



FSA Newsletter No. 94 2011

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Greetings by Minister Shozaburo Jimi (left) and Senior Vice Minister Shozo Azuma (right) at 25th Financial System Council General Meeting and 13th Sectional Committee on Financial System (March 7)

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Great East Japan Earthquake - Related Information

We give our deepest condolences for people who died in the 2011 Great East Japan Earthquake, and our heartfelt sympathy for the victims who suffered losses.

The FSA is providing “Great East Japan Earthquake - Related Information” in the following places.

1. Great East Japan Earthquake - Related Information: We are putting all efforts into financial countermeasures

The FSA created a [Great East Japan Earthquake - Related Information](#) section on its web site, providing information for each of the following items.

(1) [For depositors](#)

- Even for people who have lost their bank deposit book or hanko, if the depositors present documents that make it possible to identify them, the depositors will get access to their deposits at their financial institutions.
- Even if one has lost documents which make it possible to identify them, the financial institutions are striving to provide flexible responses: asking the person’s name, address, and other personal information, confirming that these match registered details, then providing access to deposits, etc.
- If family members of deceased or missing immediate relatives provide vital documents, family members can get access to deposits.
- The Japanese Bankers Association provides information on deposits of deceased or missing people on request of their families.
- Even if one has been displaced, one can still get access to deposits at financial institutions other than your own.

(2) [For borrowers](#)

- Financial institutions are working to respond as much as possible when there are requests for grace periods for loan repayments or provisions for stop-gap funds, etc. from borrowers directly and indirectly affected by the disaster.
- Grace periods will be given for non-payment of drafts and cheques which cannot be settled because of the disaster.
- Financial institutions are also working to handle loan applications flexibly and quickly. For example, financial institutions are considering the situation of disaster victims, and will minimize the required documents for submission for loans.

(3) [For insurance policy holders](#)

- Life insurance and non-life insurance companies are working on fast and easy procedures of insurance payouts.
- Even if insurance certificates or documents enabling personal identification are lost, there will be flexible responses to each individual customer’s situation. If one does not know which insurance company one has policies with, ask an insurance association or any insurance company.
- A customer who is a disaster victim can receive a grace period for insurance premium payments, if requested.

2. Great East Japan Earthquake - Related Information: FSA cell phone website

The FSA created cell phone web pages for earthquake disaster related information.

* For details, please go to the FSA web site and access [“FSA cell phone website”](#), or use the QR code (below).



[FSA cell phone website](#)

3. FSA (Great East Japan Earthquake – Related Information) Twitter

The FSA is providing information on Great East Japan Earthquake related finance in the fastest and most easily understood way possible, via the Twitter internet mini blog service.

- * For details, please go to the FSA web site and access [“FSA \(Great East Japan Earthquake – Related Information\) Twitter”](#) (Available in Japanese only).



[“FSA \(Great East Japan Earthquake – Related Information\) Twitter”](#)

Featured

Enactment and enforcement of the revised “Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.”

The FSA submitted a revision bill to extend by one year the expiration of the “Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.” (hereinafter, “Revised SME Finance Facilitation Act”), on January 25, 2011 to the 177th ordinary session of the Diet. This act was approved and enacted on March 31, and proclaimed and enforced on the same date.

Note: The SME Finance Facilitation Act imposes the obligation on financial institutions to strive as much as possible to change loan terms, when requested by a small or medium-sized enterprise or housing loan borrower. When enacted (December 2009), this act was scheduled to expire on March 31, 2011.

Based on the “Extension of Expiration of the SME Finance Facilitation Act, etc.” which was decided and announced by the FSA on December 14, 2010, considering as part of that the economic and financial conditions after that act was enforced and the situation of financial institution efforts for finance facilitation, for the SME Finance Facilitation Act:

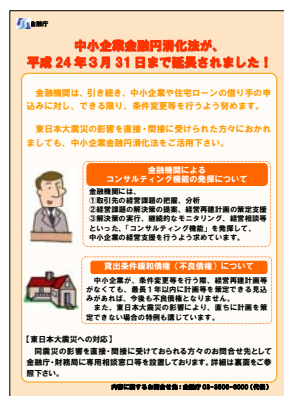
1. Expiration of the SME Finance Facilitation Act was extended by one year.
2. Supervisory guidelines were to be revised in order to encourage financial institutions to pour efforts into wielding their consulting functions for SMEs.
3. Disclosure and reporting documents were to be greatly simplified.

Thereafter, the SME Finance Facilitation Act played a greater role because the Great East Japan Earthquake occurred. We would like this act to be actively utilized by SMEs and housing loan borrowers throughout Japan, including people directly and indirectly affected by that earthquake, with the hope that this leads to business revitalization, business reconstruction and stabilization of people’s lives.

The FSA is striving for appropriate application of the SME Finance Facilitation Act through inspection and supervision, etc., while considering the effects of the Great East Japan Earthquake. It is thereby working for proper cash flow of SMEs. The FSA aims to create an environment in which financial institutions continue wielding appropriate financial intermediation functions after expiration of this act.

The FSA made a pamphlet to widely publicize the extension of expiration of the SME Finance Facilitation Act. Please refer to it (Available in Japanese only). (This pamphlet also describes actions taken after the earthquake by the FSA and Local Finance Bureaus for damaged SMEs.)

Pamphlet



Along with proclamation and enactment of the Revised SME Finance Facilitation Act, a cabinet office ordinance to simplify disclosure and reporting forms was proclaimed and enacted on March 31.

Draft revised supervisory guidelines to encourage financial institutions to wield their consulting functions were published on March 31, and after passing through a public comment process. These have been applied since April 4.

For details, please see the next topic: “Publication of the Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance concerning Temporary Measures to Facilitate Financing for SMEs, etc., and the Supervisory Guidelines concerning Temporary Measures to Facilitate Financing for SMEs, etc. (Specific roles which financial institutions should play in wielding their consulting functions).”

* For details, please go to the FSA web site and access [“Enactment and enforcement of the Revised SME Finance Facilitation Act”\(April 1, 2011\)](#) and [“Talk by Minister of State for Financial Services” \(April 1, 2011\)](#), from the Press Releases section (Available in Japanese only).

Publication of the Cabinet Office Ordinance For Partial Revision of the Cabinet Office Ordinance concerning Temporary Measures to Facilitate Financing for SMEs, etc., and the Supervisory Guidelines concerning Temporary Measures to Facilitate Financing for SMEs, etc. (Specific roles which financial institutions should play in wielding their consulting functions) (draft)

Considering that the “Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.” was extended by one year on March 13, 2011, on the same day, the “Cabinet office Ordinance for Partial Revision of the Cabinet Office Ordinance concerning Temporary Measures to Facilitate Financing for SMEs, etc.” (hereinafter, “Revised Cabinet Ordinance”), etc. which aims to simplify disclosure and reporting documents (see note), was proclaimed and enacted. Based on the same law, the FSA also created a policy on financial supervision (Specific roles which financial institutions should play in wielding their consulting functions) (hereinafter, Facilitation Guidelines).

Below are summaries of the Revised Cabinet Ordinance, etc. and Facilitation Guidelines.

Main Content of Revised Cabinet Ordinance and Facilitation Guidelines

1. Revised Cabinet Ordinance

While considering requirements for supervision, from the viewpoint of reducing the clerical burdens of financial institutions as much as possible, disclosure and reporting items were eliminated and simplified, etc., starting with the following three points.

- (1) Regarding a loan for which an SME has requested a revision of loan conditions, disclosure and reporting on the status of implementation of revising loan conditions is eliminated where another financial institution also has provided a loan to that SME.
- (2) Regarding a loan for which an SME has requested a revision of loan conditions, disclosure and reporting on the status of implementation of revising loan conditions is eliminated where a “credit guarantee corporation expressed a decision to consent to a conditions change compatible guarantee.”
- (3) In cases in which a debtor withdraws its request to revise loan conditions or the financial institution rejects the debtor’s request, the financial institution was required to report details about the reason in about 200 characters for each case. This report has been eliminated and the reporting method has been simplified to a selective method.

2. Facilitation Guidelines

- (1) Significance of wielding a consulting function
Arrange the basic concepts in creating the Facilitation Guidelines, positioning of that policy, etc.
- (2) Role which a financial institution should play in wielding its consulting function
Arrange the specific roles which financial institutions should play, from understanding and analyzing the debtor’s business issues, to proposing solutions and monitoring after execution.
- (3) Main Focus Points

Arrange focus points for verification of the situation of wielding of consulting functions by financial institutions, the situation of system preparations for wielding of consulting functions, etc.

(4) Supervisory techniques and handling

Arrange that various interviews are used to check the situation of handling for the wielding of consulting functions in financial institutions, and that administrative actions are taken as needed, etc.

The Revised Cabinet Ordinance, etc. will be applied to banks starting from disclosure and reporting on June 30, 2011, and applied to financial institutions other than banks starting from disclosure and reporting on September 30, 2011. Facilitation Guidelines are applied starting from April 4, 2011.

Note: At the same time as the Revised Cabinet Ordinance, “Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on Temporary Measures to Facilitate Financing for SMEs concerning Labor banks and The Rokinren Bank” and “Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on Temporary Measures to Facilitate Financing for SMEs concerning the Agricultural and Fishery Cooperative Savings Insurance Corporation” were proclaimed and enforced.

* For details, please go to the FSA web site and access [“Publication of the Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance concerning Temporary Measures to Facilitate Financing for SMEs, etc., and the Guidelines on Financial Supervision based on the Act concerning Temporary Measures to Facilitate Financing for SMEs \(Specific roles which financial institutions should play in wielding their consulting functions\) \(draft\)” \(March 31, 2011\)](#) and [Publication of “Guidelines on Financial Supervision based on the Act concerning Temporary Measures to Facilitate Financing for SMEs \(Specific roles which financial institutions should play in wielding their consulting functions\)” \(April 4, 2011\)](#) from the Press Releases section. (Available in Japanese only)

Topics

Partial revisions of “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” “Comprehensive Guidelines for the Supervision of Major Banks, etc.” and “Comprehensive Guidelines for the Supervision of Regional Financial Institutions”

From January 26 to February 25, 2011, the FSA widely solicited opinions regarding the partial revisions of “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” “Comprehensive Guidelines for the Supervision of Major Banks, etc.” and “Comprehensive Guidelines for the Supervision of Regional Financial Institutions.” On March 18, it published results of the public comments, and partially revised its supervisory policies.

A summary of its revisions is as follows.

1. Summary of “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.”

Revisions

- (1) Revisions in consideration of the introduction of a framework for consolidated regulations and supervision of financial instruments business operator groups, due to the 2010 Financial Instruments and Exchange Act Revisions

To enable execution of appropriate administrative handling based on the situation of soundness of financial instruments business operator groups as a whole, the following items to keep in mind were added.

- a. Points to keep in mind if “Stipulation of standards for deciding whether the status of sufficiency of shareholders’ equity of a final designated parent company and its subsidiary corporations, etc. is appropriate, reflecting the assets held by that final designated parent company and its subsidiary corporations, etc.” is applied, and consolidated capital adequacy ratio is calculated
 - b. Points to keep in mind if taking administrative action corresponding to the status of the consolidated capital adequacy ratio
 - c. Points to keep in mind concerning understanding of the status of supply of liquidity from each group company of a foreign group to its locations in Japan
- (2) Revisions based on “How to Regulate Uninvited Solicitations on Derivative Transactions” (published by FSA on September 13, 2010)

In order to strengthen sales solicitation rules concerning derivative transactions, regarding the following items for which creation of self-regulatory rules is needed, a supervisory focus on whether there is appropriate handling in each business operator based on self-regulation was added.

- a. Provision of a warning letter when derivative transactions are made
- b. For complex structured bonds or investment trusts similar to OTC derivative transactions, previous verification of suitability (rational basis suitability) as products sold to investors, and establishment of solicitation start criteria

(3) Other

- a. Points to keep in mind concerning management operations which directly establish and direct foreign investment trusts from within Japan
- b. Handling of payments concerning cumulative investments based on the Act on the Promotion of Workers’ Property Accumulation
- c. Responses to operators using similar trade names which received warnings

2. Summary of revisions to the “Comprehensive Guidelines for the Supervision of Major Banks, etc.” and “Comprehensive Guidelines for the Supervision of Regional Financial Institutions”
Regarding derivative embedded deposits, revisions were made corresponding to 1.(2).

3. Implementation dates, etc.

Among the revised supervisory guidelines, the revision described in 1.(3)(c) for Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. is applied from March 18, 2011, with other revisions applied from April 1, 2011.

- * For details, please go to the FSA web site and access [Partial revisions \(drafts\) of “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.”](#), [“Comprehensive Guidelines for the Supervision of Major Banks, etc.”](#) and [“Comprehensive Guidelines for the Supervision of Regional Financial Institutions” - Results of public comments, etc. \(March 18, 2011\)](#) from the Press Releases section. (Available in Japanese only)

Results of survey on the situation of currency (USD/JPY) derivative trading for small and medium-sized enterprises (a prompt report)

Regarding currency derivative transaction contracts (USD/JPY) for SMEs sold since FY2004, the FSA did an interview survey of 121 banks on the status of trading contracts as of September 30, 2010. The results (a prompt report) were published on March 11.

Below is a summary of the main results of the interviews.

1. Total Number of Contracts Sold Since FY2004, and Number of Remaining Contracts as of September 30, 2010

- Looking at the number of contracts sold, there were around 12,000 each year from FY2004 to FY2007, for a total in excess of about 60,000 contracts sold. The number of contracts sold fell greatly since the so-called Lehman Shock occurred in FY2008. As a result, about 80% of the total number of contracts sold since FY2004 were sold during FY2004 to FY2007.
- Looking at the remaining number of contracts from each year (as of September 30, 2010), about 80% of about 40,000 total remaining contracts from years since FY2004 were sold during FY2004 to FY2007. However, while roughly half of the contracts sold in FY2004 and FY2005 remain, about 70% to 80% of contracts sold in FY2006 and FY2007 remain. Thus viewed on a remaining contracts basis, a higher ratio were sold in FY2006 to FY2007 (about 50%).
- As of September 2010, about 19,000 companies held contracts.

2. Number of Complaints Made to Banks Since January 2010 (by Contract Fiscal Year)

- Around September 2008, when the Lehman Shock occurred, contracts sold from FY2004 to FY2007 comprised about 90% of the total number of complaints.
- Of these, over 60% of all complaints were for contracts sold in FY2006 and FY2007, years with many remaining contracts.
- About 300 companies complained to banks.

3. Profit/Loss Situation

- Below are totals of the contracts sold to SMEs by major banks, etc. which could be calculated (equivalent to under 90% of the number of remaining contracts of major banks, etc.).

Note: In a typical currency derivative contract in the case of an importer (party which pays the price in a foreign currency), a stronger yen causes a loss. Therefore, in order to look at the profit/loss situation of all contracts, in addition to the current profit/loss situation, it seems necessary to include profits and losses in the past.

1. Total period income	Approximately 370 billion yen
2. Total period losses	Approximately -510 billion yen
Difference (1 – 2)	Approximately -140 billion yen
	Per contract: Approximately -6 million yen (No. of remaining contracts: Approximately 25,000)

Note: “Small or medium enterprises” are as determined in Article 2 of the Medium and Small Enterprise Modernization Promotion Act. Thus for example, this corresponds to a company with capital up to 300 million yen, which uses up to 300 employees full time, with its main business pertaining to manufacturing.

- * For details, please go to the FSA web site and access [“Results of survey on the situation of currency \(USD/JPY\) derivative trading for small and medium-sized enterprises \(a prompt report\)” \(March 11, 2011\)](#) from the Press Releases section. (Available in Japanese only)

“Principles for Financial Market Infrastructures” consultative report published by CPSS & IOSCO

Background and Summary of the Creation of these Principles

The Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) created existing international standards on payment systems, securities settlement systems and Central Counterparty (Core Principles for Systematically Important Payment Systems (CPSS, published 2001), Recommendations for Securities Settlement Systems (CPSS/IOSCO, published 2001), and Recommendations for Central Counterparties (CPSS/IOSCO 2004)). Based on the experience of operation of these standards until now, and on lessons of the recent global financial crisis, CPSS and IOSCO have comprehensively reviewed these international standards since February 2010, from the perspective of enhancing the soundness of settlement systems (From Japan, Financial Services Agency and Bank of Japan participate in the work as members).

Through this work, aiming to improve the soundness of essential infrastructure to support global financial markets, and thereby boost resilience to financial crises, the three international standards mentioned above were combined into one report, called “Principles for Financial Market Infrastructures” (hereinafter, “Principles”), and consultations began on March 10, 2011.

The intention is for these Principles (as shown in the figure below, comprised of 24 principles from nine perspectives) to be applied to all systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories (hereinafter generally referred to as “Financial Market Infrastructure”). These strengthen standards from the perspective of enhancing the soundness of settlement systems, focused on risk management policies to prepare for bankruptcy of participants. For example, they raise the level of various aspects which should be maintained by Financial Market Infrastructure, and prepare for business risks other than bankruptcy of participants, with new standards on responses to tiered participation.

Future Plans

The consultative period is approximately four months from its publication. The comment submission deadline is July 29, 2011. After the consultation period, the CPSS and IOSCO will review all comments received and publish a final report in early 2012. As set out in the cover note, the proposal is that relevant authorities will then strive to include the principles in their legal and regulatory framework by the end of 2012 and to apply the principles as part of their regulatory, supervisory and oversight activities as soon as possible. FMIs will be expected to take appropriate and swift action in order to meet the principles.

* For details, please go to the FSA web site and access [“Principles for Financial Market Infrastructures’ consultative report published by CPSS & IOSCO” \(March 10, 2011\)](#) from the Press Releases section. (Available in Japanese only)

General Organization	Principle 1: Legal basis Principle 2: Governance Principle 3: Framework for the comprehensive management of risks
Credit and liquidity risk management	Principle 4: Credit risk Principle 5: Collateral Principle 6: Margin Principle 7: Liquidity risk
Settlement	Principle 8: Settlement finality Principle 9: Money settlements Principle 10: Physical deliveries
Central securities depositories and exchange-of-value settlement systems	Principle 11: Central securities depositories Principle 12: Exchange-of-value settlement systems
Default management	Principle 13: Participant-default rules and procedures Principle 14: Segregation and portability
General business and operational risk management	Principle 15: General business risk Principle 16: Custody and investment risk Principle 17: Operational risk
Access	Principle 18: Access and participation requirements Principle 19: Tiered participation arrangements Principle 20: FMI links
Efficiency	Principle 21: Efficiency and effectiveness Principle 22: Communication procedures and standards
Transparency	Principle 23: Disclosure of rules and procedures Principle 24: Disclosure of market data

Revision of Internal Control System Standards and Practice Standards, revision of internal controls ordinance and guidelines, etc.

1. Introduction

Two years have passed since introduction of the Internal Control Report System which has applied to business year which begin on or after April 1, 2008. There are now efforts to review the operation of the Internal Control Report System. For example, there is work on revisions to further simplify and clarify Standards and Practice Standards of the Internal Controls System created by the Business Accounting Council (Chairman Hideyoshi Ando, Senshu University Professor).

Immediately before this system was applied, a report on published in March 2008 on actions for smooth implementation of the Internal Control Report System. The report determined that after the system introduction, timely reviews would be performed. Based on their results, study such as review and further clarifications of Internal Control System Standards and Practice Standards is to be done as needed. Also, review of the Internal Control Report System for small and medium listed companies is required as a specific implementation item in the “New Growth Strategy” decided in the Cabinet in June 2010.

The Business Accounting Council began studying this in the Internal Control Committee in May 2010. It heard and analyzed requests and opinions seeking further simplification and clarification of Internal Control Standards and implementation standards, from listed companies which actually implemented the system, based on their experiences. It also verified examples of various techniques to efficiently evaluate internal controls, while maintaining effectiveness of internal controls. In December 2010, the Council published draft revisions to Internal Controls Standards and Practice Standards. It then widely sought opinions, and based on the opinions received, put together an opinion paper on March 30, 2011. Along with this, the Draft Cabinet Office ordinance for partial revision of the “Cabinet Office Ordinance on System for Ensuring Appropriateness of Statements on Finance and Accounting and Other Information” (hereinafter, “Internal Controls Ordinance”) was proclaimed. On March 31, 2011, the FSA published its revised “FAQs on Internal Control Report System (FSA)” and “Internal Control Report System Casebook.”

2. Outline of Revisions of Internal Controls Standards and Practice Standards

Four items comprise the main content of the recent review of the Internal Control Report System: (1) Obtaining Auditors’ respect for the well considerations of Companies, (2) Review to Establish Efficient Operating Methods for Internal Control Report System, (3) Review of Terminology of “Material Weaknesses”, (4) Create a “Casebook” of Efficient Internal Control Report Practices for Small and Medium Listed companies. Items (1) to (3) concern the revised Internal Controls Standards and Practice Standards. Their main content is as follows.

(1) Obtaining Auditors’ respect for the well considerations of Companies

a. Auditor Understanding and Respect for Internal Controls Evaluation Methods and Procedures Devised by Managers

For the Internal Control Report System, methods to develop and operate internal controls differ depending on the environment faced by the individual enterprise, the characteristics and size of its business, etc. Therefore, managers are expected to appropriately use their own ingenuity to achieve effective functions and roles of internal controls, corresponding to each enterprise’s situation.

But actually, enterprises have given the opinions that auditors do not respect enterprises’ unique internal controls techniques. Therefore, it is clearly written that in executing internal controls audits, there is a need for auditors to appropriately understand and respect managers’ methods of evaluating their Internal Controls System.

b. Auditors Wielding an Appropriate “Function of Education” for Small and Medium Listed Companies

A smaller and less-complex organization, etc., has to allocate the limited business resources to establishment and assessment of that organization’s internal control. Therefore, this organization may need to consult the auditors regarding how to efficiently handle internal control, etc. In response to such consultations, from the perspective of especially effective and efficient construction and evaluation of internal controls, the auditor shall keep in mind that it should wield an appropriate guidance function, such as providing appropriate

findings.

(2) Review to Establish Efficient Operating Methods for Internal Control Report System

In order to establish effective and efficient operating methods, with the aim of developing internal controls which do not place excessive cost burdens on financial statements preparers, auditors and other related parties, the following revisions were made.

- a. Simplification and Clarification Possible on the side of Companies
 - i. Clarification of scope of assessment of company-level controls
 - ii. Simplified of methods of assessment of company-level controls
 - iii. Further narrowing down the scope of assessment of the design and operating effectiveness of process-level controls
 - iv. Simplification and clarification of assessment procedures of process-level controls
 - v. Rationalization and simplification of sampling
 - vi. Clarification of methods of assessment and audit for equity method affiliated companies
 - vii. Simplification and clarification of procedures to evaluate IT related overall controls and business process controls
- b. Clarification of Standards for Determining “Material Weaknesses”, etc.
 - i. Clarification of standards for determining “Material Weaknesses”
 - ii. Clarification of methods of assessment and audit of internal controls for companies newly added to the group by M&A, etc.
- c. Simplification and Clarification for Small and Medium Listed Companies
 - i. Rationalization of assessment procedures of business processes
 - ii. Approval of alternative procedures
 - iii. Simplification and clarification of recording and retention concerning assessment procedures and other matters

(3) Review of Terminology of “Material Weaknesses”

“Material weakness” is a deficiency in internal controls, that has a reasonable possibility of having a material effect on financial reporting. Regarding this “material weakness (“**Juyo-na-kekkan**” expressed in Japanese)” term, in this system, this is already established as a term under the standard, but it is pointed out that this invites the misunderstanding that there is “defect” in the company itself. Therefore, this was revised to be “material weakness (“**Kaiji-subeki-juyo-na-fubi**” expressed in Japanese).”

c.f. “material weakness” of expression in English is not revised.

3. Revision of Internal Controls Ordinance and Guideline

Along with this revision of Internal Control Standards and Practice Standards, revisions were also made to the internal controls ordinance, etc. This clarified that (1) In the internal controls ordinance guideline, an internal controls audit of an amendment of internal control report is not required, (2) In the internal control report, “Name and title of the representative” and “Name of the chief financial officer” shall be written as of the date of submission of the internal control report.

4. Revision of FAQs on the Internal Control Report System (FSA), Creation of Internal Control Report System Casebook (FSA)

(1) Revision of FAQs on the Internal Control Report System (FSA)

Over time, FAQs have steadily been added to the FAQs on the Internal Control Report System. Along with this revision of Internal Controls Standards and Practice Standards, FAQs were partially revised and supplemented.

(2) Creation of “Casebook” for Efficient Internal Controls Report Practices

In the Internal Control Report System, the aim is to develop and operate an efficient Internal Controls System, using ingenuity in construction, evaluation and audit of internal controls, corresponding to the enterprise’s situation, while maintaining effectiveness of internal controls.

However, a smaller and less-complex organization, etc., has to allocate the limited business resources to establishment and assessment of that organization’s internal control. There are restrictions on business resources which can be allocated for construction and evaluation of that organization’s internal controls. Therefore, Internal Controls Report practices are not necessarily efficient. During the two years since this system was introduced, related parties executed Internal Control Report Systems based on these standards and practice standards. Some organizations which have a small business size and relatively simple structure face restrictions on resources, but used various techniques to efficiently evaluate internal controls cases, while maintaining effectiveness of internal controls. The FSA gathered these cases to create a casebook, which it provides for reference regarding practices.

5. Application Period

The revised standard, revised practice standard, and revised Internal Controls Ordinance and guidelines shall apply to evaluations and audits of internal controls over financial reporting for business years which begin on or after April 1, 2011.

* For details, please go to the FSA web site and access the following from the Press Releases section.

- [“Draft Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on System for Ensuring Appropriateness of Statements on Finance and Accounting and Other Information’ - Results of public comments, etc.” \(March 29, 2011\)](#)
- [“Opinion Paper on Revisions of Audit Standards and Evaluation of Internal Controls over Financial Reporting, and Implementation Standards for Audits and Evaluation of Internal Controls over Financial Reporting’ published” \(March 30, 2011\)](#)
- [“Internal Controls Reporting System Casebook’ published” \(March 31, 2011\)](#)
- [“Q&A on Internal Controls Reporting System’ revised” \(March 31, 2011\)](#)

(Available in Japanese only)

SESC’s Basic Securities Inspection Policy and Program for 2011

In order to orderly manage and conduct securities inspections, the Securities and Exchange Surveillance Commission (SESC) formulates its Basic Securities Inspection Policy (hereafter referred to as the “Basic Policy”) and Basic Securities Inspection Program (hereafter referred to as the “Basic Program”) each fiscal year. In FY 2011, the Basic Policy and Basic Program were published on April 8.

The summary of the Basic Policy is as follows.

Securities inspections have been facing dramatic environmental changes in recent years. For example, the expansion of the scope of, and increase in the number of, financial firms subject to inspection through a series of regulatory reforms, innovations in financial instruments and transaction, cross-border transactions and international activities of market participants becoming common, the experience of the global financial crisis, spread of the use of IT systems in financial instruments transactions, damage by non-registered firms becoming a social problem, and impacts of the Great East Japan Earthquake.

In order to adapt to these changes, and to implement efficient and effective inspections, the SESC shall execute the following initiatives.

1. Risk-based inspection
2. Implementation of effective inspections (inspection with prior notice, verification of the appropriateness of internal control system and risk management system, and enhancement of interactive dialogue)

3. Enhancement of cooperation with relevant departments/organizations (supervisory, inspection, and disclosure oversight departments of FSA and Local Finance Bureaus, self-regulatory organizations (SROs), overseas regulators, and investigative authorities)
4. Revision of the inspection manual

SESC inspections shall focus on the following issues.

1. Verification of the exercise of gatekeeper functions (market intermediary functions, including customer management, surveillance of transactions, and underwriting examination, management of undisclosed corporate information, and conduct that may hinder fair price formation)
2. Examination of internal control systems (the appropriateness of internal control and risk management systems of securities company groups that engage in large-scale and complex businesses as a group, and management of IT system risk)
3. Examination from the viewpoint of investor protection (solicitation for investment, such as explanation of important risks concerning investment trusts and OTC derivatives transactions, the appropriateness of investment management business, compliance with laws and regulations by fund operators and investment advisories/agencies, and response to non-registered firms through applications for emergency court injunctions and associated investigations)
4. Others (functions of SROs, business management of credit rating agencies, and response to inappropriate transactions and legal violations that take advantage of disasters)

The Basic Program is summarized as follows.

Type I Financial Instruments Businesses Operators (including Registered Financial Institutions), Asset Management Firms, and Credit Rating Agencies	To be inspected on an on-going basis (Note)
Type II Financial Instruments Businesses Operators, Investment Advisories/Agencies, Specially Permitted Business Notifying Firms for Qualified Institutional Investors, and Financial Instruments Intermediaries	To be inspected on an on-going basis
SROs	To be inspected as necessary
Non-registered firms	To be inspected on an on-going basis

Note: The number of firms to be inspected is shown in normal years, but due to the impacts of the Great East Japan Earthquake, it is difficult to show it at the current moment.

The SESC shall continue to strive to ensure the fairness and transparency of the markets and investor protection by conducting securities inspections in accordance with the Basic Policy and Basic Program.

* For details, please go to the SESC website and access [“SESC’s Basic Securities Inspection Policy and Program for 2011” \(April 8, 2011\)](#).

Notices

● Use of KAN's BLOG

In November 2010, as part of information delivery by the Prime Minister's Office, the KAN's Blog was created, with a section written by Prime Minister Kan and transmission of videos of the Prime Minister's speeches. This blog provides a wide variety of information.

The FSA also received a request from the Cabinet Public Relations Office to cooperate in utilizing the KAN's Blog. Its banner is shown on the FSA web site and the web sites of the Financial Research Center, SESC and the Certified Public Accountants and Auditing Oversight Board. (See below)



To get update information of the KAN's Blog in "the KAN's Blog" emails delivered (update notice email delivery registration), go to the URL below.

- KAN's Blog
<http://kansblog.kantei.go.jp/>
- Reader registration (Update notice email delivery registration)
<http://www.mmz.kantei.go.jp/foreign/blog/index.html>

● e-Gov Electronic Application System use (Available in Japanese only)

As an initiative to improve convenience and service for the people, for applications and notices of the Financial Services Agency, you can use the [e-Gov Electronic Application System](#) to send electronic applications and notices, etc. Please take advantage of it.

To see which applications and notices etc. can be processed in this system, please check [Search by List of Laws & Ordinances](#), on the page [Procedure Instructions for Applications & Notices, etc.](#)

To use this system, you must agree with the [e-Gov Electronic Application System Usage Agreement](#)

● Advantages of using the e-Gov Electronic Application System

Anytime

- You can do procedures 24 hours without time restrictions, even at night or on holidays.

Note: When this system requires maintenance, there can be times when the system stops working.

Anywhere

- You can do procedures via Internet at home, work, and even far away.

Note: For attached documents, when you must submit originals such as public institution certificates, you may have to send them separately by post, etc.

* For details on how to use the e-Gov Electronic Application System, see [Electronic Applications](#) on the [e-Gov home page](#).

● Is That Money-Making Scheme Safe?

Beware of fraudulent investment solicitation!

There have been frequent cases of fraudulent investment solicitation related to unlisted stocks and investment funds. Please watch out for such fraudulent investment solicitation.

Warning about transactions related to “unlisted stocks” and “privately placed bonds”

- Generally speaking, it is inconceivable that a broad range of investors will be solicited to make transactions related to unlisted stocks and privately placed bonds.
 - As solicitation for such investments may be an illegal act, investors should take care never to be involved in such transactions.

Warning about “investment funds”

- Under law, only business operators registered with the FSA (or a Local Finance Bureau) are permitted to solicit a broad range of investors to invest in investment funds.
 - As solicitation made by an unregistered business operator may be an illegal act, investors should take care never to be involved in such cases.

It is important to make a decision as to whether or not to actually make an investment based on an adequate understanding of the contents of the transaction. If there are any suspicious points, we advise you to act cautiously, such as by refraining from making the transaction.

- On the FSA web site, you can obtain more detailed information and check whether the business operator soliciting you is registered with the FSA (or a Local Finance Bureau).
- Please note that even if business operators are registered with the FSA (or a Local Finance Bureau):
 - their creditworthiness is not assured; and
 - they are prohibited from making solicitation by suggesting the principal is guaranteed or the transaction is sure to bring profits, for example.

When you have detected suspicious solicitation activity, be sure to contact the FSA’s Counseling Office for Financial Services Users.

- Counseling Office for Financial Services Users (Phone calls are accepted from 10 a.m. to 4 p.m. on weekdays.
Phone No. (Navi Dial Service number): 0570-016811
*Phone calls from an IP phone or a PHS phone are to be made to 03-5251-6811.
FAX: 03-3506-6699

- * For further details, please refer to the following FSA websites (available only in Japanese)
- [Watch Out for Suspicious Investment Solicitation, etc.](#)
- [List of licensed \(registered\) Financial Institutions](#)

● Protecting the markets with information received from the public!

The mission of the [Securities and Exchange Surveillance Commission \(SESC\)](#) is to ensure the fairness and transparency of Japan's markets and to protect investors, through exerting its authority of market surveillance, inspections of securities companies, administrative monetary penalties investigations, disclosure documents inspections and investigations of criminal cases.

The SESC receives a wide range of information from the general public via phone, mail, fax and the internet, relating to suspected misconducts in the market such as those below. Information received is effectively used as reference material in its investigations, inspections and other activities. During business year 2009, the SESC received 7,118 items of information.

Information on specific stocks

- Market manipulation (through “misegyoku” (false orders), short selling, etc.)
- Insider trading (selling off of stocks by a corporate insider prior to publication of material facts, etc.)
- Spreading of rumors (false rumors through posts to online bulletin boards or email magazines, etc.)
- Suspicious disclosure (annual securities reports, timely disclosure, etc.)
- Suspicious financing (fictitious capital increases, suspicious allottees, etc.)
- Problems of internal control for listed companies etc.

Information on financial instruments business operators, etc.

- Wrongful acts by securities companies, foreign exchange margin (FX) traders, management firms, investment advisories/agencies, etc. (inadequate explanation of risks, system-related problems, etc.)
- Problems related to business management systems or financial conditions (risk management, customer asset segregation, calculation of capital adequacy ratio, etc.) etc.

Other information

- Information on suspicious financial instruments, suspicious funds (fraudulent fund-raising schemes, etc.) or on unregistered business operators
- Information on market participants who are likely to impair the fairness of markets (so-called speculator groups, etc.) etc.

If you have any information like that described above, please be sure to submit it to the SESC. In addition to information on shares, the SESC also accepts a wide range of information on derivatives, bonds and other financial instruments. (Please note that the SESC does not accept individual requests for dispute resolution and inspections.)

To submit information via the internet, please access the Securities Watch & Report Portal on the SESC website. (Available in Japanese only)



Poster calling on the general public to provide information

◆ SESC Securities Watch & Report Portal

Central Government Office Building No.7, 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo, JAPAN 100-8922

Direct line: +81 (3) 3581-9909

Fax: +81 (3) 5251-2136

<https://www.fsa.go.jp/sesc/watch/>

● Subscribing to the Email Information Service (Japanese/English)

The Financial Services Agency provides an Email Information Service (Japanese and English) through its website. If you register your email address on the Japanese subscription page, we will email you once a day with the latest information, such as the monthly publication, “Access FSA,” and daily press releases.

If you register on the English subscription page, we will email you once a day with the latest information, such as the “What’s New” information on the English website as well as the “FSA Newsletter.”

To register in Japanese, please access [「新着情報メール配信サービス」](#), and to register in English, please access [Subscribing to E-mail Information Service](#).

● Subscribing to the SESC Email Information Service

The Securities and Exchange Surveillance Commission (SESC) provides an **Email Information Service (Japanese/English)** through its website. If you register your email address, we will email you with the latest information from the SESC website, such as recommendations relating to administrative action against financial instruments business operators and recommendations relating to orders for the payment of administrative monetary penalties.

* For further details and to register in Japanese, please access [「新着情報メール配信サービス」](#), and to register in English, please access [Subscribing to E-mail Information Service](#) on the SESC website.

● Subscribing to the CPAAOB Email Information Service

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) provides an **Email Information Service (Japanese/English)** through its website. If you register your email address, we will email you with the latest information from the CPAAOB website.

* To register in Japanese, please access [「新着情報メール配信サービス」](#), and to register in English, please access [Subscribing to E-mail Information Service](#) on the CPAAOB website.



Press Releases in March (Available in Japanese only, except for March 13)

March 1	Access	Administrative action against Bansei Yamamaru Securities Co., Ltd.
March 2	Access	“Regulatory Implementation of the Statement of Principles Regarding the Activities of Credit Rating Agencies” published by International Organization of Securities Commissions (IOSCO)
March 3	Access	Decision on orders to pay administrative monetary penalties for market manipulation concerning shares of Senior Communication Co., Ltd.
March 8	Access	Interviews to be held with related parties concerning insurance solicitation by banks, etc.
March 10	Access	Small and Medium Enterprise Accounting Study Team, Working Group (2nd) Program “Principles for Financial Market Infrastructures” consultative report published by CPSS & IOSCO
March 11	Access	Financial Measures in Response to Damage from the 2011 Tohoku-Pacific Ocean Earthquake
	Access	Related cabinet orders and draft competent ministry ordinances accompanying enforcement of the “Act for Partial Revision of the Act for Partial Revision of the Insurance Business Act, etc.” published
	Access	Results of survey on the situation of currency (dollar/yen) derivative trading for small and medium-sized enterprises (early reported values)
March 13	Access	Statement by Shozauro Jimi, Minister for Financial Services
March 14	Access	Interviews to be held with related parties concerning insurance solicitation by banks, etc. (delayed)

March 16	Access	Decision on orders to pay administrative monetary penalties for insider trading by a recipient of information from an officer of NJK Corporation
	Access	Decision on orders to pay administrative monetary penalties for insider trading by a recipient of information from an employee of FamilyMart Co., Ltd.
March 18	Access	Date to hold 2nd court trial for Financial Instruments and Exchange Act violation concerning insider trading by a recipient of information from a person who concluded a contract with JO Group Holdings Co., Ltd.
	Access	Beware of frauds pretending to donate money!
March 22	Access	Partial revisions (drafts) of “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” “Comprehensive Guidelines for the Supervision of Major Banks, etc.” and “Comprehensive Guidelines for the Supervision of Regional Financial Institutions” – Results of public comments, etc.
	Access	More thorough publicity for Financial Measures in Response to Damage from the 2011 Tohoku-Pacific Ocean Earthquake
March 23	Access	Fiscal yearend financial facilitation in consideration of damage from the 2011 Tohoku-Pacific Ocean Earthquake, etc.
	Access	Decision on orders to pay administrative monetary penalties for false statements in annual securities reports concerning Rinko Corporation
March 24	Access	Statement by Shozaburo Jimi, Minister for Financial Services
March 25	Access	“Order for Partial Revision of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds” published
	Access	“Draft Cabinet Office Ordinance for Partial Revision of the Ordinance for Enforcement of the Banking Act, etc.” – Results of public comments
March 28	Access	Situation of changes in lending conditions based on the Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.
	Access	“Draft Cabinet Office Ordinance for Partial Revision of the Regulations, etc. for Terminology, Forms and Preparation of Consolidated Financial Statements” published
March 29	Access	“Draft Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on System for Ensuring Appropriateness of Statements on Finance and Accounting and Other Information” – Results of public comments, etc.
	Access	Partial revision (draft) of “Administrative Guidelines (Volume 3: Finance Company Related – 13 – Designated Credit Information Institutions Related)” – Results of public comments
March 30	Access	“Draft Cabinet Office Ordinance for Partial Revision of the Ordinance for Enforcement of the Act on Securitization of Assets” – Results of public comments, etc.
	Access	Partial revisions of “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.” and “Administrative Guidelines (Volume 3: Finance Company Related)”
March 31	Access	Disciplinary action against CPA
	Access	Disciplinary action against CPA
March 30	Access	“Opinion Paper on Revisions of Audit Standards and Evaluation of Internal Controls over Financial Reporting, and Implementation Standards for Audits and Evaluation of Internal Controls over Financial Reporting” published
	Access	Publication of the Cabinet Office Ordinance For Partial Revision of the Cabinet Office Ordinance concerning Temporary Measures to Facilitate Financing for SMEs, etc., and the Guidelines on Financial Supervision based on the Act concerning Temporary Measures to Facilitate Financing for SMEs (Specific roles which financial institutions should play in wielding their consulting functions) (draft)
March 31	Access	Publication of partial revision (draft) of “Comprehensive Guidelines for the Supervision of Regional Financial Institutions”
	Access	Money Lending Business Related Statistics updated

Access	Partial revisions (drafts) of “Comprehensive Guidelines for the Supervision of Major Banks, etc.” and “Comprehensive Guidelines for the Supervision of Regional Financial Institutions” – Results of public comments, etc.
Access	“Internal Controls Reporting System Casebook” published
Access	“Q&A on Internal Controls Reporting System” revised
Access	Partial Revisions (draft) of “Comprehensive Guidelines for Supervision of Insurance Companies”, etc. published
Access	“Draft Additional Q&A on Basel II” – Results of public comments, etc.
Access	“Draft Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on Prepaid Type Payment Means” – Results of public comments, etc.
Access	“Draft Cabinet Office Ordinance for Partial Revision of the Order for Enforcement of the Insurance Business Act”, etc. – Results of public comments, etc.
Access	Inspection, supervision and regulatory responses in consideration of the damage from the 2011 Tohoku-Pacific Ocean Earthquake
Access	Draft Cabinet Office Ordinance for Partial Revision of the Rules on Quarterly Consolidated Financial Statement Terminology, Forms and Preparation Methods, etc.” – Results of public comments, etc.

[Access](#) is a link to the publication web page.

Web Pages Most Accessed in March

This section shows the March Press Releases web pages which were accessed the most.

To see the web pages most accessed in the past, go to the FSA web site’s [Web pages most accessed \(past data, etc.\)](#)
(Available in Japanese only)

- [List of Issuers of Gift Certificates which are in Repayment Procedures based on the Act on Fund Settlement](#)
- [Financial institutions being inspected by FSA](#)
- [Financial Measures in Response to Damage from the 2011 Tohoku-Pacific Ocean Earthquake](#)
- [Financial Facilitation Measures for Small and Medium-sized Enterprises](#)
- [List of licensed \(registered\) financial institutions](#)
- [Situation of recent disaster responses by FSA, Local Financial Bureaus and financial institutions](#)
- [Fiscal yearend financial facilitation in consideration of damage from the 2011 Tohoku-Pacific Ocean Earthquake, etc.](#)
- [Statement by Shozaburo Jimi, Minister for Financial Services \(March 13, 2011\) \(in English\)](#)
- [Beware of frauds pretending to donate money!](#)
- [Partial revision \(draft\) of “Comprehensive Guidelines for Supervision of Major Banks, etc.” and “Comprehensive Guidelines for Supervision of Regional Financial Institutions.” etc. published](#)