



FSA Newsletter March 2008



Minister Watanabe attended the Opening Ceremony for the Beijing Representative Office of the Tokyo Stock Exchange (February 22)

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Photograph Gallery

In this corner, we post photographs of the Minister, the Senior Vice Minister, the Parliamentary Secretary and FSA officials at work in meetings, conferences and other events.



Opening Ceremony for the Beijing Representative Office of the Tokyo Stock Exchange. (February 22)



Minister Watanabe made an address at the "Meeting for Exchange of Views for Smooth Financing at the end of the fiscal year". (February 21)

Statements, Speeches & Material

In this corner, we post statements and speeches made by the Minister, the Senior Vice Minister, the Parliamentary Secretary and FSA officials, as well as presentation material they used.

Official Statements

[February 19, 2008](#)

Policy Statement by Yoshimi Watanabe, Minister of State for Financial Services, at the Committee on Financial Affairs of the House of Representatives The 169th Ordinary Diet Session

Speeches

[February 20, 2008](#)

"Strengthening the Competitiveness of Japan's Financial and Capital Markets" Speech by Takafumi Sato, Commissioner of the Financial Services Agency at Third Japan CFO Roundtable, Tokyo [Presentation Material](#)

Exposure of Japanese Deposit-Taking Institutions to Subprime-Related Products

On February 13, 2008, the Financial Services Agency (FSA) announced that valuation and realized losses on subprime mortgage-related products held by Japanese deposit-taking institutions had expanded to about ¥600 billion as of the end of December 2007, up from about ¥276 billion as of the end of September 2007.

We understand that the total loss amount expanded as financial institutions booked additional losses due to the continuing turmoil in the global financial markets caused by the subprime mortgage problem.

However, the amounts of subprime-related products held by Japanese financial institutions and losses incurred by them are limited compared with those for U.S. and European financial institutions and relative to the financial strength of Japanese financial institutions (profits, capital bases, etc.). Therefore, we do not see that this problem will have severe impact directly on Japan's financial system at this point in time.

Nonetheless, the impact of the turmoil on the global financial markets are continuing to spread, affecting the market for a broad range of securitization products as well as the stock market, and leading to credit rating downgrades of "monoline" bond insurance companies. In light of the data disclosed by individual financial institutions and the results of interviews with them, we do not expect this situation to seriously affect Japan's financial system immediately. We are of the view, however, that it will take some time before conditions are normalized.

Therefore, we will remain highly alert and monitor the developments closely, including by promptly gathering information about financial institutions' risk management status and developments in various markets – including the stock, credit and exchange markets – through cooperation with the relevant authorities in and outside Japan.

Exposures of Japanese deposit-taking institutions to subprime-related products

Figures in brackets are as of the end-September 2007 (Billion Yen)

	Tier1 capital (end-March 2007)	Operating profits from core businesses (end-March 2007)	Valuation profits/losses for equity holdings (end-December 2007)	Exposures to subprime-related products						Subprime-related ABCP programs	
							Subprime-related businesses				
				Book value (end-December 2007)	Valuation profits/losses	Realized profits/losses (profits/losses on sales, impairment, etc. from April 1 to December 31, 2007)	Book value (end-December 2007)	Valuation profits/losses	Realized profits/losses (profits/losses on sales, impairment, etc. from April 1 to December 31, 2007)	Exposures	
Major Banks, etc.	25,300	3,754	6,344 (7,983)	1,388 (1,246)	-143 (-122)	-399 (-122)	202 (138)	0 (0)	-85 (-19)	— (152)	
Regional Banks	12,600	2,003	3,534 (4,249)	80 (115)	-9 (-6)	-28 (-9)	—	—	—	—	
Cooperative Financial Institutions	11,509	965	215 (347)	51 (47)	-6 (-7)	-15 (-10)	—	—	—	—	
Total	49,408	6,722	10,093 (12,579)	1,519 (1,407)	-158 (-135)	-442 (-141)	202 (138)	0 (0)	-85 (-19)	— (152)	

Apart from the above figures, there are valuation/realized losses at some Japanese financial institutions for securitization products not directly related to subprime loans, as global market turmoil has been broadly affecting financial markets, especially in the U.S. and Europe.

Note 1: “Subprime-related products” are asset-backed securities (ABSs) backed by subprime loans or collateralized debt obligations (CDOs) and other financial products referencing these ABSs. “Subprime-related businesses” are the businesses in which firms produce subprime-related products. The above figures do not include the exposures to subprime-related products through investment trusts.

Note 2: “Major Banks, etc” include major banks (Mizuho Bank, Mizuho Corporate Bank, Mizuho Trust Bank, Bank of Tokyo-Mitsubishi UFJ, Mitsubishi UFJ Trust Bank, Sumitomo Mitsui Banking Corporation, Resona Bank, Chuo-Mitsui Trust Bank, and Sumitomo Trust Bank), Norinchukin Bank, Shinsei Bank, Aozora Bank, Citibank Japan, banks of new type, foreign trust banks and others.

Note 3: “Cooperative Financial Institutions” include Shinkin Banks including Shinkin Central Bank, Credit Cooperatives including The Shinkumi Federation Bank, Labour Banks including The Rokinren Bank, Prefectural Banking Federations of Agricultural Cooperatives, and Prefectural Banking Federations of Fishery Cooperatives. This does not include Japan Agricultural Cooperatives, etc.

Note 4: The above figures are based on interviews with individual institutions, and thus can be further revised in the process of examination by each institution.

Note 5: Subprime-related exposures at some securities firms are included in the figures for “Major Banks, etc.” as those figures are on a consolidated basis.

Signing of the IOSCO MMOU (Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information)

In February 2008, the Financial Services Agency (FSA) became a signatory of the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (hereinafter referred to as "MMOU"), which is an information-sharing mechanism among securities regulators around the world, established by the IOSCO (International Organization of Securities Commissions). Hereafter, we will explain the significance of the signing of the MMOU and the background, etc.

Growing Need for Cross-Border Cooperation Between Regulatory Authorities

In recent years, growth in cross-border securities trade has accelerated. Accordingly, improper market practices have increasingly extended across national borders. For example, securities listed on the exchange of a certain country may be purchased not only by investors residing in that country but also by foreign investors. As a result, there have been cases of improper practices such as insider trading and market manipulation in which foreigners were involved. As cross-border trade continues to grow, the risk of such misconduct will increase.

For regulatory and law enforcement authorities to deal with cross-border cases of improper market practices and maintain the fairness of trade and soundness of the market, it is essential to have an arrangement for sharing and exchanging information with overseas securities industry supervisory authorities as necessary, in a timely and smooth manner. For example, when an order placed for securities listed on an exchange of Country A by a party based in Country B is suspected to constitute an illegal transaction, the regulatory authorities of Country A need information related to the transaction (e.g. transaction records and information on the beneficiary owner) in order to investigate the case, but usually find it impossible to obtain that information directly from the party in Country B. In such a situation, support from the regulatory authorities of Country B is essential, and there must be an arrangement for receiving necessary information from those authorities. Since such cooperation needs to be mutually offered across borders, it is very important for securities industry supervisory authorities around the world to build a mechanism for mutual cooperation and information exchange.

Drafting of the IOSCO MMOU and Efforts Toward Promoting Signature

Against the background described above, the securities industry regulatory authorities of individual countries pledged to share and exchange information and started to conclude memorandums of understanding, known as MOUs, on necessary matters (scope of cooperation, how to handle information provided, etc.). Initially, the authorities of individual countries signed MOUs on a bilateral basis. Between 1997 and 2006, the FSA signed an MOU with the securities industry regulatory authorities of countries such as China (in 1997), Singapore (in 2001), the United States (in 2002), Australia (in 2004), Hong Kong (in 2005) and New Zealand (in 2006), in light of the importance of relations with these countries and geographical factors.

Meanwhile, in line with the growth in cross-border securities trade, the securities industry regulatory authorities began to share the recognition that, in addition to signing MOUs with specific countries on a bilateral basis, it is necessary to establish an arrangement for exchanging information with all countries in a timely manner. As this recognition increased, the IOSCO, which comprises securities industry regulatory bodies around the world, started to work on establishing a mechanism for exchanging information on a multilateral basis and drew up the aforementioned MMOU in May 2002.

Initially, it was left to individual regulatory bodies to decide whether to participate in this mechanism on a voluntary basis. However, moves to make signing the MMOU mandatory grew rapidly. Consequently, a resolution was adopted at the IOSCO annual conference held in Colombo in April 2005, requiring all IOSCO members to take the following measures.

- (1) To apply to sign the IOSCO MOU and complete the screening process promptly.
- (2) Either to become a signatory of the IOSCO MOU by January 1, 2010 or to make a formal commitment, by no later than January 1, 2010, to seek the necessary legal authority to enable the signing of the IOSCO MOU, based on Appendix B of the IOSCO MOU.

The resolution, in short, obligates all IOSCO members to sign the MMOU (including making a commitment to signing it in the future). We will elaborate on this hereafter.

As the first step toward becoming a signatory of the MMOU, a country's regulatory body must undergo screening by the IOSCO with regard to legislation related to the exchange of information with the authorities of other countries, and obtain certification of its ability to implement information exchanges based on the MMOU. In other words, before being allowed to become a signatory, the applicant regulatory body must be examined as to whether it has the authority to obtain and provide necessary information upon requests from abroad, and recognized by the IOSCO as a regulator capable of exchanging information as envisioned under the MMOU. Provision (1) of the aforesaid resolution means that members must undergo and complete this screening process promptly.

Next, as stipulated in Provision (2) of the resolution, members are required by January 1, 2010 to undergo screening and be recognized as having sufficient legislation to become a signatory of the MMOU. However, as a result of screening, some regulatory bodies may be judged to lack the necessary legal authority under existing legislation. In such a case, the relevant countries are required to express an intention to make the necessary legal revisions in the future, so as to become eligible to sign the MMOU.

Thus, the resolution obligates securities industry regulatory authorities around the world to sign the MMOU by January 1, 2010 or make a commitment by that time to signing it in the future. This means that all securities industry regulatory authorities around the world will become signatories of the MMOU in the long term.

The mandatory signing of the MMOU by all members is one of the top priority matters for the IOSCO at the moment. The participation of all members, rather than a select group of members, in the mechanism is significant because it prevents the creation of a loophole in the international network of monitoring and supervision. If a certain country does not sign the MMOU, it will remain outside the international network of monitoring and supervision and be regarded by parties planning improper transactions as a convenient place for such transactions. Conversely, if the network of the MMOU extends throughout the world, there will be no country liable to become a hotbed of improper practices. Wherever an improper practice is employed, appropriate action will be taken by the relevant authorities based on cross-border cooperation. This is precisely why the MMOU is very significant.

As of February 2008, about half of all IOSCO members are signatories of the MMOU, while 15 regulatory bodies have committed to taking necessary steps to sign it in the future. This means that the MMOU is making steady progress toward becoming a global network.

Signing of the MMOU by Japan and Its Significance

In May 2006, the FSA applied to the IOSCO for screening of its eligibility to sign the MMOU. During the screening process, debate focused mainly on Article 189 of the Securities and Exchange Act (now revised as the Financial Instruments and Exchange Act), which was important as a basis for the Japanese authorities to collect and provide information upon requests from overseas authorities. In January 2008, the IOSCO's screening group concluded that approval should be given to Japan's signing of the MMOU, and the IOSCO made a final decision on the approval on February 5. Following the decision, the FSA Commissioner signed the MMOU on February 19, thus formalizing the FSA's status as a signatory of the MMOU.

For the FSA, the signing of the MMOU is significant because:

- (1) as a signatory of the MMOU, the FSA has joined the network of information exchange between securities industry regulatory authorities around the world. As a result, the FSA will be able to effectively respond to improper transactions involving the Japanese market through cross-border cooperation. As we try to strengthen the international competitiveness of the Japanese market, the fact that cross-border transactions involving it are under international supervision and surveillance is significant as a basic element of the market's position as an international financial center.
- (2) the signing of the MMOU will also promote the implementation of measures for achieving the goal of "strengthening cooperation with overseas authorities," which is set forth in the "Better Regulation" section of the Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets, announced in December 2007. The following is an excerpt from this plan:

3. Strengthening cooperation with overseas authorities

Moreover, the FSA will broaden bilateral and multilateral networks for information exchange with overseas supervisory authorities to reinforce its ability to collect information on overseas financial systems and financial and capital markets. Through these networks, the FSA will

endeavor to enhance the effectiveness of supervision of cross-border activities of financial firms and prevent illegal trading in order to ensure the fairness of cross-border markets.

(3) the signing of the MMOU by the FSA has expanded the network of the MMOU to cover almost the whole of the global market in terms of trading volume. Thus, the FSA's signing of the MMOU is also very significant for achieving the international goal of establishing a global framework of cooperation.

Future Actions Based on the MMOU

Now that it has become a signatory of the MMOU, the FSA will be able to exchange information necessary for supervision and enforcement with securities industry regulatory authorities around the world. From now on, the FSA intends to endeavor to ensure the fairness and soundness of the Japanese securities market, which involves increasing cross-border trading activity, while maintaining smooth international cooperation with other countries' securities industry regulatory authorities, within the framework of the MMOU.

Interim Report by the Financial Stability Forum to the G-7

On February 9, 2008, the Financial Stability Forum (FSF) submitted an interim report on its analysis of the causes of, and appropriate responses to, the recent financial market turmoil, to a meeting of G-7 Finance Ministers and Central Bank Governors held in Tokyo, and published the report. The interim report was prepared upon a request made at a G-7 meeting held in Washington, D.C. in October 2007. A final report is scheduled to be submitted to the next G-7 meeting to be held in Washington, D.C. in April. (Please refer to the key points of the statement issued by G-7 Finance Ministers and Central Bank Governors in October, which are available at <http://www.mof.go.jp/jouhou/kokkin/frame.html>).

The interim report consists of three parts.

- I . Current conditions and adjustments in the financial system : Assessment of the current financial market turmoil and suggestions for short-term action.
- II . Underlying causes and weaknesses : Analysis of factors that contributed to the build-up of the problems leading to the current turmoil, and factors that amplified it, for the purpose of preventing a recurrence of the crisis.
- III . Areas for policy consideration : Areas in which measures should be considered to prevent the recurrence of the current turmoil and strengthen the markets. The following six areas are cited:
 1. Supervisory framework and oversight
 2. Underpinnings of the originate-to-distribute model
 3. The uses and role of credit ratings
 4. Market transparency

5. Supervisory and regulatory responsiveness to risks
6. Authorities' ability to respond to crises

The interim report set out policy directions for the above six areas, with specific proposals to be presented in the final report in April.

At international forums, including the FSF, the FSA has actively pressed the case for Japan's position on issues pointed out in the first report of the Financial Markets Strategy Team, issued in November 2007, which include the need to ensure communication of information between the parties involved in the securitization process, the issue of risk management, and the importance of implementation of Basel II. The recognition of those issues as indicated by the interim report is basically the same as the FSA's recognition, and we believe that a consensus has been formed on the issues among FSF member countries. The FSA intends to continue to be actively involved in international discussions and deliberations, including at the FSF, in the preparation of the final report.

Note: The Financial Stability Forum (FSF) was established in 1999 under the initiative of the G-7 Finance Ministers and Central Bank Governors, in order to promote international financial stability through enhancing information exchange and international cooperation in the supervision and surveillance of the financial markets. Among the members of the FSF are the relevant authorities of countries and regions that have important international financial centers, and international organizations comprising financial supervisory authorities (the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors) and international financial institutions (the International Monetary Fund and the World Bank). From Japan, the FSA, the Ministry of Finance and the Bank of Japan participate in the FSF.

Working Group for the Improved Operations of EDINET

1. Background of the establishment of the Working Group for the Improved Operations of EDINET and the meetings held by the group

On January 25, 2008, large shareholdings reports falsely claiming the acquisition of shares in six listed companies (worth a total of more than 20 trillion yen) were submitted and posted on EDINET (Electronic Disclosure for Investors' NETWORK).

Based on the recognition that this incident has raised a very serious issue regarding the operation of the large shareholding reporting system, the Financial Services Agency, on January 27, ordered Teramento Corporation, which had submitted the aforementioned false reports, to submit corrected reports. Also, the FSA immediately made an announcement to this effect on EDINET and the front page of the FSA website, in both

Japanese and English.

In addition, the FSA established the Working Group for the Improved Operations of EDINET on February 1 in order to come up urgently with measures to prevent a recurrence of incidents such as submission of falsified reports, as well as crisis management measures. The group held four meetings shown below

(Meetings)

1st meeting: Friday, February 1

2nd meeting: Wednesday, February 6

3rd meeting: Friday, February 8

4th meeting: Thursday, February 14

2. Publication of “Summary of Issues for the Improved Operations of EDINET”

On February 19, 2008, the Working Group for the Improved Operations of EDINET adopted and published a summary of issues for discussion concerning the improvement of the operations of EDINET, based on the deliberations conducted at its four meetings. The proposal measures include:

I .Quick screening of reports subject to investigation

-Enhancement of the system’s checking functions

II .Response after finding reports subject to investigation

-Improvement of investigation system for prompt response

-Establishment of a network for cooperation with concerned organizations

-Creation of a new reminder system by authorities

III . Swift administrative response, including withholding of the submitted documents from public viewing as an exceptional measure

In light of the Summary of Issues, the FSA intends to take action appropriately after conducting further deliberations regarding measures to improve the large shareholding reporting system and the EDINET system,.

[Minister in His Own Words]

* This section provides information regarding the hot topics of the moment, selected from questions and answers given at the Minister's press conferences, etc.

If you wish to find out more, we invite you to visit the "[Press Conferences](#)" section of the FSA website.

<On the opening ceremony for the Beijing Representative Office of the Tokyo Stock Exchange>

I visited Beijing to attend the opening ceremony for the Beijing representative office of the Tokyo Stock Exchange. I expect this office to improve access to the Tokyo markets and help Chinese companies and investors to make more active use of the Japanese markets.

In addition, before attending this ceremony, I held a meeting with Mr. Shang Fulin, Chairman of the China Securities Regulatory Commission, and discussed ways to further strengthen cooperation between the Japanese and Chinese financial authorities.

Moreover, we established a joint framework with the China Banking Regulatory Commission for supervisory cooperation regarding the so-called QDII (Qualified Domestic Institutional Investors) system. This will enable Chinese investors to invest in the Japanese markets through Chinese commercial banks as part of their overseas asset management. There are now about three Chinese companies listed on the Japanese market, if I remember correctly. I hope that more will make active use of the Japanese markets.

(From the press conference following a cabinet meeting on Tuesday, February 26, 2008)

Q: It has been warned that the Japanese market has lost much of its appeal in the eyes of foreigners. What is the significance of your upcoming visit (to Beijing, China) in relation to this warning and what would you like to achieve?

A: Regarding the economic growth rate, for example, there is a large difference, with the Chinese economy growing by 15 or 16% in nominal terms compared with 0.8% growth for the Japanese economy. As a pillar of Japan's growth strategy, I believe it is important to integrate this source of global economic dynamism, this driving force of the Asian economic growth, into our economy. In this context, I think the opening of the Beijing representative office is very timely. I hear that when the NYSE (New York Stock Exchange) opened its office in Beijing, U.S Secretary of the Treasury Henry Paulson went there. Also, I hear that when the LSE (London Stock Exchange) opened its office, British Prime Minister Gordon Brown showed up there. If no Japanese minister in charge showed up when the TSE opened its Beijing office, Japan would be criticized for the absence. Therefore, Mr. (Atsushi) Saito, the TSE's President, has strongly requested my attendance and I

have decided to go.

Mr. Gao (Xiqing), General Manager of the China Investment Corporation, came to Japan from China recently and said that the corporation was seriously considering investing in Japan's financial and capital markets. During my upcoming trip, I am planning to actively discuss ways to strengthen cooperation over issues such as the listing of Chinese companies on the Japanese market.

(From the press conference following a cabinet meeting on Friday, February 22, 2008)

<On support measures for small and medium-sized enterprises>

Q: Are you considering any support measures for small and medium-sized enterprises?

A: Although this is not a measure involving the FSA, the Small and Medium Enterprise Agency, for example, is considering a plan for the Japan Finance Corporation for Small and Medium Enterprise to provide funds similar in nature to capital, or capital-like subordinated loans, which I think is a very good idea. I think that a measure like this should not be taken only by government-affiliated financial institutions. However, I cannot say for now whether this measure will be implemented in time for the end of the fiscal year. Anyway, we intend to not only provide support toward the end of the fiscal year, but also consider a series of policy measures, including short-term measures and follow-up measures, as the severe situation is set to continue beyond the end of the fiscal year.

(From the press conference following a cabinet meeting on Friday, February 15, 2008)

[Information]

The FSA has started an E-mail Information Service. If you register your e-mail address on the Subscribe Page of the FSA website, we will notify you by e-mail once on each day when new information is posted on our website. For details, please access [Subscribing to E-mail Information Service](#) of the FSA website.