



FSA Newsletter April 2009

<http://www.fsa.go.jp/en/newsletter/index.html>



Welcome Ceremony for Newcomers (April 1)

Table of Contents

【Topics】

- New Measures for Facilitating Financing
- Exposures of Japanese deposit-taking institutions to subprime-related products and securitized products

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.

Statement

[March 12, 2009](#)

Policy Statement by Kaoru Yosano, Minister of Finance and Minister of State for Financial Services and Economic and Fiscal Policy, at the Committee on Financial Affairs of the House of Councillors

New Measures for Facilitating Financing

1. Introduction

On March 10, 2009, the Financial Services Agency (FSA) announced “New Measures for Facilitating Financing.” Intentions and contents of the measures are described below.

2. Points of “New Measures for Facilitating Financing”

With the understanding that one of the major roles of financial institutions is the smooth financing to companies, the FSA has formulated various measures to enhance the circumstance where financial institutions can comfortably provide capital. These include the rapid enforcement of the revised Act on Special Measures for Strengthening Financial Functions, the expansion of the scope of cases where rescheduled loans to small-and medium-sized enterprises (SMEs) are not regarded as non-performing loans, and the introduction of flexibility into the capital adequacy requirements for banks.

In the rapidly weakening global economic environment, SMEs, as well as leading medium-sized and large companies, individuals taking housing loans are facing difficult conditions. With the situation in mind, the FSA has decided this time to take additional measures including implementation of special hearings and intensive inspections, and review of the risk weight concerning emergency guarantees, for smooth corporate financing and personal loans (housing loans).

3. Contents of “New Measures for Facilitating Financing”

(1) Implementation of special hearings and intensive inspections for facilitating financing

(i) Special hearings

For the purposes of understanding in detail the actual status of financial institutions’ initiatives for facilitating corporate financing, and of appealing one more time to financial institutions to facilitate their financing toward the end of the fiscal year, the FSA has started special fiscal year-end hearings on an individual basis with, in principle, all banks including major banks, shinkin banks and credit unions from mid-February.

(ii) Intensive inspections

Based on the results of special hearings mentioned in the section (i) above, the FSA will conduct short-term intensive inspections from April through June in the areas of: (1) SME loans; (2) loans to leading medium-sized and large companies; and (3) housing loans; to determine: (a) the status of initiatives for fiscal year-end financing; and (b) the status of credit provision after entering into the new fiscal year, focusing on such issues as the following:

- Whether financial institutions are fully exercising their expected financial intermediary functions.
- Whether they are not exercising those practices that could be regarded as being reluctant

to extend credit or as withdrawing credit.

(2) Review of the risk weight concerning emergency guarantees

With regards to loans with emergency guarantee of Credit Guarantee Corporation, considering the fact that they are fully backed by the emergency guarantee system implemented as part of government's measures and funded by the government's budget, it was decided to lower the risk weight attached to these loans from 10 percent to 0 percent in calculating the capital adequacy ratio. Notification of this change has already been announced; and the new risk weight can be applied to financial statements for the fiscal year ending March 31, 2009 and beyond. Q&A explanations and case examples have also been published.

(3) Encouragement of flexible implementation of financial covenants

In the rapidly deteriorating economy, there are a growing number of companies whose business is worse by decrease in sales and so on come to be against financial covenants, which impose obligations, such as maintaining a certain level of net assets, on borrowers in an indenture.

Given this situation, the FSA has clarified, in the "Q&A concerning restructured loans", that even when financial institutions relax the covenant or waive the right given by the breach of the covenant, they don't have to classify the relevant loan as non-performing loan (restructured loan). In addition, the FSA has requested the financial institutions not to implement the financial covenants too rigidly.

(4) Request for active use of market-oriented indirect financing (syndicated loans)

In the current severe economic downturn, SMEs as well as leading medium-sized and large companies are facing increasingly tight cash-flow situations. In addition, due to the sharp decline in the corporate bond and CP markets towards the end of 2008, companies have shifted their source of financing to borrowing from banks.

In order to respond to the decline in direct financing function and the shift to indirect financing, and from the perspective of promoting risk-diversified financing, the FSA has requested financial institutions to actively use syndicated loans, etc.

(5) Encouraging the use of the Act on Special Measures for Strengthening Financial Functions

With the aim of helping financial institutions properly and fully exercise their financial intermediary functions, the FSA will undertake the following actions to encourage the use of the revised Act on Special Measures for Strengthening Financial Functions:

- (i) In light of the objective of the revised Act that aims to restore financial institutions' intermediary functions to the normal state, the dividend yield and other characteristics of public fund capital instruments will be set to the level that is equivalent to normal times.
- (ii) Concerning the overhead ratio* that is set in the Management Reinforcement Plan, the FSA will make explicit in its supervisory guidelines that it does not automatically take

supervisory actions even in cases where the level of the ratio achieved at the ending period of the Plan has exceeded that of the commencing period.

- (iii) Through interviews with top executives of financial institutions and other opportunities, the FSA will induce these institutions to consider the use of the revised Act as well as to consider revising their articles of incorporation that will enable them to issue preferred stocks as a preparation for their potential future capital needs.

Note*: Overhead ratio = Expenses (less IT-related expenses) / Gross banking profit

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

On March 6, 2009, the Financial Services Agency (FSA) published the exposures of Japanese deposit-taking financial institutions to subprime-related products and securitized products based on the leading practices summarized in the FSF report as of the end of December 2008.

Subprime-related products held by Japanese deposit-taking financial institutions as of the end of December 2008 totaled ¥565.0 billion (down ¥232.0 billion compared with the end of December 2008), while the total of their valuation and realized losses on such products amounted to ¥1,053.0 billion (¥950.0 billion as of the end of September 2008).

Meanwhile, securitized products held by Japanese deposit-taking financial institutions totaled ¥19,408.0 billion (down ¥2,863.0 billion compared with the end of September 2008), while the total of their valuation and realized losses on such products decreased in 35.0 billion, to ¥3,238.0 billion (¥3,273.0 billion as of the end of December 2008).

The main reason why the losses incurred from securitized products have decreased may be that some financial institutions have changed the way to measure fair value of part of their securities.

Since 2008 2nd quarter, the FSA has published the exposures of Japanese deposit-taking financial institutions to subprime-related products and securitized products(*) under unified standards.

We believe that efforts like this help promote a precise understanding of the impact of the turmoil in the global financial markets on Japan's financial system.

The FSA will continue to improve the public access to the current state of the Japanese financial system and the concept of our financial regulation.

(*) As for exposures to securitization products based on the leading practices summarized in the FSF report, the FSA started survey and publication with the exposures as of the end of March 2008.

*For further details, please access ["Exposures of Japanese deposit-taking institutions to subprime-related products and securitized products based on the leading practices summarized in the FSF report"](#) (March 6, 2009) in the "Press Releases" section of the FSA's web site.

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

Figures in brackets are as of the end-December 2008 (Billion Yen)

	Tier1 capital (end-March 2008)	Operating profits from core businesses (end-March 2008)	Valuation profits/losses for equity holdings (end-December 2008)	Exposures to subprime-related products						Subprime-related ABCP programs
							Subprime-related businesses			Exposures
				Book value (end-December 2008)	Valuation profits/losses	Realized profits/losses (profits/losses on sales, impairment, etc; from April 1,2007 to December 31, 2008)	Book value (end-December 2008)	Valuation profits/losses	Realized profits/losses (profits/losses on sales, impairment, etc; from April 1,2007 to December 31, 2008)	
Major Banks, etc.	25,987	3,499	111 (2,201)	496 (719)	-119 (-140)	-842 (-727)	21 (26)	0 (0)	-317 (-316)	—
Regional Banks	12,862	1,799	666 (1,620)	39 (46)	-7 (-3)	-48 (-47)	—	—	—	—
Cooperative Financial Institutions	11,222	795	-327 (-132)	30 (31)	-8 (-4)	-29 (-29)	—	—	—	—
Total	50,071	6,093	450 (3,690)	565 (797)	-134 (-147)	-919 (-803)	21 (26)	0 (0)	-317 (-316)	—

Apart from the above figures, there are valuation/realized losses at some Japanese financial institutions for securitized 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, etc., 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.

Exposures of Japanese deposit-taking institutions to securitized products based on the leading practices summarized in the FSF report

As of the end-December 2008 (Figures in brackets are as of the end-September 2008) (Billion Yen)

	Exposures to subprime-related products												CLOs, CDOs [※]			RMBS [※]			CMBS			Leveraged Loans		Total				
	CDOs			RMBS			Others			Subtotal			Book value	Valuation profits/losses	Realized profits/losses	Book value	Valuation profits/losses	Realized profits/losses	Book value	Valuation profits/losses	Realized profits/losses	Book value	Realized profits/losses	Book value	Valuation profits/losses	Realized profits/losses		
	Book value	Valuation profits/losses	Realized profits/losses	Book value	Valuation profits/losses	Realized profits/losses	Book value	Valuation profits/losses	Realized profits/losses	Book value	Valuation profits/losses	Realized profits/losses																
Major Banks, etc.	111	-21	-602	300	-85	-159	85	-13	-81	496	-119	-842	5,054	-576	-627	3,379	-104	-281	2,082	-78	-32	4,813	-77	15,823	-877	-1,859		
	(170)	(-27)	(-567)	(438)	(-108)	(-98)	(112)	(-4)	(-62)	(719)	(-140)	(-727)	(6,140)	(-886)	(-431)	(3,707)	(-129)	(-229)	(2,246)	(-110)	(-17)	(5,599)	(-108)	(18,412)	(-1,264)	(-1,512)		
Regional Banks	6	-1	-48	0	0	0	33	-7	-1	39	-7	-48	172	-20	-176	894	-4	24	395	-6	8	13	1	1,513	-37	-191		
	(8)	(-1)	(-47)	(0)	(0)	(0)	(38)	(-2)	(0)	(46)	(-3)	(-47)	(263)	(-33)	(-130)	(932)	(-3)	(21)	(417)	(-4)	(7)	(15)	(0)	(1,672)	(-43)	(-149)		
Cooperative Financial Institutions	3	-2	-30	0	0	0	27	-6	1	30	-8	-29	1,025	-143	-102	798	-4	9	195	-2	5	23	0	2,071	-157	-117		
	(3)	(-1)	(-30)	(0)	(0)	(0)	(28)	(-3)	(1)	(31)	(-4)	(-29)	(1,113)	(-196)	(-82)	(807)	(-2)	(6)	(210)	(-2)	(4)	(26)	(1)	(2,187)	(-203)	(-101)		
Total	119	-23	-680	300	-85	-159	145	-26	-80	565	-134	-919	6,251	-739	-905	5,072	-112	-248	2,671	-86	-19	4,849	-76	19,408	-1,071	-2,167		
	(181)	(-29)	(-644)	(438)	(-108)	(-98)	(178)	(-9)	(-61)	(797)	(-147)	(-803)	(7,515)	(-1,114)	(-643)	(5,447)	(-134)	(-202)	(2,873)	(-116)	(-7)	(5,639)	(-107)	(22,271)	(-1,511)	(-1,762)		
(Reference) Loss Ratio	-86.77%			-49.96%			-44.65%			-68.74%			-22.24%			-6.63%			-4.36%			-1.34%		-14.30%				
	(-79.78%)			(-35.63%)			(-25.02%)			(-56.41%)			(-21.07%)			(-5.89%)			(-4.60%)			(-1.74%)		(-13.07%)				
	-23.48%			-23.48%			-23.48%			-23.48%			-23.48%			-23.48%			-23.48%			-15.92%		-1.33%		-23.04%		
	(-22.60%)			(-22.60%)			(-22.60%)			(-22.60%)			(-22.60%)			(-22.60%)			(-22.60%)			(-17.16%)		(-1.80%)		(-20.25%)		

Figures in inner columns represent the underlying assets of which were originated abroad.

※Excluding subprime-related products

Note 1: 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 2: "Depreciation Ratio" is the percentage of sum of valuation profits/losses (as of the end-December), additional provisions and impairment (from April 1, 2007 to December 31, 2008) to the book value as of the beginning of the period.

Note 3: CDOs include the exposures to SIVs.

Note 4: RMBS does not include GSE MBS.

Note 5: While the definition of leveraged loans can vary depending on each financial institutions, it generally refers to loans to low-rated companies, including loans made for mergers and acquisitions.

Note 6: Apart from above figures, losses on CDS transactions with monoline insurers (about 30.0 billion yen) have been reported.

[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】

I would like to make a statement, in my capacity as Minister for Financial Services, regarding new measures to facilitate financing.

As the end of the fiscal year approaches, not only small and medium-size enterprises but also larger companies face increasingly severe business conditions and fund-raising conditions. In light of this situation, the FSA (Financial Services Agency) has decided to take new measures, such as holding special hearings and conducting intensive inspections in order to facilitate financing.

I will now elaborate on the new measures.

*Special hearings and intensive inspections for the purpose of facilitating financing

*Revision of the risk weighting related to emergency guarantee (from 10% to zero)

*Promotion of flexible treatment of covenants

*Request for the use of market-based, indirect finance (e.g. syndicated loans)

*Promotion of the use of the Act on Special Measures for Strengthening Financial Functions

I hope that these measures will help to further facilitate corporate financing.

Q. At the beginning of this press conference, you explained measures related to financing. What measures do you think the government should take to deal with the slumping stock prices? What will be debated from now on?

A. As I said in my press conference in the morning, there are probably two different concepts of stock price support, one of which is supporting stock prices themselves and the other is supporting business sectors that may be affected by stock price declines. Measures to support stock prices themselves involve substantial technical difficulty. Such measures require a huge amount of funds and efforts, and there is also a fundamental problem: how can they be justified?

However, measures to support business sectors that may be affected by stock price declines are under deliberation at the FSA and the Ministry of Finance as well as at the Cabinet Office and the ruling parties.

I hear that the ruling parties are also exploring measures to support stock prices themselves.

Q. In relation to the facilitation of financing, it is very unusual that the FSA will conduct intensive inspections to check whether or not financial institutions are curbing new loans. Could you explain more specifically why you will conduct such inspections and elaborate further on the government's stance on credit crunch?

A. Basically, we are requesting private financial institutions to facilitate financing so that the public and private sectors can work together to deal with the financial and economic crisis, but the FSA has no intention to use its authority to instruct the financial industry to facilitate financing.

There is the problem of financing at the end of the fiscal year in March, and some people warn that even if we overcome that problem, the months of April through June will be a very difficult period, so we will take appropriate actions to deal with the situation.

【Extract from the press conference on March 10, 2009】

【Opening remarks】

First, I would like to make a statement in my capacity as Minister for Financial Services in relation to the decision to make capital injection into three regional banks. As stated in the written statement distributed to you, we decided to make capital injection into Hokuyo Bank, Fukuho Bank and Minami Nippon Bank based on the revised Act on Special Measures for Strengthening Financial Functions.

Q. Regarding the capital injection that you announced now, could you tell us specifically how much will be injected? Despite the quota of 12 trillion yen, these three banks seem likely to be the only banks to apply for the capital injection by the end of the fiscal year. Could you tell us about your views on the idea of urging banks to apply for capital injection so as to promote future use of the capital injection scheme?

A. As for the amount of capital injection, Hokuyo Bank will receive the largest amount, 100 billion yen, while Fukuho Bank and Minami Nippon Bank will receive 6 billion yen and 15 billion yen, respectively. As a result, the capital adequacy ratio will come to 9.0% for Hokuyo Bank, 9.1% for Fukuho Bank and 8.4% for Minami Nippon Bank. The overall quota for capital injection is 12 trillion yen, and we will welcome an application from banks that wish to enhance their capital bases. I hope that more banks will modify their articles of incorporation in preparation for that.

【Extract from the press conference on March 13, 2009】

Q. Do you have any view on the provision of subordinated loans by the Bank of Japan?

A. This is also an effective means to enhance the capital of financial institutions, so it broadens the range of options for the management of banks in making business judgment, which also includes capital injection based on the Act on Special Measures for Strengthening Financial Functions. I welcome this very much.

【Extract from the press conference on March 19, 2009】

【Opening remarks】

As Minister for Financial Services, I will report on the extension of the temporary measures regarding the short-selling of stocks and purchase of own shares by listed companies, which were introduced to remain in effect until the end of the current fiscal year. As for the restriction on the short-selling of stocks, in light of the stock market condition, we have introduced additional measures, such as prohibiting so-called naked short-selling, which refers to the short-selling of stocks without first borrowing the stocks, while regarding purchases of own shares, we have taken measures such as raising the ceiling on daily purchase volume. These provisional measures were to remain in effect until March 31 this year. We believe that from the viewpoint of preventing unfair trading amid the market instability, it is appropriate to continue these measures for a while. Therefore, we have decided to extend these measures until the end of July and we plan to promulgate relevant Cabinet Office ordinances and notices within the current fiscal year.

Q. The United States has announced a plan to purchase troubled assets totaling up to one trillion dollars. Could you tell us how you assess this plan and what impact you expect it will have on the financial market and the real economy?

A. Non-performing loans and assets will have to be disposed of sooner or later. The process of disposing of them and removing them from the balance sheets is necessary. I believe that the fact that the United States has started to work on this process represents significant progress. So, I expect that the announcement of this plan will have a very positive impact on the financial and industrial sectors as well as on the people and the entire world.

【Extract from the press conference on March 24, 2009】

[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.