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International Conference on Sustainability Disclosure Hosted by the FSA

1. Background

Capital markets are giving more attention than ever to sustainability information vis-a-vis value creation of the entity. Responding to such needs, tremendous efforts have been made towards developing sustainability disclosure standards by various standard setters and jurisdictions around the world.

Under such circumstances, the International Financial Reporting Standards (IFRS) Foundation established the International Sustainability Standards Board (ISSB) in November 2021 and has been working to set a global baseline of sustainability disclosure. The ISSB plans to finalize its first set of standards – General Requirements for Disclosures and Climate-related Disclosures – in the first half of 2023, and it also plans to issue a request for information in the first half of 2023 to gather stakeholder views on the ISSB's next agenda priorities for its two-year work plan. G7 and G20 leaders have continuously expressed their intentions to support the work by the ISSB, and sustainability disclosure is also be one of the most significant themes for this year's G7 meeting, for which Japan holds the presidency.

On March 3, 2023, the Financial Services Agency (FSA) hosted "International Conference on Sustainability Disclosure" at Otemachi Financial City Conference Center and also online.

The outline of the conference is provided below.

2. Outline of the conference

This conference brought together companies, investors, market participants, stock exchanges, audit firms, standard-setters, regulators and policy

makers to exchange views on jurisdictional approaches and the progress towards a global baseline thus far as well as next priority topics beyond climate with approximately 20 presenters. This was the first time that the FSA held an international conference focusing on sustainability disclosure. Approximately 1,000 people attended the event, including both on-site and online participants.

◆ Opening remarks 1

Prime Minister Kishida sent a video message in which he announced the introduction of a new section for sustainability-related information, such as human capital, diversity, and climate change, in the annual securities reports as part of the initiatives for achieving a "New Form of Capitalism." He also pointed out the significance of developing disclosure rules for human capital information and develop international rules and expressed Japan's commitment to leading international discussions in the field of sustainability disclosure at the G7 Summit, for which Japan holds the presidency.

◆ Opening remarks 2

Mr. Liikanen, Chair of the Trustees of the IFRS Foundation, stated that the conference would be a significant opportunity to promote sustainability disclosure and expressed his expectations for the roles to be played by Japan, which holds the G7 presidency this year.

* For details of the conference, see the FSA's website: <https://www.fsa.go.jp/en/refer/symposium/20230419/20230419.html>

◆ Panel 1: Approaches for developing sustainability disclosure frameworks

A panel discussion was held among officials of Japan, the United States, and the EU, including Mr. Nagaoka, Deputy Commissioner for International Affairs, the FSA, and Mr. Servais, Chair of the International Organization of Securities Commissions (IOSCO) Board. They respectively introduced the latest developments on sustainability disclosure in their jurisdictions, and Mr. Servais welcomed the development of standards by the ISSB.



〔 Photo: Panel discussion 〕

◆ Special interview: Path to global baseline – current progress and looking ahead –

In an interview by Ms. Tashiro, Trustee of the IFRS Foundation, Mr. Faber, Chair of the ISSB, introduced the latest discussions on major issues toward the finalization of the ISSB's General Requirements for Disclosures and Climate-related Disclosures, which is scheduled this June. He also explained that four topics including human capital, which the government of Japan prioritizes, are included in potential standard-setting projects and discussions are being held with diverse stakeholders, including G7 and G20 leaders. He expressed his expectations of the roles that the IFRS Foundation Asia-Oceania office in Tokyo will play as the ISSB base in the Asia-Oceania region.

◆ Keynote speech

Mr. Fink, Chairman and Chief Executive Officer of BlackRock, sent a video message in which he expressed his expectations for progress in decarbonization and solutions for sustainability-related

problems and welcomed the development of sustainability disclosure standards by the ISSB while pointing out the importance of enhancing sustainability disclosure in capital markets toward the solution of those problems

◆ Panel 2: Expectation for next standard-setting agenda

The ISSB plans to issue a request for information in the first half of 2023 to gather stakeholder views on its agenda priorities beyond climate. Accordingly, experts in the sustainability-related field were invited from inside and outside Japan as panelists for the discussion. The panelists introduced initiatives regarding human capital and biodiversity, etc. in the private sector and expressed their expectations of the ISSB developing standards in light of such initiatives.

◆ Closing remarks

Mr. Nakajima, Commissioner of the FSA looked back on the conference and stated that it would be great if the conference motivated people to deepen their understanding and discussions on sustainability disclosure.



〔 Photo: Closing remarks by Commissioner Nakajima 〕

3. Conclusion

Many people from inside and outside Japan came to the venue or participated in the conference online.

Lastly, we would like to extend our gratitude to all participants and related parties inside and outside Japan who cooperatively disseminated information about the event. We hope that this conference will contribute to the further enhancement of sustainability disclosure.

Holding of "Regional Banking Summit (Re:ing/SUM)" × "Nikkei Regional Revitalization Forum"

◆ Preface

Since 2020, the FSA has held an event titled "Regional Banking Summit (Re:ing/SUM)," where people related to regional financial institutions and experts with diverse backgrounds in various fields discuss a wide range of themes regarding the revitalization of local economies and society.

This year, representatives of financial institutions, centered on shinkin banks and credit unions and other front-line personnel, were invited as presenters to broadly discuss themes that were not limited to financial themes, such as regional revitalization, financial education, child poverty, startups, and organizational activation.

The outline of the event is provided below.

◆ Outline of the event

● Opening remarks

SUZUKI Shunichi, Minister of State for Financial Services

At the opening of the event, Minister Suzuki stated that providing support for companies to improve or revitalize their business has become more and more important, and he expected that the event would provide participants with an opportunity to consider the roles that regional financial institutions are to play for local communities and companies and what their own ideal sustainable business models should be.



● Panel discussion

[As a member of a local community]

➤ Initiatives by shinkin banks and credit unions for contributing to and revitalizing local communities

Representatives of shinkin banks and credit unions that have been engaging in activities for contributing to and revitalizing local communities introduced their initiatives that take advantage of the characteristics of individual regions, and participants exchanged opinions on how to make contributions to local economies while introducing initiatives by small-sized financial institutions in mutual cooperation or collaboration with local governments or companies.

➤ Regional sustainability – the significance of coping with the problem of child poverty in local communities –

Experts in SDGs and child poverty issues exchanged opinions on the significance and advantages of the involvement of regional financial institutions that are deeply rooted in local communities because child poverty is generally hidden but may eventually affect the sustainability of individual local communities in the future.

➤ Promotion of people's stable asset building and regional collaboration

● Opening message of the session

SUZUKI Eikei, Parliamentary Vice-Minister

In his speech, Parliamentary Vice-Minister Suzuki pointed out the importance of enhancing people's financial literacy and providing them with financial and economic education on appropriate asset building in line with their life plans for the purpose of eliminating their worries about their lack of knowledge or experience in making investments, and he stated that regional financial institutions are expected to make positive efforts to disseminate the new NISA program and promote financial and economic education from a standpoint that is close to customers.



In the session, financial institutions and experts that are making efforts for financial education presented concrete examples where regional financial institutions close to local residents and companies have been endeavoring to raise customers' interest in personal asset building. They also explained that financial education has a concrete effect on stimulating potential demand for asset building.

[For local companies]

➤ Collaboration among support organizations and human resources development for the future support of companies

Representatives at regional financial institutions and Credit Guarantee Corporations that support companies discussed the significance of collaboration among support organizations in their respective regions and the means for fostering personnel of support organizations at an organizational level, such as the enhancement of individuals' skills and utilization of a job assignment or trainee system.

* The event can be viewed via the FSA's website, the FSA's YouTube channel, or the Nikkei Channel.

• FSA's website: <https://www.fsa.go.jp/news/r4/ginkou/20230201-3/20230201-3.html> (Available in Japanese)

• FSA's YouTube channel: https://www.youtube.com/playlist?list=PL0cFkMfU1dbn89xQX84CxtsEy_YsXFHNw (Available in Japanese)

• Nikkei Channel: <https://channel.nikkei.co.jp/reingsum202302/> (Available in Japanese)

➤ Solving local issues through supporting business successions

Panelists engaging in activities to support business successions, which is an urgent problem in local communities, discussed the problem of internal business successions, including the shortage of successors, countermeasures, the effectiveness of business successions for third parties and specific support measures therefor, the expectations of regional financial institutions, and the significance of collaborations with related parties.

➤ Startups in Japan and the rest of the world and collaborations between companies and financial institutions in individual regions

Panelists engaging in support for startups discussed the roles to be played by related parties, including regional financial institutions and local governments, and businesses that are attracting attention at present, as well as their expectations for regional financial institutions and local governments from the perspectives of [i] Asia and the rest of the world, [ii] sustainability, [iii] digitalization, and [iv] human capital and diversity.

[Innovation in financial services]

➤ Collaboration between regional financial institutions and overseas fintech companies

Representatives of overseas fintech companies and a regional financial institution that has been collaborating with those companies introduced examples of regional financial institutions' commencement of services for overseas fintech companies and discussed the developments leading to collaboration, details of collaborative operations, advantages, points to note, etc.

➤ Revitalization of local economies through mobile payment services

Representatives of financial institutions that offer mobile payment services in local communities introduced their ideas on institutional designs that are user friendly for all people and the promotion of their use by elderly people, as well as concrete examples of their activities, such as the development of an environment to build a feeling of unity in local communities, and they discussed the significance of regional financial institutions' leadership in developing systems for cooperation with local governments and companies.

➤ Regional financial institutions' utilization of fintech intermediary services

From the perspective of whether regional financial institutions can utilize fintech intermediary services for improving customer convenience, one expert and representatives of fintech companies and financial institutions discussed requests and concerns regarding collaborations with financial institutions and exchanged opinions on ways for effective collaborations that are unique to regional financial institutions, such as the promotion of collaborations with fintech companies that

utilize regional data and have many customers in common with SMEs.

[Organizational structure of financial institutions]

➤ Ensuring participation of diverse human resources (activation of organizations through promoting the participation of women)

Representatives of shinkin banks, a credit union, and a company, all of which have been making efforts for organizational activation from the perspective of ensuring the participation of diverse human resources including women, introduced their experience and efforts for organizational activation at their workplaces and discussed various ideas for promoting reform that makes it possible for all people to exercise their abilities while also pointing out the significance of addressing the concerns of female workers, eliminating time and spatial constraints, and changing people's consciousness.

➤ Support for female entrepreneurs – Support that regional financial institutions can provide

Representatives of a financial institution, industry organizations that support female entrepreneurs, and a woman who started a business all introduced specific cases of support being provided, such as where women-only entrepreneur seminars were held and a community for female entrepreneurs was created, where a chamber of commerce and industry and financial institutions are providing information on subsidies, etc. and consultation services, and a case where the number of female staff members of an organization was increased to make consultation services more friendly to female customers. They also discussed how to further facilitate support for female entrepreneurs.

➤ Activation of organizations through facilitating participation of senior and middle-aged staff members (increasing workers' motivation)

Senior and middle-aged employees, as well as one in his 30s, of financial institutions discussed ideas for increasing the motivation of senior and middle-aged staff members, who are increasing in number due to the postponement of retirement, such as having them create added value in business operations through their experience, human networks and information, and making them feel happy by getting them involved in the development of midcareer and younger staff members from the perspective of organizational activation.

◆ **Conclusion**

We hope that participants could share problems being faced by companies as well as by local communities and economies and that this event will help back up their initiatives to solve those problems and lead to a virtuous cycle wherein regional financial institutions' activities will secure the sustainability of local economies and eventually stabilize the business infrastructure of regional financial institutions.

Meeting to Exchange Views on the Facilitation of Finance for SMEs

Under circumstances where many companies are still facing funding difficulties due to the impact of COVID-19 and recent price hikes and in consideration of possible increases in demand for operating capital toward the fiscal year end, the FSA held a meeting for the exchange of opinions on the facilitation of finance for small- and medium-sized enterprises (SMEs)* between government officials, including the Minister of State for Financial Services Suzuki and representatives of public and private financial industry organizations on March 7, 2023.



Photo: Minister Suzuki making a statement at the meeting

At the beginning of the meeting, Minister Suzuki asked the representatives of financial industry organizations for their cooperation in actively providing support to companies that are suffering from the burden of repaying increased debts and to assist their efforts to improve their profitability, rehabilitate their businesses, and take on challenges. The amendment of the Comprehensive Guidelines for Supervision, which incorporates such measures as making procedures for requesting personal guarantees stricter as part of the Reform Program regarding Personal Guarantee Provided by Business Owners, will start to be applied from this April. In consideration of this fact, the minister also expressed his expectation that top management will exercise strong leadership to establish new lending practices that are not dependent on personal guarantees.

The representative of the Japanese Bankers Association stated that banks will continuously place top priority on cash flow support for companies and that the association published the Agreement on Support for Startups this January with the awareness that support for startups is a significant theme to be addressed by society as a whole. The representative expressed the association's commitment to making further efforts to support startups.

Parliamentary Vice-Minister Suzuki expressed his gratitude to the representative of the Japanese Bankers Association for publishing the agreement promptly and requested other representatives provide meticulous support to individual startups by referring to the agreement.

Other participants stated that they will utilize the Refinancing Guarantee System or otherwise make careful responses to companies' needs for the restoration of their earning power and business reconstruction both from financial and non-financial aspects.

At the end of the meeting, State Minister Fujimaru requested representatives of public and private financial industry organizations to continue flexible cash flow support to the extent possible from the viewpoint of companies toward the end of the fiscal year.

Additionally, a written request dated March 7 concerning cash flow support for companies, including what Minister Suzuki requested above, was issued and published to thoroughly disseminate the contents.



Photo: State Minister Fujimaru (left) and Parliamentary Vice-Minister Suzuki (right) speaking at the meeting

<Financial industry organizations that participated in the meeting for the exchange of opinions>

Japanese Bankers Association, Regional Banks Association of Japan, Second Association of Regional Banks, Trust Companies Association of Japan, National Association of Shinkin Banks, National Central Society of Credit Cooperatives, National Association of Labour Banks, Norinchukin Bank, Japan Finance Corporation, Okinawa Development Finance Corporation, Shoko Chukin Bank Ltd., Development Bank of Japan Inc., Japan Federation of Credit Guarantee Corporations, and Japan Housing Finance Agency

Joint session of the 51st general meeting of the Financial System Council and the 39th meeting of the Sectional Committee on Financial System

On March 2, 2023, a joint session of the 51st general meeting of the Financial System Council and the 39th meeting of the Sectional Committee on Financial System was held.*¹ At the beginning of the joint session, the Chairman was elected. Then, Parliamentary Vice-Minister Suzuki consulted the council on a new matter after making an address. In addition, the chairman of each meeting explained the "Disclosure Working Group Report," the "Second Interim Summary Report of the Working Group on Capital Market Regulations," the "Report of the Customer-Oriented Business Conduct Task Force," and the "Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices."

1. Mutual Election of Chairman

At the joint meeting, which was held for the first time after the election of new members on January 25, 2023, Mr. KANDA Hideki was elected as the Chairman of the Financial System Council and the Sectional Committee on Financial System.

2. Consultation

The tender offer rule and the large shareholding reporting rule have not been significantly reviewed since 2006. Since then, the market environment has changed with the diversification of M&A (more cases of hostile M&A through on-market transactions), the increase in passive investment, and the growing importance of constructive dialogues between companies and investors to increase corporate value over the mid- to long-term. The market environments has thus changed, the following consultation was delivered at the Financial System Council.

Consultative remarks

○ Review of the Tender Offer Rule and the Large Shareholding Reporting rule

In light of recent environmental changes in the capital markets, the tender offer rule and the large shareholding reporting rule should be reviewed from the perspective of securing transparency and fairness of the markets and promoting constructive dialogues between companies and investors.

It was decided to establish a working group under the Financial System Council in order to concretely review this matter.



Photo: Parliamentary Vice-Minister Suzuki reading out consultative remarks

3. Report

The chairman of each meeting explained the "Disclosure Working Group Report," the "Second Interim Summary Report of the Working Group on Capital Market Regulations," the "Interim Report of the Customer-Oriented Business Conduct Task Force," and the "Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices." Overviews of these reports are as follows..

(1) Disclosure Working Group Report

Specific ideas are compiled in order to abolish the quarterly disclosure requirement under the Financial Instruments and Exchange Act for the first and third quarters and to consolidate quarterly earnings into a single quarterly financial report under the Exchange Rules from the perspective of reducing costs and enhancing the efficiency of information disclosure.

The report also recommends clearly positioning the sustainability disclosure standards to be established by the Sustainability Standards Board of Japan (SSBJ) in a framework that is under the laws and regulations. Additionally, future agendas, such as sustainability disclosure standards and third-party assurances regarding the contents disclosed, and a roadmap for

*¹ For the agenda and handouts see: https://www.fsa.go.jp/singi/singi_kinyu/soukai/siryou/2023_0302.html (Available in Japanese)

implementing sustainability disclosure in Japan are also presented.*2

(2) Second Interim Summary Report of the Working Group on Capital Market Regulations

The report compiles measures for achieving a virtuous cycle of growth and distribution to increase the added value of the Japanese economy as a whole and set it on a higher sustainable growth path and to return the economic growth to households through enhancing their financial literacy and having them select appropriate financial instruments, mainly from the following three points of view: [i] strengthening the functioning of the market infrastructure; [ii] smooth fund provisions to startup companies, etc.; and [iii] other environmental developments.*3 For the matters for which specific measures are presented in the Second Interim Summary Report, those measures will be taken sequentially, and the Working Group will continue deliberations on other matters.

(3) Interim Report of the Customer-Oriented Business Conduct Task Force

For realizing stable asset formation by households and promoting the return of economic growth to households, the report compiles a broad range of measures from the four perspectives of [i] ensuring customer-oriented business conduct that takes into consideration the best interests of customers, etc. across the entire investment chain, [ii] providing information and advice to customers, [iii] enhancing the asset investment business, and [iv] improving financial literacy.*4 For the matters for which specific measures are presented in the Interim Report, those measures will be taken sequentially, and the Task Force will continue deliberations on other matters.

(4) Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices

The JFSA propose the establishment of a security interest over all assets as a new collateral system that allows startups and other businesses to raise growth capital from financial institutions without relying heavily on real estate collateral, etc. The report also provides some direction on issues such as the establishment, validity, execution procedures, and worker protection of such security interests.*5

Based on discussions at the Financial System Council, the FSA will develop financial environments to facilitate people's stable asset formation and realize sustainable growth of the Japanese economy through corporate governance reform and the smooth provision of funds for growth and business rehabilitation.



Photo: General meeting of the Financial System Council

*2 For details of the Disclosure Working Group Report, see: https://www.fsa.go.jp/singi/singi_kinyu/tosin/20221227.html (Available in Japanese)

*3 For details of the Second Interim Summary Report of the Working Group on Capital Market Regulations, see: https://www.fsa.go.jp/singi/singi_kinyu/tosin/20221221.html (Available in Japanese)

*4 For details of the Interim Report of the Customer-Oriented Business Conduct Task Force, see: https://www.fsa.go.jp/singi/singi_kinyu/tosin/20221209.html (Available in Japanese)

*5 The “Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices” is available in Japanese at the following URL https://www.fsa.go.jp/singi/singi_kinyu/tosin/20230210.html (Available in Japanese)

Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices

Banking, Payment and Insurance Regulations Office, Planning and Management Division, Policy and Markets Bureau

On February 10, 2023, the JFSA compiled a report of the “Working Group on Legal Institutions for Cash-flow-focused Lending Practices” (chaired by Professor of Law at Gakushuin University Law School) (hereinafter referred to as the “Lending Practices WG”).* This paper will provide an overview of the report, focusing on discussions around current lending practices and collateral systems.

1. Background

In Japan, it has long been said that there are some challenges in the corporate financing environment, especially if they don’t have real estate or other tangible assets to provide as collateral or if they don’t provide personal guarantees. In particular, companies in phases of starting up, business succession or business turn around (hereinafter referred to as “growing companies, etc.”) are still facing this problem. In addition, with the increasing number of intangible-asset intensive firms due to changes in industrial structure and digitalization, financial institutions are expected to support the value creation of those growing businesses and contribute to the sustainable growth of the Japanese economy.

The JFSA has reviewed legal systems, inspections and supervisions related to capital markets and financial institutions to offer a wide range of fund raising options to companies. As far as borrowing options are concerned, new types of lending practices for growing companies, etc., has been discussed. For example, the FSA abolished the Inspection Manuals in 2019 and amended the Comprehensive Guidelines for Supervision, while referring to relationship banking in other countries. It was intended to develop a better environment that enables each financial institution to make the best use of their inventiveness in business strategies, credit management, and investments in human capital and to respond to companies’ diverse needs and demand for funds.

The introduction of security interest over all assets is one of the measures to encourage the establishment of new lending practices for growth companies, etc. In

foreign countries, similar systems are widely used in lending practices, such as relationship banking and venture debt financing. This new system is positioned not as means for ensuring property preservation or collection in the event of a bankruptcy but as means for building a close relationship between companies and financial institutions, which serves as the basis for lending to growing companies, etc., and for motivating financial institutions to properly understand the current status and potential of companies.

2. Expected practices

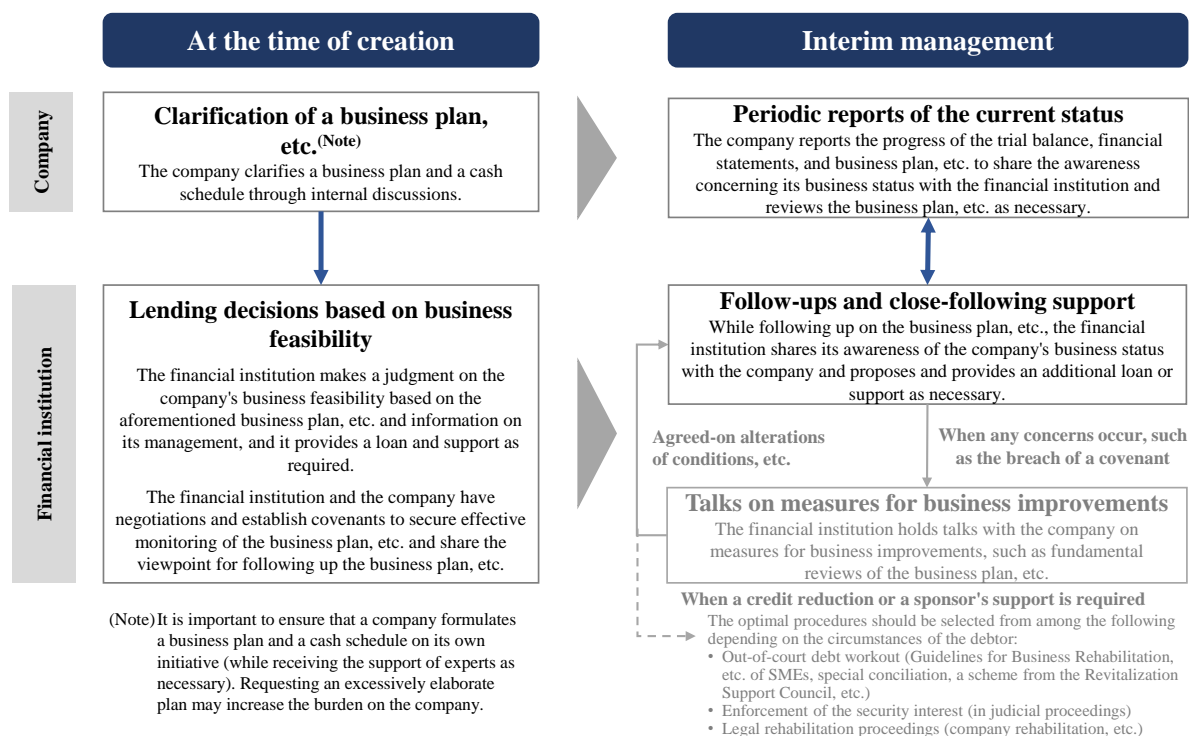
With security interest over all assets, a growing company, etc. is supposed to share the current status and forecasts of its business with a financial institution, and the financial institution is to make a decision based on this information. Also after financing, the growing company, etc. and the financial institutions will periodically share and follow up on the status of the company’s business.

Sharing the understanding of business conditions and building close relationships are essential for lending to growing companies, etc. Even if growing companies, etc. encounter business problems, early discussions with financial institutions and obtaining their support will enable the company to improve its business at an early stage. If early business improvement can be expected, then credit risk decreases, and the financial institution can consider providing a loan without worries.

* Publication of the Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices (published on February 10, 2023): https://www.fsa.go.jp/singi/singi_kinyu/tosin/20230210.html (Available in Japanese)

Supposed practices at the time of creating a security interest and for interim management

- A security interest over all assets is supposed to be used between a company that clarifies a business plan, etc. and a financial institution that understands the company's business feasibility, based on the business plan, etc., and is capable of continuously ascertaining the company's status.



However, using security interest over all assets is merely one of the options for providing loans, and at least at the early stage, it may be mostly used under circumstances where conventional lending practices are causing difficulties. In the discussion of the Lending Practices WG, members from industry organizations commented that the use of this facility can be expected, for example, for businesses with no tangible assets (including startups), business succession financing and project financing.

3. Basic system design

As described above, implementing security interest over all assets encourages financial institutions to provide loans to growing companies, etc. Therefore, the report of the Lending Practices WG recommends to consider all assets (including future cash flows arising from business activities) integrally as the subject of a security interest over all assets, while incorporating a framework that gives priority to those who contribute to maintaining and enhancing business value, such as workers and business partners, in repaying security interest over all asset holders.

Growing companies, etc. are expected to utilize security interest over all assets and obtain loans from a wide range of financial institutions and venture funds, etc. that have the ability to evaluate business value.

The report also states that it is appropriate to restrict lenders that provide loans using security interest over all assets from seeking personal guarantees from business owners, except for cases of window dressing or other inappropriate acts by business owners.

Security interest over all assets are to be entrusted to trust companies. The report expects trust companies to play a role as a gatekeeper, such as explaining the details of the system to growing companies, etc., so as to prevent abuse of the system.

Recommendations include limiting the eligible growing companies, etc. to stock companies and membership companies, like limited liability companies, and registering security interest over all assets in a commercial register, which is highly public.

As mentioned above, when a security interest over all assets is used, a slump in the relevant company's business should be detected at an early stage through close monitoring, and efforts for business improvement are to be made early. Accordingly, there may be very few cases where a security interest over all assets is actually enforced. However, the report recommends that if a security

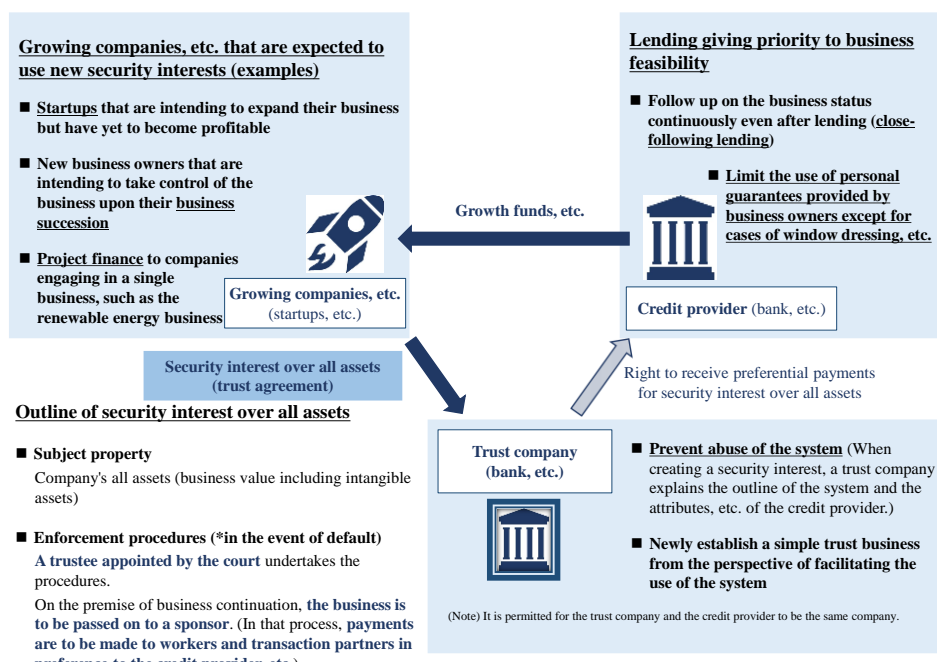
interest over all assets is enforced, a trustee appointed by the court should preferably endeavor to have a sponsor company succeed to the business while maintaining the value of the business to the full extent possible, in principle.

4. Conclusion

The introduction of security interest over all assets is one of the measures to expand the range of lending practices in Japan, but the idea may not fit naturally in conventional practices that heavily depend on the value of tangible assets. Nevertheless, it will play a significant role in developing lending practices that give priority to business feasibility in Japan.

The FSA will work on preparing relevant draft laws as early as possible, based on the recommendations presented in the report, to submit them to the Diet, so that Japanese financial institutions can make further efforts for establishing new lending practices that focus on companies' business feasibility. The FSA will also deepen concrete deliberations on examination and interim management systems and the evaluation of allowance for credit losses and other practical matters by referring to case studies in foreign countries that have a lead in this field and through discussions with financial institutions and practitioners.

Outline of security interest over all assets (provisional) stated in the report



(Reference) Difference in concepts

	Lending depending on value of tangible assets (balance sheet lending)	Lending giving priority to business feasibility (cash flow lending)
Basic concept	Provide a loan within the value of the collateral thereby limiting risks	Provide a loan within the range necessary for business continuation and growth and even take risks
Major borrowers	Companies holding tangible assets with value (business feasibility does not matter)	Companies having promising businesses (whether holding tangible assets or not does not matter)
Meaning of a security agreement	An agreement for property preservation with the value of the real estate, etc. independent of the business	An agreement for building a relationship to provide close-following support for the performance of a business plan, etc.
Responses upon business rehabilitation	Provision of a new loan when the collateral has value	Provision of a new loan or support, such as making adjustments of creditors, when the business is feasible
Evaluation of business growth security interests	<p>Cannot be used</p> <p>(Reasons)</p> <ul style="list-style-type: none"> As it is difficult to evaluate the value of goodwill as collateral, only tangible assets, etc. can be used as collateral. Accordingly, the current security system for specific property suffices. The new security system may be rather disadvantageous as there is the possibility that labor and transaction claims may take priority over the current collateral. 	<p>Can be used</p> <p>(Reasons)</p> <ul style="list-style-type: none"> When a company's business value is restored thanks to close-following support, the support provider may take priority over other creditors with regard to the resulting benefits, and it is reasonable for the support provider to bear the cost for close-following support. Prioritizing claims indispensable for continuing business can be beneficial to all creditors including security interest holders.
Other lenders' viewpoints when a business growth security interest has already been created	<p>Lending is possible when the amount of the secured claim is below the value of the real estate, etc.</p> <p>(* By refinancing and creating a security interest in the real estate, etc.</p>	<p>Lending is possible when the business is feasible and the possibility of repayments can be expected.</p> <p>(* By refinancing and setting the first priority security interest over all assets, or by creating a subordinated security interest without refinancing, or without security</p>

Improving business support capabilities of the regional financial institutions (First Part)

– “Business Support Viewpoints Appropriate for Respective Industries” –

WATANABE Shigeki, Deputy Director

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1. Improving business support capabilities of the regional financial institutions

Regional financial institutions are expected to contribute to the growth of local economies, as the key players thereof, through supporting local companies. Recently, in particular, many diverse business types of companies in broad areas have been affected by COVID-19 and price hikes, etc., and the regional financial institutions that they have relationships with have been increasingly required to provide support effectively and efficiently.

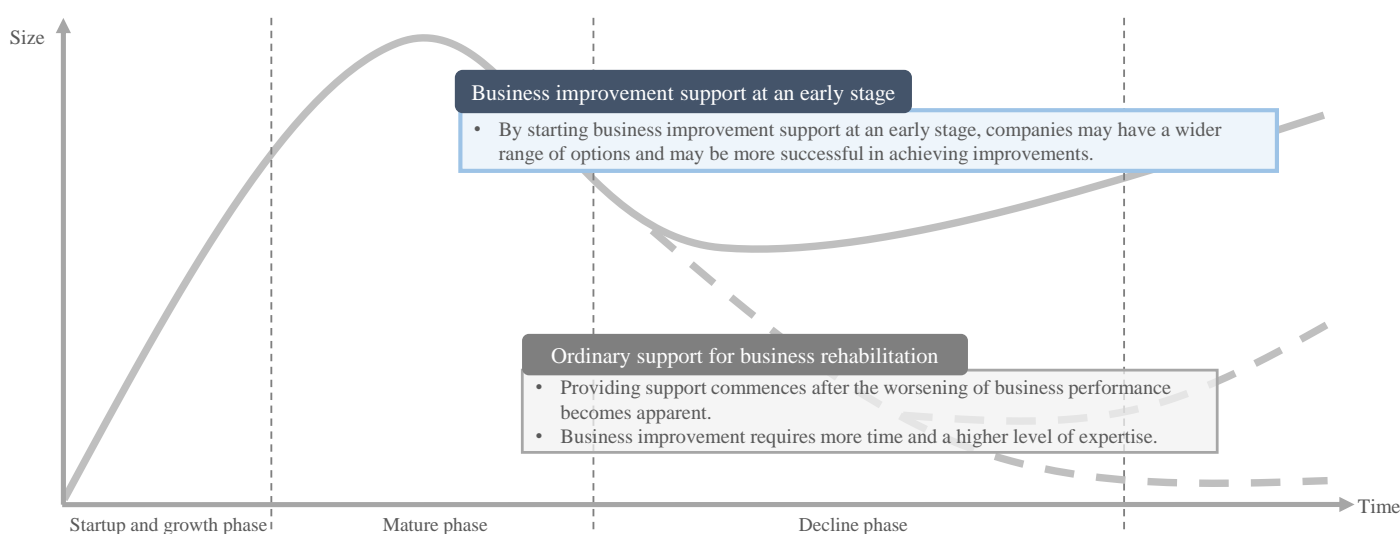
Therefore, the FSA has encouraged regional financial institutions' individual efforts to enhance their business support capabilities to companies and has also promoted cooperative efforts by working-level officials to share knowhow across organizations.

Regarding the former, in FY2022, the FSA conducted [i] a survey to sort out points, which financial institutions should focus on in their initial responses when financial institutions provide companies with business improvement support, by respective industries, and [ii] a survey and research on the prioritization of targeted companies by the use of AI to enable financial institutions to start working on business improvement support at an early stage.

This article introduces the content of the document titled "Business Support Viewpoints Appropriate for Respective Industries" (published on March 30, 2023) (hereinafter referred to as the "Document"), which compiles the outcomes of [i] of the above.

2. Concept and characteristics of “Business Support Viewpoints Appropriate for Respective Industries”

When providing companies with business improvement support, including cases of business turnaround for companies that business performance has deteriorated, collaboration with experts and support organizations with expertise and experience regarding business improvement to small- and mid-sized companies is effective. Prior to such collaboration, in many cases, sales personnel of regional financial institutions play a significant role in initial responses to deepen understanding of the status of the companies and share problems with them through dialogues. However, in regional financial institutions, not only experienced staff members, but also young staff members or other inexperienced staff members may be required to contribute in such roles at the front line.



Therefore, based on the opinions and knowledge of experts, the Document focuses on industries that are expected to have needs for business improvement support and organizes by industry the key points for starting business improvement support and support know-how tailored to the characteristics of the business, depending on the individual characteristics of companies.

When preparing the Document, the following three points were especially noted: [i] the volume and level of information should be appropriate for young and inexperienced staff members of financial institutions, etc. to easily refer to on site or at the initial stage of business improvement support; [ii] to enable readers of the Document to get a quick overview of relevant industries, the Document should be visually and intuitively understandable with many flow charts and photos; and [iii] the Document should be edited in a manner that triggers deeper dialogues and the acquisition of further specialized knowledge.

Additionally, the Document is complemented with FAQs in the appendix, which compiles the knowledge and knowhow of practitioners collected via the Business Support Knowhow Sharing Site, which is provided as part of the measures to promote cooperative efforts mentioned above, and through study sessions and opinion exchanges among working-level staff members of financial institutions and Credit Guarantee Corporations that were held

for various areas.

3. Content of the “Business Support Viewpoints Appropriate for Respective Industries”

The Document focuses on five business types, namely, construction, restaurants, retail, wholesale, and transport, and it introduces characteristics observed from financial statements, background information for promoting understanding of indices, such as points that are not necessarily shown in balance sheets, future growth potential of the business, and examples of support by financial institutions, etc.

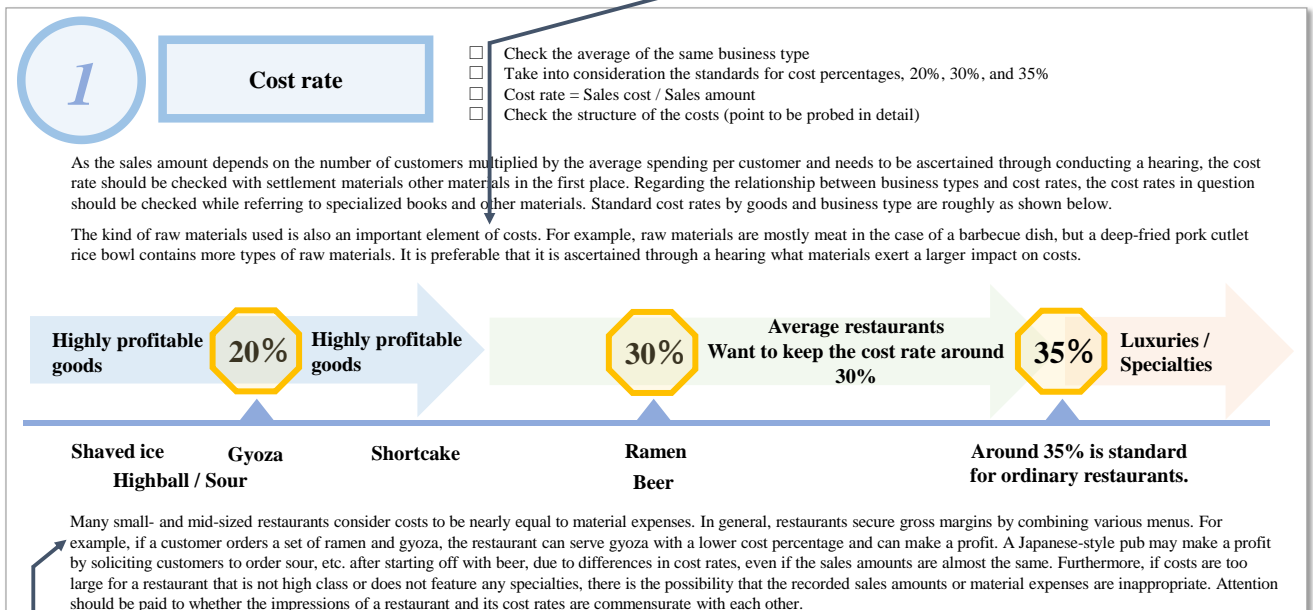
These were compiled in consideration of initial responses in business improvement support, such as a working-level staff members of a financial institution makes preparations before visiting a company, then deepens his/her understanding of the current status through dialogues with the company during the visit, and after the visit considers whether support is necessary and if so the direction of support. In actual cases of business improvement support, when any further support for business improvement is found to be necessary as a result of the initial response, it is supposed that the working-level staff members of the financial institution makes responses in collaboration with the responsible personnel of the headquarters of the financial institution and external support organizations, etc.

Characteristics of “Business Support Viewpoints Appropriate for Respective Industries”

Examples of the viewpoints for small- and mid-sized restaurant businesses

Provide background information for promoting understanding of indices, such as points that are not necessarily shown in the balance sheets

Excerpt from p. 31 of “Business Support Viewpoints Appropriate for Respective Industries”



Indicate specific whole pictures for business improvement support

4. How to use the “Business Support Viewpoints Appropriate for Respective Industries”

In addition to the PDF version, the Document has a PowerPoint version, and videos with an AI reading function can be downloaded free of charge from the link shown at the end.

Users can download the PDF version to their tablet terminals and use it in preparations for visits and on-the-spot dialogues or as materials for study sessions and training sessions, as well as for self-learning at home.

Some financial institutions may want to prepare their own documents, incorporating the characteristics unique to their operational bases and knowledge they have independently. Therefore, in order to respond to such possible needs, the FSA also published the PowerPoint version in which data can be freely processed in addition to the PDF version. We expect that this version, which enables organizations and individuals to add new data or otherwise customize the content depending on their purposes of use, is utilized for sharing awareness among financial institutions and support organizations or for preparing original materials, etc.

Furthermore, we made the videos with an AI reading function to assist young staff members of financial institutions so that they can learn and increase their knowledge efficiently. Fifteen videos of around ten minutes long (FSA YouTube Channel) were made by dividing the content of the Document from the perspective of business types, etc. The FSA hopes that they are utilized for self-learning.

The Document merely shows examples of focus points, and measures to be taken may vary depending on the size and circumstances of companies. When utilizing the Document, organizations and individuals are expected to devise ways to use it as fitted to each case and endeavor to achieve further practical support for companies.

(Reference) Business Support Knowhow Sharing Site

The above introduced an initiative concerning the Document for backing up regional financial institutions’ individual efforts to enhance their business support capabilities companies. The FSA and Local Finance Bureaus have also backed up cooperative efforts by working-level staff members of regional financial institutions to share knowhow concerning business improvement support across regions, organizations, and business types.

More specifically, officials of the FSA have participated in study sessions held by Local Finance Bureaus and Offices and Credit Guarantee Corporations with the aim of increasing knowledge on supporting companies and have offered assistance for the facilitation and introduction of the Document.

Furthermore, with the cooperation of the Secretariat of the Council for the Realization of the Vision for a Digital Garden City Nation at the Cabinet Secretariat, the FSA established a website in 2021 for sharing knowhow concerning business improvement support (Business Support Knowhow Sharing Site), targeting staff members of financial institutions and Credit Guarantee Corporations. On this website, participants exchange relevant knowledge and various types of information, such as on study sessions.

Applications for participating in the Business Support Knowhow Sharing Site are always accepted. Staff members of financial institutions and Credit Guarantee Corporations who are interested in the website are requested to see the notice "Call for Participation in the Business Support Knowhow Sharing Site":

<https://www.fsa.go.jp/news/r3/ginkou/20220401/20220401.html> (Available in Japanese)

For downloading the "Points for Support by Business Type," access the following:

<https://www.fsa.go.jp/policy/chuukai/index.html#gyo-usyubetu> (Available in Japanese)

FSA Channel:

<https://www.youtube.com/watch?v=fM9gtlB9F3U&list=PL0cfcMfU1dbm71uUTW7hdE8Ayw-WhNdXC>

(Available in Japanese)

– Explanations of administrative monetary penalty payment orders –

The Securities and Exchange Surveillance Commission (SESC) posts explanations on recommendations it has given on its website in an article titled "Message to the Market."

Message to the Market posted on March 27, 2023, is summarized below.

* The whole Japanese text is available on the SESC website:

<https://www.fsa.go.jp/sesc/message/20230327.html> (Available in Japanese).



Recommendation of administrative monetary penalty payment orders against a person who received information from an employee of N Field Co., Ltd. and committed insider trading and against the relevant employee who provided information concerning a fact regarding TOB

Based on the results of the market misconduct inspection, the SESC recommended the Prime Minister and the Commissioner of the FSA to issue administrative monetary penalty payment orders on February 28, 2023.*

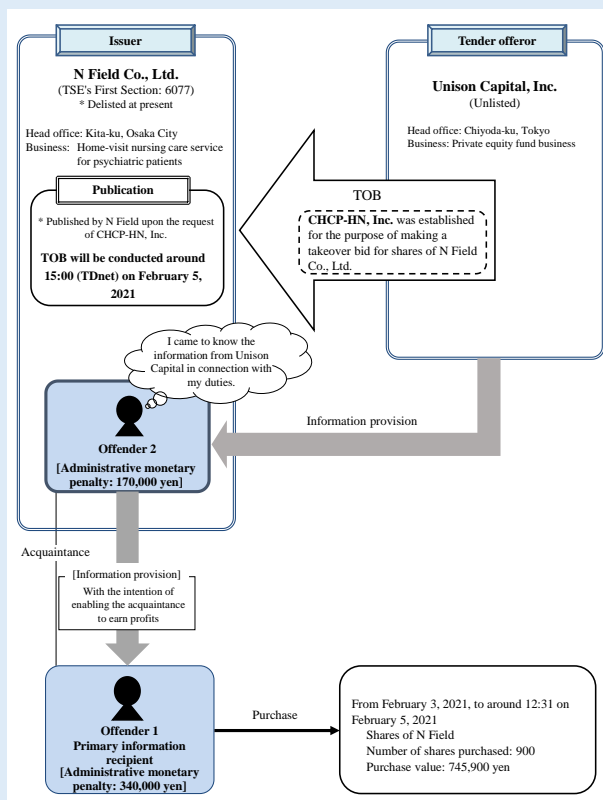
[Outline of the case]

When Unison Capital, Inc. was planning a takeover bid for shares of N Field Co., Ltd. (Company N), a person subject to the administrative monetary penalty payment order who was an employee of Company N (Offender 2) provided a fact regarding the TOB that he/she had obtained in the course of his/her duties (the Fact) to his/her acquaintance, Offender 1, and Offender 1 purchased shares of Company N prior to the publication of the Fact (violation of the insider trading regulations).

Offender 2 provided the Fact to his/her acquaintance, Offender 1, with the aim of having Offender 1 purchase shares of Company N prior to the publication of the Fact and thereby earn profits (violation of the information transfer regulations).

[Features of the case]

This is a case where an employee of a listed company, who should behave with strong social norms, misused insider information that he/she had obtained in the course of his/her duties and provided it to his/her acquaintance with the intention of letting the acquaintance earn profits, and the acquaintance committed insider trading.



[Message from the SESC]

In this case, the imposed administrative monetary penalties were relatively small at 170,000 yen for the employee who provided information and 340,000 yen for the acquaintance who committed insider trading, but the SESC is broadly monitoring market misconducts irrespective of transaction sizes or the amounts illegally acquired. By disseminating the fact that even small-sized transactions, as in this case, may be subject to administrative monetary penalties, the SESC expects to deter violations.

* For "Recommendation of administrative monetary penalty payment orders against a person who received information from an employee of N Field Co., Ltd. and committed insider trading and against the relevant employee who provided information concerning a fact regarding TOB" published on February 28, 2023, see https://www.fsa.go.jp/sesc/news/c_2023/2023/20230228-1.html (Available in Japanese).

JFSA's Major Activities in March (March 1 to March 31, 2023)



- [Response to the FSA's Consultation on the Proposed Amendment of the Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc. regarding ESG Investment Trusts \(March 31, 2023\)](#)
- [Summary of Results of the Fourth Survey on the Use of LIBOR \(March 24, 2023\)](#)
- [International Forum of Independent Audit Regulators published the Report on 2022 Survey of Inspection Findings \(March 22, 2023\)](#)
- [The FSA to host "G7 Cybersecurity Seminar 2023" \(March 17, 2023\)](#)
- [FIN/SUM2023 \(March 17, 2023\)](#)
- [Publication of Results of Public Consultation on Fallback Issues for JBA TIBOR by JBA TIBOR Administration \(March 16, 2023\)](#)
- [Renewal of Dedicated Website for International Financial Center \(March 16, 2023\)](#)
- [Announcements Pertaining to Global Money Week 2023 \(March 7, 2023\)](#)
- [Video archives of the "International Conference on Sustainability Disclosure" are posted on the official website. \(March 7, 2023\)](#)

- JFSA's official English Twitter account
https://twitter.com/JFSA_en



**We are promoting
information dissemination
using Twitter!**

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- Please send your opinions using the following email address to the Public Relations Office's personnel in charge of Access FSA.
E-mail : fsa_kouhou@fsa.go.jp

Editorial Postscript

The FSA welcomed 41 new recruits.

They must have been directly affected by COVID-19 and have been unable to have fun in college as they had expected.

The category for COVID-19 under the Infectious Disease Law will be changed next month, and normal social and economic activities are being restored gradually. We expect them to fully exercise their ability in a new environment in a manner that makes up for what they have put up with for these three years.

MORIYA Takayuki, Director,
Public Relations Office, FSA