



FSA Newsletter December 2008



Minister Nakagawa delivering a speech at the Foreign Correspondents' Club of Japan
(November 21)

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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.

Speeches

[November 6, 2008](#)

Summary of Remarks by Shoichi Nakagawa, Minister of Finance and Minister of State for Financial Services, at the Committee on Financial Affairs of the House of Councillors, the 170th Extraordinary Diet Session

Partial relaxation of capital adequacy requirement for banks, etc.

1. Introduction

As part of the “Economic Policy Package: Measures to Support People’s Daily Lives,” decided by the government and the ruling parties on October 30, 2008, the capital adequacy requirement for banks, etc., will be partially relaxed. This is a supervisory measure intended to prevent rapid fluctuations in the capital adequacy ratio from weakening the financial intermediary function of banks and other deposit-taking financial institutions in the current extraordinary situation that has been caused by the ongoing turmoil in the global financial markets. This does not represent any change in corporate accounting rules.

2. Outline of Relaxation Measure

After announcing the specifics of the relaxation measure on November 7, the Financial Services Agency (FSA) issued a draft FSA Regulatory Notice that stipulates this special measure for public comment from November 13 to 21, inviting opinions from far and wide. After examining the collected opinions, the FSA plans to promulgate and put into force the Notice in time for the settlement of financial accounts for the business term ending in December 2008.

It should be noted that this is a temporary measure to remain in effect over the period between the business term ending in December 2008 and the business term ending in March 2012.

【Domestic standards (standards applicable to financial institutions without overseas business operations)】

Under the previous rule, valuation profits on the holdings of “available for sale securities” were required to be excluded from the calculation of the capital adequacy ratio, while valuation losses were required to be deducted from the Tier 1 capital (the deducted losses correspond to approximately 60% of the total valuation losses after tax effects. The same shall apply hereinafter) in the process of calculating the capital adequacy ratio. Under the new rule, however, neither valuation profits nor losses should be reflected in the calculation of the capital.

【International standards (standards applicable to financial institutions with overseas business operations)】

Under the previous rule, 45% of valuation profits on the holdings of “available for sale securities” may be counted as part of the complementary Tier 2 capital in the process of calculating the capital adequacy ratio, while valuation losses were required to be deducted from the tier 1 capital. Under the new rule, both valuation profits and losses on the holdings of bonds with a zero risk weighting (e.g. government bonds) will be allowed to be excluded from the process of calculating the capital adequacy ratio (financial institutions can choose to either include or exclude the profits and losses in the calculation process as they see fit). During the effective period of this measure, financial institutions may shift to this profit/loss exclusion arrangement at any time. However, once they have shifted to this arrangement, they will not be allowed to return to the previous arrangement until the end of the effective period.

(Summary of Relaxation Measure)

		Previous	New
Domestic standards	Government bonds, etc.	Valuation profits: Excluded from capital calculation	(Valuation profits: No change)
	Stocks, corporate bonds, etc.	Valuation losses: Approx. 60% deducted from Tier 1	Valuation losses: Excluded from capital calculation
International standards	Government bonds, etc.	Valuation profits: 45% included in Tier 2	Valuation profits: Excluded from capital calculation
	Stocks, corporate bonds, etc.	Valuation losses: Approx. 60% deducted from Tier 1	Valuation losses: Excluded from capital calculation (No change for both valuation losses/profits)

Note: Financial institutions subject to international standards can choose either of the two arrangements regarding government bonds, etc., under the new rule as they see fit. However, once they have shifted to the special arrangement, they must stick with it.

※The above will be a provisional measure to remain in effect until March 31, 2012.

Revision of Basic Policy and Plan for Financial Inspections in Program Year (PY) 2008

1. Introduction

The FSA announces a Basic Policy and Plan for Financial Inspection every program year. The Basic Policy and Plan for Financial Inspection for Program Year 2008 was announced on August 19. However, the FSA revised this on October 28 in order to clarify some matters regarding the fair-value accounting in response to various developments related to international accounting standards.

This revision contributes to the “support for efforts toward more appropriate accounting for financial instruments” that is called for in the “Economic Policy Package: Measures to Support People’s Daily Lives,” which was decided by the government and the ruling parties on October 30.

2. Background to and Substance of Revision

Accounting treatment of financial instruments and the calculation of fair value is conducted in accordance with the ASBJ (Accounting Standards Board of Japan) Statement No. 10 “Accounting Standard for Financial Instruments” and Accounting Committee Report No. 14 “Practical Guidelines Concerning Accounting for Financial Instruments” issued by the Japanese Institute of Certified Public Accountants (JICPA). The accounting treatment and the calculation of fair value thus conducted is supposed to be based on the same concept as international accounting standards. In this context, the ASBJ has adopted and announced the “Practical Solution on Measurement of Fair Value for Financial Assets” (a draft underwent

the public comment process after being announced on October 16, and the final version was announced on October 28) in order to clarify the method of calculating the fair value (market value) of financial instruments, as it received inquiries about the calculation method against the background of the recent turmoil in the financial markets.

The ASBJ's "Practical Solution on Measurement of Fair Value for Financial Assets" makes it clear that a financial instrument's market price should be regarded as its fair price in cases where there is a sufficient volume of transactions for the instrument. Meanwhile, it specifies that a rationally calculated value (theoretical price), rather than a market price, may be regarded as the fair price in cases where the trading volume is extremely small or where there is a wide spread between buyers' bid price and sellers' requested price.

The treatment of fair value thus specified is applicable to financial results for the fiscal term ended in September 2008 and later, and the JICPA provided notification regarding the treatment to all auditing firms on the day when it was announced. Accordingly, with a view to ensuring appropriate financial inspections, the FSA has decided to specify in its Basic Policy and Plan for Financial Inspection for Program Year 2008, as a supplementary point of attention, that inspectors should give consideration to the above-mentioned treatment of fair value when examining financial institutions' self-assessment of securities holdings.

3. Specific Actions

The FSA has made sure to have all inspectors acquainted with the revisions and has applied the revisions to inspections intended to examine financial institutions' operations as of the end of September and later. In addition, if any further clarification or revision is made regarding accounting standards, the FSA intends to adapt its inspections accordingly.

[International Affairs]

FSA Deputy Commissioner for International Affairs elected as Vice Chairman of the IAIS Executive Committee

At a meeting of the Executive Committee of the International Association of Insurance Supervisors that was held in Budapest, Hungary, on October 17, Tatsuo Yamasaki, Deputy Commissioner for international Affairs of the FSA, was elected Vice Chairman of the Executive Committee of the International Association of Insurance Supervisors (IAIS), succeeding Walter Bell, Insurance Commissioner of the U.S. state of Alabama.

Yamasaki is the first Asian official to be elected as Vice Chairman of the Executive Committee, which is the main decision-making body of the IAIS, since the establishment of the IAIS in 1994.

For the FSA, which has already been striving to strengthen cooperation with overseas authorities, it is an important task to further improve the quality of regulation in Japan by further enhancing such cooperation and to increase the credibility of Japan's financial markets through international collaboration.

The FSA intends to work hard to improve the stability, credibility and efficiency of Japanese and global financial markets by making active contributions to the activities of international organizations.

Activities of IAIS

The International Association of Insurance Supervisors (IAIS) was established to:

- i) encourage cooperation amongst insurance supervisors,
- ii) set principles, standards and guidance for the supervision of insurance markets,
- iii) encourage the implementation and practical application of its principles and standards especially in the emerging markets and regions,
- iv) liaise and co-operate with other international organizations.

As of October 2008, the IAIS comprised insurance supervisors from 144 countries and regions as its members, and representatives from 139 insurance companies and trade associations, etc., as observers. The secretariat of the IAIS is located in Basel, Switzerland, where a 17-member staff headed by Secretary General Yoshihiro Kawai is working for the organization.

The main decision-making body of the IAIS is the Executive Committee (chaired by Peter Braumüller, Director of the Insurance and Pension Supervision of the Austrian Financial Market Authority), which consists of representatives from 21 countries and regions (Japan has been a member of the Executive Committee since 1998). Under the Executive Committee, the Technical Committee (chaired by Alfred Gross, Insurance Commissioner of the U.S. state of Virginia) has been established mainly to undertake the task of drawing up supervisory guidelines.

*For further details, access ["FSA Deputy Commissioner for International Affairs Is Elected to the Position of Vice Chairman of the IAIS Executive Committee" \(October 20, 2008\)](#) under "Press Releases" in the FSA website.

[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.

【Opening Remarks by Minister Nakagawa】

At today's cabinet meeting, the Prime Minister reported on the recent Summit Meeting on Financial Markets and the World Economy. He expressed his appreciation of the facts that the leaders from developed and emerging countries gathered together to hold discussions and issued a declaration that called for specific actions, including immediate and medium-term measures to deal with the financial crisis. He also explained the proposals he presented at the summit.

As the Prime Minister asked me to provide a supplementary explanation about the summit, I mentioned the fact that after he made a speech, several leaders came to him, praising his proposals and expressing willingness to adopt them. As Japan was the only country that made proposals comprising specific figures — namely 100 billion dollars in loans for the IMF proposed by him and 2 billion dollars proposed by me for the IFC — Japan made great contributions. This was the supplementary explanation I provided at the cabinet meeting.

I do not have any other matter to report to you regarding the cabinet meeting.

【Extract from the press conference on November 18, 2008】

Q : Regarding the financial summit, could you give me your assessment of its outcome?

A. First, my frank impression is that the summit was successful. Developing countries are generally feeling that they are victims of a global financial crisis whose root cause lies in a small group of developed countries. I sensed their feeling that developed countries are to blame. To tell the truth, I had wondered whether it would be possible to reach an agreement in an atmosphere like this, yet an agreement was reached. Furthermore, this was an agreement and declaration of a very specific nature that was oriented toward problem solving.

Secondly, Japan made proposals reflecting its practical experiences and comprising specific figures, as I said earlier. The United States is partly responsible for having caused the crisis. The global imbalance was another problem. Our proposals indicated such things. However, the dollar regime needs to be maintained in the future. Therefore, the United States should make efforts. Japan and countries around the world should make efforts, too. The agreement was reached probably because of specific proposals presented by Japan, including those regarding the IMF and my own proposal regarding the IFC, and Japan was most active in making proposals and perhaps was the only country that presented specific proposals. Because of these facts, I think that the contributions that I and Prime Minister Aso made were highly appreciated.

【Extract from the press conference on November 18, 2008】

Q : The declaration issued at the summit has apparently had little direct impact on stock prices, although I know that it is not intended to produce immediate effects. What do you say to this?

A. If that declaration had not been issued or that summit had not been held, I suppose that the outcome would have been worse given the data on U.S. consumer prices and the growth projections for various countries. Because of that declaration, stock prices in Japan rose yesterday, albeit only slightly. Although the situation is severe in Japan as well as abroad, I suppose it would have been worse without that declaration.

【Extract from the press conference on November 18, 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.