progress and results are evaluated on an ongoing basis and released in "Progress and Assessment of the Strategic Directions and Priorities."



FSA staff and representatives from financial institutions hold group discussions on the theme of business viability evaluation.

## Supervisory Administration focusing on Principle of Self-Responsibility and Market Discipline

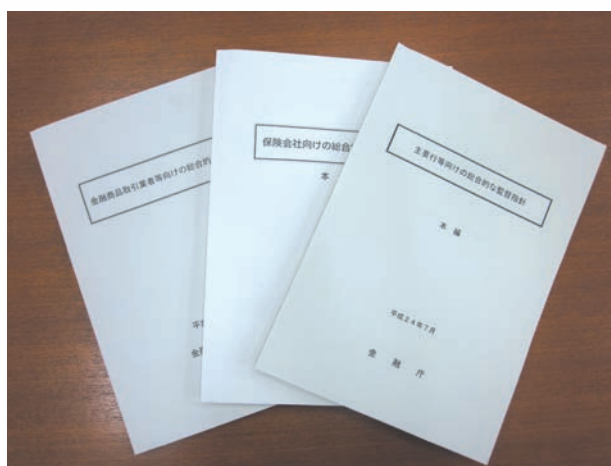
Supervision of financial institutions, etc. involves monitoring the soundness and appropriateness of business operations of financial institutions, etc. so that no problems arise in their financial intermediation functions, payment and settlement functions, etc.

Specifically, information on financial institutions are collected on a continual basis even during intervals between inspections and the status of operations of financial institutions, etc. are constantly identified in detail by conducting not only on-site checks (i.e., inspections) but also off-site checks (monitoring). In addition, a wide range of information is accumulated and analyzed in a prompt and efficient manner, to encourage voluntary efforts to ensure management soundness of financial institutions, etc. from the early stages.

The Financial Services Agency (FSA) considers that the supervision of financial institutions, etc. should essentially have the function of complementing the principle of self-responsibility focusing on responsible governance by the top management of financial institutions, etc. and of complementing market discipline through proper disclosure of information. This is based on the view that the principle of self-responsibility and market discipline is critical for the purpose of ensuring financial soundness and operational adequacy of financial institutions, etc. the FSA considers that it is important to gain confidence in financial supervision by promoting fair and transparent administration in an efficient and effective manner based on clearly-defined rules.

From this standpoint, the FSA is making efforts to establish financial administration with a high degree of fairness and transparency based on clearly-defined rules, including disclosing to the general public the “Supervisory Guidelines”, etc. which serve as notices circulated to internal departments (guidebooks) that summarize the basic approach of the supervision process, etc. We are also striving to conduct daily supervisory operations in a strict and precise fashion, having formulated the “Principles of Financial Supervision and Stance of Employees of Supervisory Departments (Code of Conduct)”.

Since 2015 program year, the FSA laid out monitoring policy of every program year in “Strategic Directions and Priorities,” and the progress and results are evaluated on an ongoing basis and released in “Progress and Assessment of the Strategic Directions and Priorities.”



Supervisory guidelines

# Securities and Exchange Surveillance Commission (SESC)



## -The Market Watchdog -

The missions of the Securities and Exchange Surveillance Commission (SESC) is to ensure integrity of capital markets and to protect investors. The Commission consists of a Chairperson and two Commissioners appointed by the Prime Minister, and fulfill their duties independently. The Executive Bureau established under SESC engages in the Commission's main functions, i.e., market oversight, inspections of financial instruments business operators, etc., market misconduct investigation such as insider trading etc., and inspections of disclosure documents as well as investigations of activities that are suspected to deteriorate fairness of financial transaction.

If any statutory violation is identified as a result of these inspections or investigations, the SESC may make recommendations to the Prime Minister and the Commissioner of the FSA, to take administrative disciplinary actions and other necessary measures against the securities firms and other entities or issue orders to pay administrative monetary penalty to ensure public interest, including fairness in transactions of financial instruments or investor protection. Furthermore, the SESC may seek petitions for court injunctions against unregistered entities soliciting unlisted stocks and other securities. In cases where SESC is convinced of a criminal offence as the result of its criminal investigation, the SESC may file formal complaints to public prosecutors. The SESC may also make policy proposals to the Prime Minister, the Commissioner of the FSA or the Minister of Finance recommending that necessary actions, such as legislative amendments, be taken. Through these activities, the SESC endeavors to ensure investors' trust in financial and capital markets.



A poster seeking information from the general public

# Certified Public Accountants and Auditing Oversight Board

## Ensuring Reliable Auditing



Certified Public Accountants and Auditing Oversight Board

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established on April 1, 2004 based on the Certified Public Accountants Law. The CPAAOB consists of one chairperson and nine commissioners appointed by the Prime Minister with the consent of the Diet. The Board exercises its statutory authority independently from the FSA.

The CPAAOB reviews and examines reports of “Quality Control Review”<sup>\*</sup> by the Japanese Institute of Certified Public Accountants (JICPA) and, if deemed necessary, conducts on-site inspections of the JICPA, audit firms, etc. If the results of oversight show that “Quality Control Review” has not been conducted properly, that the quality control of audits of CPAs / audit firms has been notably insufficient, or that their audit engagements have not conformed to laws, regulations and standards, the Board will recommend that the Commissioner of the FSA take administrative actions and / or other measures necessary to ensure the proper operation of the JICPA and audit firms.

In addition, the CPAAOB implements CPA examinations in a smooth and equitable manner, and conducts investigations and deliberations for such purposes as taking disciplinary action against CPAs and audit firms. Through these activities, the CPAAOB strives to maintain and improve the quality of the nation's audits, as well as ensure their reliability.

### \* Quality Control Review

The JICPA conducts reviews of quality control practices of audit and attestation services at audit firms.

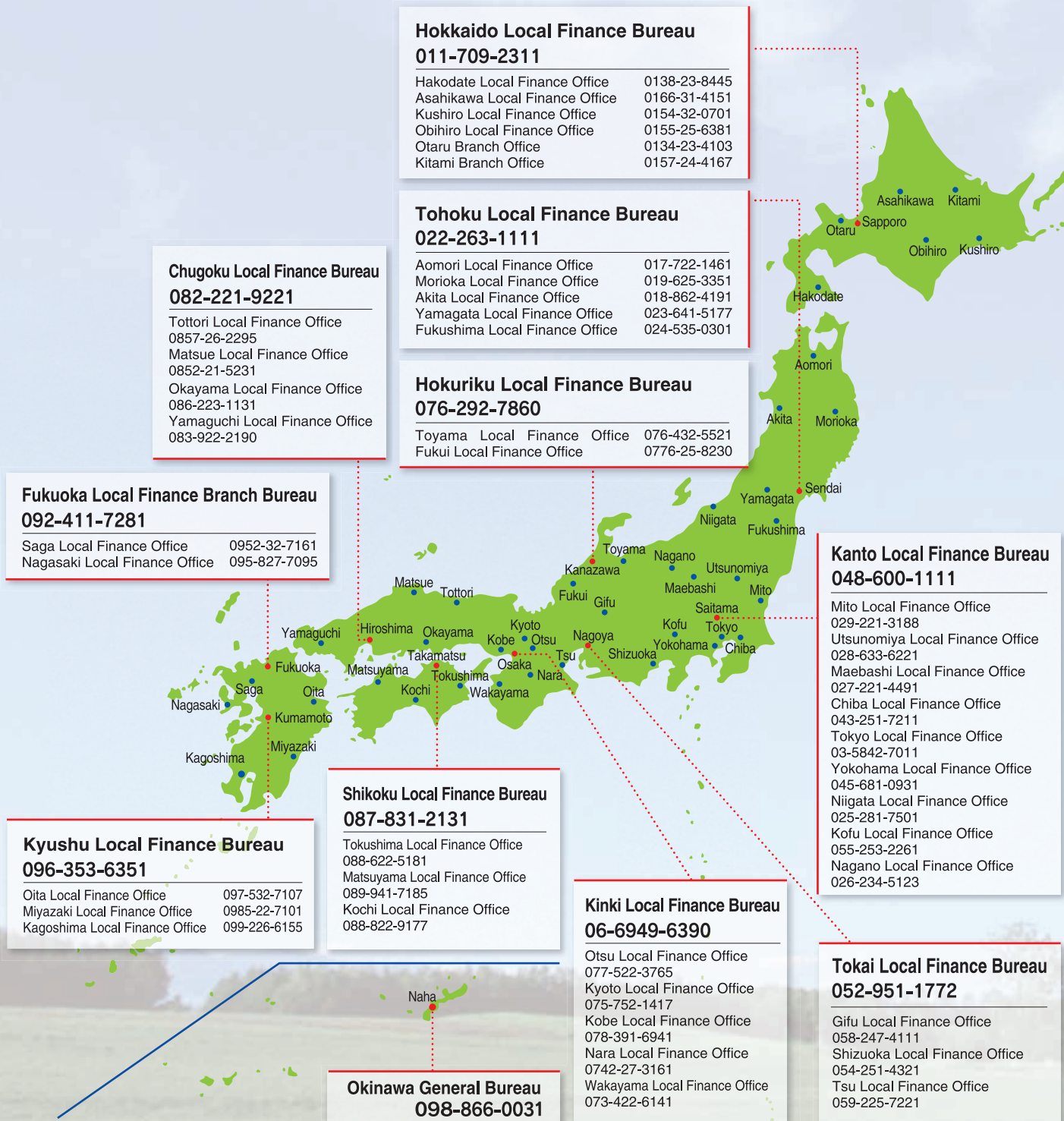


Meeting of CPAAOB



# Regional Offices

The FSA entrusts part of its authority concerning the inspection and supervision of regional private-sector financial institutions to Director-Generals of Local Finance Bureaus (local branch offices of the Ministry of Finance) and others. With respect to the affairs concerning this entrusted authority, the Commissioner of the FSA is to exercise control and supervision of Director-General of Local Finance Bureaus and others.



# FSA Website

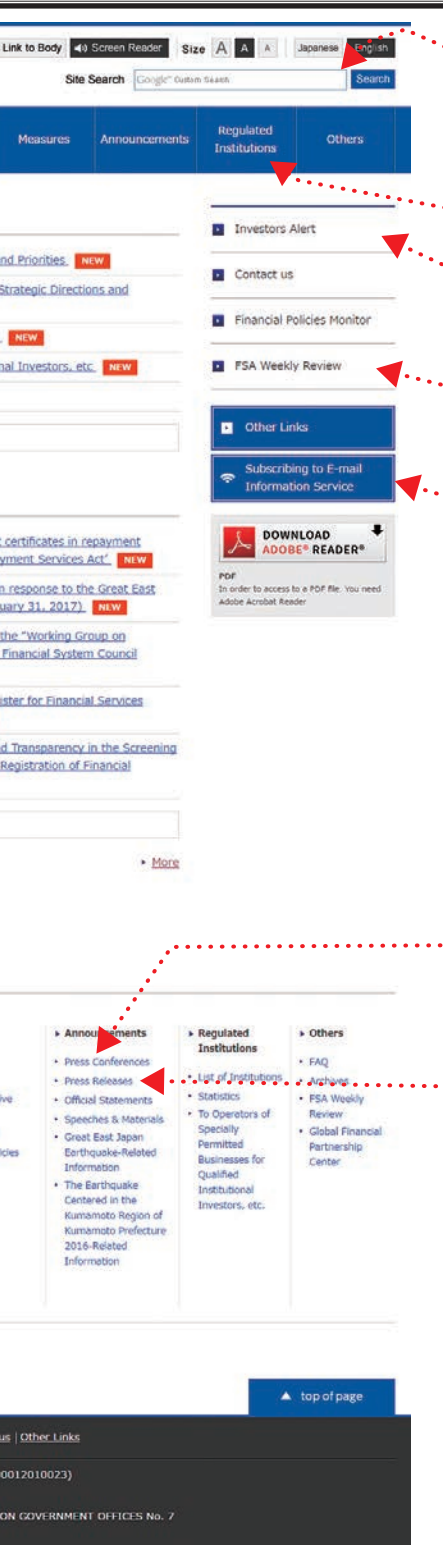
The website of the Financial Services Agency (FSA) (<http://www.fsa.go.jp/en/>) offers various information related to finance including “Press Releases” and “Press Conferences” in a timely manner.

## Special Features

## News from the FSA

The screenshot displays the homepage of the Financial Services Agency (FSA) website. At the top, there is a navigation bar with links for HOME, About FSA, Laws & Regulations, and Principles. Below this, the 'Topics' section lists several items, including 'Publication of Summary Points from 2016-2017 Strategic Directions' and 'Financial Policies Monitor'. The 'What's New' section features a list of recent updates dated March 7, 2017, categorized by 'Others', 'Banks', 'Councils', 'Press Conferences', and 'Others'. The 'Site Map' section provides a comprehensive overview of the website's structure, including links to 'About FSA', 'Laws & Regulations', 'Principles', and 'Measures'. At the bottom, there is a footer with links for 'Site Map', 'Terms of Use of the FSA Website', 'Privacy Policy', 'Access', and 'Contact Us', along with copyright information and the agency's address in Tokyo.

# Financial Services Agency



**Link to the Japanese Website**

**Lists of Institutions Regulated by the FSA**

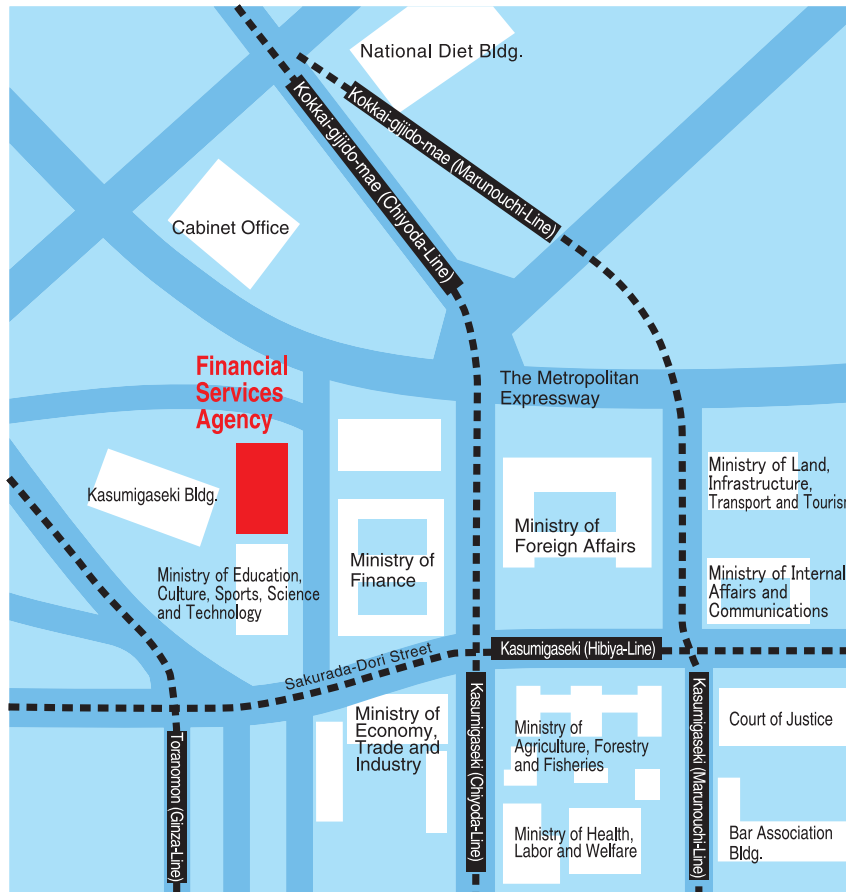
**Alerts from the FSA**

**FSA Weekly Review**

**E-mail Service**

**Press Conferences**

**Press Releases**



### ▶ Access

(By subway)

- 7 minute walk from “Kasumigaseki (M15, C08)” or “Kokkai-gijido-mae (M14, C07)” station of Marunouchi/Chiyoda line
- 7 minute walk from “Kasumigaseki (H06)” station of Hibiya line
- 2 minute walk from “Toranomon (G07)” station of Ginza line

### ▶ Address

**Financial Services Agency**  
 3-2-1, Kasumigaseki, Chiyoda-ku,  
 Tokyo, 100-8967, Japan  
 TEL +81-(0)3-3506-6000

### Website

Financial Services Agency  
<http://www.fsa.go.jp/en/>

Securities and Exchange Surveillance Commission  
<http://www.fsa.go.jp/sesc/english/>

Certified Public Accountants and Auditing Oversight Board  
<http://www.fsa.go.jp/cpaob/english/>