



# FSA Newsletter No. 99 2011

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



**Greeting by Minister for Financial Services Shozaburo Jimi at a joint meeting of the Business Accounting Council and the Planning and Coordination Committee (August 25)**



**Children's Day at the FSA  
A Souvenir Photo Taken in the Minister's Office (August 18)**

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## Photo Gallery

On August 17 and 18, the FSA held an event called “Children’s Day at the FSA.” As a result of a random selection, the FSA invited 30 elementary school students and 23 parents and guardians to participate in the event on August 17, and asked 25 elementary school students and 15 parents and guardians to participate on August 18.

At the event, Mr. Mashita, head of the Public Relations Office, provided an orientation, after which Mr. Nagashima, Deputy Director of the Policy and Legal Division, Planning and Coordination Bureau, gave a lecture entitled “What is Finance?” in which he explained the flow of money closely related to everyday life and the economy. Piles of real banknotes totaling 100 million yen and replicas of gold bullion gave the participants a first-hand glance at the world of finance.

Next, the participants visited the Minister’s Office and the Court of Judgment. In the Minister’s Office, they were given an opportunity to take a souvenir picture of themselves sitting in the Minister’s chair.

We would like to express our appreciation for their visit to the FSA.



**Souvenir Photo Taken in the Press Conference Room**



**Visit to the Court of Judgment (room of judicial proceedings)  
(Tour of the FSA)**



**Feeling the “Weight” of Money  
(What is Finance?)**

## Great East Japan Earthquake - Related Information

It has been a half a year since the Great East Japan Earthquake.

We would like once again to offer our sincere condolences to the families and friends of the people who lost their lives in the Great East Japan Earthquake, and express our heartfelt sympathy to the people who suffered damage from the disaster.

The FSA continues to provide “Great East Japan Earthquake - Related Information” via these contact points:

### FSA web site

Great East Japan Earthquake – Related Information

(URL: <http://www.fsa.go.jp/en/ordinary/earthquake201103.html>)

Contact points of financial institutions

(URL: <http://www.fsa.go.jp/ordinary/earthquake201103/20110325-1.html>) (Available in Japanese only)

### FSA cell phone website

Great East Japan Earthquake – Related Information

(URL: <http://www.fsa.go.jp/en/m/quake/jishin.html>)



**FSA Twitter - Information related to the FSA** (URL: [http://twitter.com/#!/fsa\\_JAPAN](http://twitter.com/#!/fsa_JAPAN)) (Available in Japanese only)

## Earthquake related Topics

### Individual Debtor Guidelines for Out-of-Court Workouts

#### 1. Background to the Formulation of the Guidelines

The impact of the Great East Japan Earthquake may cause problems such as difficulties that individuals who have taken out housing loans and business owners who have taken out business loans will face in making a fresh start while struggling under the burden of their existing debt (the “double loan” problem).

The double loan problem is a very important issue that must be appropriately dealt with in order to ensure steady recovery from the earthquake. Therefore, the government has adopted the Policy for the Double Loan Problem (at a meeting of relevant ministers on June 17), which states that the Individual Debtor Guidelines for Out-of-Court Workouts should be drawn up.

In response, a study group on the Individual Debtor Guidelines for Out-of-Court Workouts (chaired by Shinjiro Takagi) drew up the Individual Debtor Guidelines for Out-of-Court Workouts (adopted on July 15, 2011; “the Guidelines,” below). The intention behind the Guidelines is to forge a consensus among the relevant parties on the restructuring of debt so as to support debtors in rebuilding their lives and businesses through their own efforts by forgiving debts through out-of-court debt restructuring, rather than through legal procedures such as bankruptcy.

For the management of the Guidelines, the Management Committee for Individual Debtor Guidelines on Out-of-Court Restructuring a third-party organization, was established, and the application of the Guidelines started on August 22, 2011.

#### 2. Key Points of the Guidelines

The key points of the Guidelines are as follows:

- (1) The Guidelines enable disaster-stricken debtors to have their debts forgiven based on an out-of-court agreement with creditors while avoiding disadvantages that may arise from legal bankruptcy procedures, such as registration with credit bureaus.

- (2) The Guidelines are applicable to debtors who are unable to repay their existing debt due to the impact of the Great East Japan Earthquake or who are almost sure to lose their ability to make repayment in the near future.
- (3) The creditors to which the Guidelines are applicable are mainly private banks and cooperative –type financial institutions, government-affiliated financial institutions, money lenders and leasing companies.
- (4) In light of the fact that the primary debtors are unable to make repayment due to the impact of a disaster that exceeds the scope of ordinary assumptions, guarantors are not required to perform the obligation under their guarantees except in cases where it is considered reasonable to require the performance of this obligation in view of the extent of their responsibility and the actual circumstances of their lives.
- (5) In principle, debt forgiveness based on the Guidelines does not carry tax implications either for the creditor or for the debtor. (The study group has obtained confirmation from the National Tax Agency on this point.)

\*For details, please visit the website of the [Management Committee of Individual Debtor Guidelines for Out-of-Court Workouts](#). (Available in Japanese only)

## (Related Information)

### ○Additions to the FAQ on the Exceptional Measures for the Financial Inspection Manuals and Guidelines for Supervision and the Clarification of the Implementation of the Manuals and Guidelines in Response to Damage from the 2011 Tohoku-Pacific Ocean Earthquake

The FSA has published additional questions and answers and included them in [the FAQ on the Exceptional Measures for the Financial Inspection Manuals and Guidelines for Supervision and the Clarification of the Implementation of the Manuals and Guidelines in Response to Damage from the 2011 Tohoku-Pacific Ocean Earthquake](#), which was published on May 24, 2011, with regard to the treatment of debt repayment plans based on the Individual Debtor Guidelines for Out-of-Court Workouts.

\*For details, please visit the FSA website and access [Additions to the FAQ on the Exceptional Measures for the Financial Inspection Manuals and Guidelines for Supervision and the Clarification of the Implementation of the Manuals and Guidelines in Response to Damage from the 2011 Tohoku-Pacific Ocean Earthquake \(August 22, 2011\)](#) from the “Press Releases” section. (Available in Japanese only)

### ○Use of Reserve Funds for Restoration and Recovery from the Great East Japan Earthquake in Relation to Debt Restructuring for Individual Debtors

Under the Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake (decided by the Reconstruction Headquarters for response to the Great East Japan Earthquake on July 29, 2011), the government has stated that regarding the application of the Guidelines, “government-wide efforts will be made to implement various measures, including support for the management of the Individual Debtor Guidelines for Out-of-Court Workouts, in a comprehensive manner.”

In light of the above, the government decided to use the fiscal 2011 reserve funds for restoration and recovery from the Great East Japan Earthquake in order to subsidize lawyers’ fees and other expenses to be paid by disaster-stricken debtors when they use the services of the Management Committee for Individual Debtor Guidelines on Out-of-Court Restructuring. (Cabinet decision on August 19)

The reserve funds will be used to subsidize payment to the Management Committee with regard to the expenses associated with the Management Committee’s subsequent support activities, which would have to be paid by disaster-stricken debtors themselves if their cases were treated in the same way as ordinary debt restructuring cases.

- (1) Supporting applications by individual debtors
- (2) Supporting the drafting of debt repayment plans for individual debtors
- (3) Writing reports on debt repayment plans (checking on debt repayment plans)

(4) Supporting the provision of explanations about debt repayment plans

\* For details, please visit the FSA website and access [Use of Reserve Funds for Restoration and Recovery from the Great East Japan Earthquake in Relation to Debt Restructuring for Individual Debtors \(August 19, 2011\)](#) from the “Press Releases” section. (Available in Japanese only)

## Other Topics

### **Publication of “Specific Use of Transferred Money in the DICJ” by the Project Team on Issues Surrounding Transferred Money in the DICJ Stipulated in the Criminal Accounts Damage Recovery Act**

The Criminal Accounts Damage Recovery Act, which was put into force in June 2008, is intended to restore the damage suffered by victims of crimes involving money transfers to illegal deposit and savings accounts, such as “furikome” fraud, by making repayments using the residual funds of those accounts when a certain amount of funds have remained in them.

Since establishing “the Project Team on Issues Surrounding Transferred Money in the DICJ Stipulated in the Criminal Accounts Damage Recovery Act” in September last year, the FSA has conducted a study on specific use of Transferred Money in the DICJ (Deposit Insurance Corporation of Japan), which represents the money that remain after repayment to victims, and measures to improve the rate of repayment to victims while holding hearings with outside experts.

Based on the recognition that it is appropriate to seek opinions from a wide range of parties, including victims, about specific use of Transferred Money in the DICJ, the Project Team published its draft proposal for specific use of such money on July 14 this year, and solicited opinions until July 28. On August 26, the Project Team published “Specific Use of Transferred Money in the DICJ”, the final conclusion which the team has reached in light of the opinions collected through the public comment process.

The two main pillars of specific uses are: 1. scholarships for the children of crime victims and 2. subsidies for organizations providing support for crime victims. In the near future, the FSA will proceed with the selection of organizations that implement such programs.

In addition, as a measure to improve the rate of repayment to victims, the FSA compiled a leaflet that helps victims quickly apply for repayment. The leaflet will be distributed to relevant organizations, including the Local Finance Bureaus, financial institutions and the police.

\*\*For details, please visit the FSA website and access [Project Team on Issues Surrounding the Transferred Money in the DICJ Stipulated in the Criminal Accounts Damage Recovery Act](#). (Available in Japanese only)

### **Results of Public Comments on the Cabinet Office Ordinance (draft) Partially Amending the Rules on Terminology, Formats and Compilation Methods of Consolidated Financial Statements**

The FSA previously permitted Japanese companies to submit consolidated financial statements based on U.S. accounting standards (Generally Accepted Accounting Principles in U.S., or US GAAP) as the disclosure documents required by the Financial Instruments and Exchange Act for a limited period until March 31, 2016. However, the FSA has recently removed this deadline through an amendment (Cabinet Office Ordinance No. 44 promulgated on August 31, 2011) of the Rules on the Terminology, Formats and Compilation Methods of Consolidated Financial Statements (the “Consolidated Financial Statements Rules,” below).

This amendment is in accordance with [Considerations on the Application of IFRS](#), a statement issued on June 21, 2011, by the Minister for Financial Services, which expressed an intention to “remove the deadline for the treatment that allows the use of US GAAP for disclosure purposes only up to the business year ending on or before March 31, 2016, so that the Japanese companies will be able to continue to use US GAAP.”



The provisions on the use of US GAAP were removed and the deadline for the use of US GAAP was set at March 31, 2016 when the provisions that permit Japanese companies to voluntarily apply the IFRS (International Financial Reporting Standards) were introduced under the amended Consolidated Financial Statement Rules that were promulgated on December 11, 2009 (Cabinet Office Ordinance No. 73). At the same time, new application of US GAAP after March 31, 2010 was prohibited.

The latest amendment restores the provisions on the use of US GAAP to its status before the amendment that took effect on December 11, 2009.

Specifically,

- (1) Companies that have registered their U.S. GAAP-based consolidated financial statements (consolidated financial statements prepared in accordance with the terminology, formats and compilation methods required for the issuance of American depository receipts) with the U.S. Securities and Exchange Commission are permitted to continue to use US GAAP as the consolidated financial statements required by the Financial Instruments and Exchange Act.
- (2) Companies that have registered their U.S. GAAP-based consolidated financial statements with the U.S. Securities and Exchange Commission are permitted to commence using US GAAP as the consolidated financial statements required by the Financial Instruments and Exchange Act on or after the enforcement date of the amended Cabinet Office Ordinance (August 31, 2011).
- (3) Companies that have been compiling U.S. GAAP-based consolidated financial statements since before 1977, when the consolidated financial statements framework was introduced in Japan, are permitted to use US GAAP “for a certain period.”

\*For details, please visit the FSA web site and access [Results of Public Comments on the Cabinet Office Ordinance \(draft\) Partially Amending the Rules on Terminology, Formats and Compilation Methods of Consolidated Financial Statements \(August 31, 2011\)](#) from the “Press Releases” section. (Available in Japanese only)

### **Results of Public Comments on the “Draft Cabinet Order for Partial Amendment of the Order for Enforcement of the Financial Instruments and Exchange Act”**

The FSA published the Draft Cabinet Order for Partial Amendment of the Order for Enforcement of the Financial Instruments and Exchange Act on June 24, 2011, and solicited public opinions until July 25, 2011. On August 26, 2011, the FSA published the results of public comments.

The Cabinet Order was decided by the cabinet on August 26, 2011, and was promulgated on August 30, 2011, together with a related Cabinet Office Ordinance. The Cabinet Order and Cabinet Office Ordinance will come into force on December 1, 2011.

The key points of the Cabinet Order and Cabinet Office Ordinance are as follows:

- Based on a policy set forth in “II-1-(5) Response to Possible Unfair Trade Related to Public Offerings” in the [Action Plan for the New Growth Strategy \(published on December 24, 2010\)](#), the following measures will be taken:
  1. All participants in the public offering are prohibited from using the offered shares to settle a short position taken during the pricing period.
  2. Securities companies are obligated to deliver documents intended to make public the content of the regulation mentioned in 1. above before allotting new shares.

For further details, refer to [Results of Public Comments on the “Draft Cabinet Order Partial Amendment of the Order for Enforcement of the Financial Instruments and Exchange Act \(August 26, 2011\)”](#) in the “Press Releases” of the FSA website.. (Available in Japanese only)

## **Supervisory Policy and Basic Policy for Financial Inspections in Program Year 2011**

### **1. Foreword**

At the start of each program year, the FSA creates and publishes:

- (1) supervisory policy for financial institutions by business category to clarify priority items for supervision; and
- (2) a basic policy for financial inspections to clarify the basic framework for inspection management and priority examination items.

In this program year, they were published on August 26.

The details are as follows.

### **2. Supervisory Policy**

#### **(1) Background and Basic Approach**

In creating the supervisory policy, the FSA has overviewed the environment surrounding the financial system with a focus on two points: (1) the Japanese economy is facing a difficult situation due to the effects of the Great East Japan Earthquake., and (2) while economic recovery is expected to continue reflecting supply chain reconstruction, downside risks to the Japanese economy exist due to electricity supply constraints, the impact of the nuclear disaster, fears of downside risks to overseas economies, fluctuations of foreign exchange rates and stock prices, etc.

Particularly, amidst today's advancing globalization, it is important to enhance the resilience of the economic and financial system, so as to minimize effects on our country in the event of any crisis from emerging global economic risks. Therefore, in contributing to the recovery and reconstruction of disaster areas, and to the rehabilitation and development of Japan, financial institutions must practice risk management as part of ensuring financial soundness, while watching overseas economies and financial and capital markets.

In view of this situation, under a basic policy to have Better Regulation become further embedded and deepened, the FSA will continue to take the following approaches as the supervisory authority: (i) financial administration with a high risk sensitivity, (ii) financial administration from a citizen's and user's point of view, (iii) supervisory response with a forward-looking perspective, and (iv) supervisory response which contributes to financial institutions autonomously improving management and making better business judgments. The following introduces supervisory priorities for each category of financial institution.

#### **(2) Characteristics of the Annual Supervisory Policy for Major Banks**

In the Annual Supervisory Policy for Major Banks, the FSA places priority on supervision in the areas of: 1) performing a smooth financial intermediary function, 2) risk management and stability of the financial system, and 3) improving customer protection and convenience for users. Specifically, the characteristics of the policy for the current program year are summarized into the following three points:

Firstly, as a result of the Great East Japan Earthquake, with the understanding that this program year is a "year to test the true value of financial intermediary functions by financial institutions," the policy expands descriptions on smooth financial intermediary functions, including financial responses to the disaster, and emphasize financial institutions' voluntary inspection of IT systems and re-verification of business continuity systems.

Secondly, considering banks' efforts to enhance profitability are evident, the policy emphasizes that in risk management, banks should closely watch various risks, including the impact of the disaster, overseas economic and financial trends, and market and liquidity risks. The policy also makes clear that banks should strengthen their risk governance in the entire group to support profitability-enhancement efforts.

Thirdly, the policy indicates a basic concept of desirable customer protection by financial institutions. It is important for banks, as trusted financial institutions with a highly public nature, to meet customer expectations. Therefore, the policy emphasizes that management should take the lead in promoting various customer protection efforts, including giving consideration to the attributes of banks' customers in the product development stages.

#### **(3) Characteristics of the Annual Supervisory Policy for Regional Financial Institutions**

The Annual Supervisory Policy for Regional Financial Institutions for the current program year mainly specify the following points in addition to the points presented in the Annual Supervisory Policies for Major Banks.

Firstly, the FSA will further promote the integrated supervision of regional financial institutions with local finance bureaus that are directly in charge of supervising these institutions, by sharing the same recognition with each bureau concerning managerial issues that each financial institution has been facing. In doing so, the FSA will, in collaboration with its Inspection Bureau, improve the quality of information provided to local bureaus for off-site monitoring, including the results of data analysis and information on focuses of supervision. The FSA will also endeavor to further advance its supervisory ability by such means as improved business analysis that utilizes the results of interviews and other information reported by local finance bureaus.

Secondly, from the viewpoint of performing a smooth financial intermediary function, based on the July 2011 implementation of the Act for Revision of the Act on Special Measures for Strengthening Financial Functions, the FSA will encourage regional financial institutions to positively consider utilizing this Act, if they make decisions, as their business judgment, that capital reinforcement is appropriate in order to play active roles in the recovery and reconstruction from the earthquake. In particular, regarding cooperative financial institutions, the FSA will carefully monitor the status of central organizations in fully striving to provide business support and complementary functions for the cooperative institutions under its umbrella. The FSA will also achieve closer cooperation with the central organizations.

With regard to region-based relationship banking, it is important for financial institutions to maintain or expand their customer bases and improve their profitability and financial soundness by continuously promoting their initiatives as an entire organization in wielding consulting functions for client enterprises with a longer-term point of view.

Based on these concepts and the supervisory guidelines revised in May, the FSA will use various opportunities, including interviews with top management, to follow up on the status of initiatives for region-based relationship banking in each financial institution, and exchange opinions in-depth so that such initiatives would become more effective for both customers and regional financial institutions.

Thirdly, from the viewpoint of risk management and stability of the regional financial system, the FSA will verify risk management systems which consider stocks that are held for strategic reasons (loss-cutting is relatively difficult, etc.), and credit risk management systems (including active support for fundamental business recovery, etc.) for large borrowers.

Bearing in mind that profits play an important role in preparing against risks, the FSA will work to understand practical initiatives of region-based relationship banking, including support for entry to Asia, etc. and an effort to enhance the earnings base of regional financial institutions from a medium and long-term perspective, etc.

With regard to cooperative financial institutions, the FSA will carefully watch their efforts to maximize the demonstration of financial intermediation functions considering the basic characteristics of cooperative organization financial institutions.

#### **(4) Characteristics of the Annual Supervisory Policy for Financial Instruments Business Operators, etc.**

In the Annual Supervisory Policy for Financial Instruments Business Operators, etc., the FSA places priority on supervision on the areas of: (1) appropriate functioning of market intermediation, (2) risk management and financial system stability, and (3) improving customer protection and user convenience. Specifically, the Policy for the current program year is summarized into the following three points:

Firstly, it is important for financial instruments business operators, etc. to appropriately perform market intermediation functions as market players in order to enhance confidence in Japanese markets and help form fair prices for financial instruments. In this sense, the Policy makes clear that the FSA will verify internal control systems, including systems to examine public equity offerings, and make an effort to purge antisocial forces.

Secondly, it is growing more important for financial instruments business operators, etc. to thoroughly perform high-quality risk management as their business environment remains in a severe condition due to the current market slump, etc. In this sense, the Policy emphasizes that the FSA will encourage securities companies to carry out group-wide integrated risk management and assess the situation of various funds, including hedge funds.

Thirdly, as for customer protection and user convenience on the part of financial instruments business



operators, etc., the FSA will prioritize the promotion of solicitation, explanations and after-sale services that meet the purpose of the customer, under the same approach as in the Supervisory Policy for Major Banks, etc.

#### **(5) Characteristics of the Annual Supervisory Policy for Insurance Companies, etc.**

In the Annual Supervisory Policy for Insurance Companies, etc., the FSA, in view of responses to the Great East Japan Earthquake, points to the importance of the role that the insurance industry plays in stabilizing people's lives and economic activities by providing insurance coverage. In addition, the policies set forth the following new points:

Firstly, the FSA will verify asset liability management (ALM) and risk management systems through interviews, to encourage established enterprise risk management (ERM) in conformity to their business strategies. For insurance groups, the FSA will focus on monitoring group-wide integrated risk management systems. The FSA will also further study economic-value based solvency regimes in cooperation with professional organizations, while preparing for the smooth introduction of solvency margin ratios with stringent risk measurement.

Secondly, for insurance payment management systems, the FSA will place priority on overseeing whether their systems continue to fully demonstrate their functions after their improvement. The FSA positively evaluates insurers' responses to the earthquake and will encourage their positive approach from a policyholder's perspective to be continued in peacetime as well. Regarding insurance distribution systems, the FSA will additionally monitor whether explanations which fit customers' needs, knowledge and experiences are provided properly and whether insurance agencies are guided and managed by an insurance company to purpose.

Thirdly, for approved specified insurance providers, the policies make clear that the FSA will smoothly process applications for approval and implement careful supervision of approved providers. For product examinations, the policies state that the FSA, based on the supervisory guidelines, will pay attention to enabling fast product revisions, while ensuring the effectiveness of examinations.

### **3. Basic Policy for Financial Inspections**

The basic objectives in the Basic Policy for Financial Inspections are: (i) to examine whether financial institutions have developed procedures and arrangements to play a role in smooth and appropriate financing to borrowers (including disaster victims) and to provide good-quality financial products and services to users, and also (ii) to examine whether financial institutions have developed a sufficient financial base, and a robust and comprehensive risk management system to play such a role.

The following outlines priority inspection items under the basic policy:

#### **(1) Development of a Governance System**

The leadership and commitment of management based on proper business management is essential in order to exercise the financial intermediary function, thorough legal compliance and protection of customers, and accurate management of various risks. Therefore, the FSA will focus on examining whether financial institutions adequately analyze and deliberate on strategic objectives based on their business management policies in light of current business conditions and medium-term business prospects, etc.

As financial holding companies' group governance have grown more important, the FSA will focus on examining whether these companies sufficiently perform group governance functions for their subsidiaries under their management responsibility.

Furthermore, unforeseen events, such as the Great East Japan Earthquake and large IT system failures, do sometimes occur. In view of this, the FSA will also focus on examining whether management teams have responsibly developed business continuity arrangements that take into account major risks.

#### **(2) Further Promotion to Facilitate Financing**

Expiration of the Act on Temporary Measures to Facilitate Financing for SMEs, etc. was extended by one year until March 31, 2012. In view of this, the FSA will continue to focus on examining, from the previous program year, whether financial institutions have developed procedures and arrangements to sufficiently demonstrate their consulting function, and their smooth and active financial intermediary function, based on appropriate risk

management.

### **(3) Legal Compliance System**

The FSA will focus on examining whether financial institutions have developed procedures and arrangements for personal identification and suspicious transactions, to prevent transactions with anti-social forces and to prevent anti-social forces using them for the purpose of providing funds to terrorists or money laundering, etc.

Financial institutions' wholesale business involving arranging syndicated loans and asset securitization, etc., has been expanding recently. As part of this, the FSA will focus on examining whether financial institutions have developed procedures and arrangements for prior investigation of the legality of transactions in new business and complex schemes, etc.

### **(4) Protection of Customers and Improvement of Users' Convenience**

Financial institutions' protection of their customers and improvement of their users' convenience contribute not only to the sound development of the national economy, but are also important for the stability of the financial system, as they increase people's trust. Especially with customer protection, financial institutions are expected to go beyond simply complying with laws and regulations, by being aware of the level of protection sought by customers, and meeting those expectations as trusted financial institutions with a very public aspect.

Therefore, the FSA will focus on examining whether financial institutions have developed procedures and arrangements related to: (i) thorough management of information on customers, etc., (ii) ensuring appropriate and safe financial transactions, (iii) active responses to consultation requests and complaints (including responses to the financial ADR system), and (iv) appropriate explanations to customers.

Furthermore, the FSA will positively appreciate any excellent initiatives of a financial institution's efforts to improve convenience for users.

### **(5) Development of a Risk Management System**

#### **○ Comprehensive risk management**

As transactions made between financial institutions are becoming more and more advanced and complex due to the evolution of financial engineering, financial institutions need to develop their risk management systems while taking into consideration the possibility that risks that do not fit any conventional risk category will arise, and that risks will amplify and spread in a chain reaction as a result of stress events in the market.

Therefore, the FSA will focus on examining whether financial institutions: (i) have developed comprehensive risk management systems that suit their sizes, characteristics and risk profiles, (ii) have developed procedures and arrangements to appropriately manage major risks that must be considered in Basel II's second pillar, such as interest rate risks on the banking account, (iii) have developed procedures and arrangements to comprehensively manage diverse risks, based on their understanding that risk measurement models have limits and weak points caused by assumptions and calculation methods, etc., and (iv) have conducted strict stress tests (for example, cases with simultaneous multiple phenomena, such as higher interest rates, stronger yen, lower stock prices) and used them in business decisions.

#### **○ Credit Risk Management**

In view of the importance of credit risk management in financial institutions, the FSA will focus on examining whether they have developed procedures and arrangements for: (i) appropriate screening and credit management for large borrowers, etc. based on sufficient understanding of the actual status of the borrowers, (ii) appropriate management of risks of credit concentration in specific company groups and industries, etc., and (iii) practical early warning for debtors to review credit ratings based on risk information in a timely and appropriate manner.

For housing loans, in view of rising competition among financial institutions, the FSA will examine whether they have developed procedures and arrangements for managing risks, including the effect of seasoning.

#### **○ Market Risk Management**

In view of recent financial and capital market trends, the FSA will focus on examining whether financial institutions have developed procedures and arrangements to: (i) effectively manage risk and loss limits, (ii)

comprehensively consider risks in the management of financial instruments, bonds and stocks, etc. that contain diverse risks, and (iii) accurately understand interest rate risks that come from market movements.

○ Liquidity Risk Management

In the recent global financial crisis, Japanese financial institutions sometimes had problems obtaining foreign currency liquidity. In view of this, for Japanese financial institutions with overseas locations and foreign banks with locations in Japan, the FSA will focus on examining whether they appropriately manage their liquidity risks on a global basis.

○ Information Technology System Risk Management

IT systems of financial institutions are at the core of settlement systems, and have very public aspects as social infrastructure. If a failure occurs, it would not only be inconvenient for at users but also it would have a significant effect on society, and could result in the financial institution losing credibility. In view of this situation, the FSA will focus on examining whether management teams are aware of the importance of IT system risk management, including operating IT systems stably.

○ Group-wide risk management of major financial groups

With attention focused on foreign economic conditions, and financial and capital market movements, major financial groups are aiming to expand their profit bases, and are expanding their foreign locations, especially in Asia. Cooperation is also increasing between banks and securities companies. Therefore, the FSA will focus on examining whether financial institutions have developed comprehensive risk management systems as a group on a global basis.

○ Risk Management in Insurance Companies

Based on the revised Insurance Inspection Manual, the FSA will focus on examining: (i) whether there has been progress in developing and establishing enterprise risk management systems, (ii) whether procedures and arrangements have been developed for comprehensive asset liability management (ALM) corresponding to liability characteristics, under the solid leadership and commitment of management personnel, and (iii) whether stress tests that suit domestic and foreign financial and capital market trends are being conducted, and whether these are used in management decisions.

#### **4. Conclusion**

The above has outlined the Supervisory Policy and the Basic Policy for Financial Inspections for the current program year. Based on the Supervisory Policy, the Supervisory Guidelines, the Basic Policy, etc., the FSA would like to continue its efforts this year to communicate with financial institutions and exercise effective inspection and supervision from the viewpoint of users and citizens.

\* For details, please visit the FSA website and access [Supervisory Policy and Basic Policy for Financial Inspections in Program Year 2011 \(August 26, 2011\)](#) from the “Press Releases” section. (Available in Japanese only)

## Notices

### ● 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 \(SESC\)](http://www.fsa.go.jp/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](https://www.fsa.go.jp/sesc/watch/) 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.

## 【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.

**Q1:** I will ask you about deposit insurance. There has been a media report that the government is considering reducing the insurance premium rate in the next fiscal year. Could you tell me about the current status and future schedule of the consideration?

A1. It is not true that the government has started considering reducing the deposit insurance premium rate for the next fiscal year. Between around fiscal 1996 and fiscal 2009, deficits totaling 7.5 trillion yen probably arose in Deposit Insurance Corporation's general account. Those cumulative deficits arose because of the financial crisis, and I understand that policy reserves totaled 137.3 billion yen as of fiscal 2010.

I think that we need to consider future insurance premium rates not only in light of the current financial condition of Deposit Insurance Corporation but also from medium- and long-term perspectives, including Deposit insurance Corporation's long-term financial condition, the current and future stability of Japan's financial system, individual financial institutions' ability to bear the burden of premium payments, and the need to avoid imposing an excessive burden.

[\[Extract from the press conference following the Cabinet meeting on August 19, 2011\]](#)

**Q2:** The application of the Guidelines of Workout for Restructuring Debt Owed by Individual Debtors started. Could you comment on that?

A2. Since the earthquake occurred, I have repeatedly faced tough questioning at Budget Committee sessions as to how to deal with the double loan problem. The double loan problem refers to cases in which small and medium-size enterprises have lost new machines and factories as a result of the disaster. Regarding the Guidelines, the double loan problem refers to cases involving individuals, mainly those who have lost houses, although some individuals are business owners.

The application of the Guidelines of Workout for Restructuring Debt Owed by Individual Debtors started on August 22, as was pointed out. From the perspective of promoting support for the application of the Guidelines, the government will subsidize fees paid to lawyers who help disaster-stricken debtors use the service of the Management Committee of Individual Debtor Guidelines for Out-of-Court Workouts, a third-party committee. There are about 300 lawyers willing to cooperate with the management of the guideline. I hear that usually, such lawyer service costs 290,000 yen per lawyer. As this is a service related to post-disaster restoration work that serves public interests, I hear that the fee has been discounted to around 100,000 yen. Even so, lawyer fees are necessary, so the government will subsidize the payment of lawyer fees and fees paid to administrative staff and certified public accountants cooperating with the management of the guideline, and the government provides support to efforts to raise awareness about this guideline through public relations (PR) activities.

I hope that the Guidelines will facilitate smooth debt workouts and help disaster victims make a fresh start toward reconstruction.

[\[Extract from the press conference following the Cabinet meeting on August 23, 2011\]](#)



## Press Releases in August

August 2	<a href="#">Access</a>	Administrative actions against Sun Flower Investment Co.
	<a href="#">Access</a>	Agenda for the 2nd meeting of the Working Group on Insider Trading Regulations, Financial System Council
August 3	<a href="#">Access</a>	Draft Cabinet Office Ordinance Partially Amending the Rules Terminology, Forms and Preparation of Financial Statements published
August 5	<a href="#">Access</a>	Approval of business enhancement plans by North Pacific Bank, Fukuho Bank and Minami Nippon Bank
	<a href="#">Access</a>	Progress report on the implementation of the business enhancement plan by Yamanashi Kenmin Shinkumi Bank and business enhancement guidance plan by Shinkumi Federation Bank (for year to March 2011)
	<a href="#">Access</a>	Progress report on the implementation of business enhancement plans by Kiyo Financial Group Inc., Kiyo Bank and Howa Bank (for year to March 2011)
	<a href="#">Access</a>	Progress report on the implementation of business enhancement plans by 10 regional banks (for year to March 2011)
August 9	<a href="#">Access</a>	Draft Cabinet Office Ordinance Partially Amending the Cabinet Office Ordinance on Disclosure of Corporate Information, etc. – Results of public comments, etc.
	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for insider trading by the recipient of information from a Panasonic Electric Works Co. employee
	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for insider trading by a Panasonic Electric Works Co. employee
	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for failure to submit a report on changes concerning Morgan Stanley Investment Company
	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for failure to submit a large shareholdings report concerning Morgan Stanley Asset & Investment Trust Management Co.
	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for failure to submit a large shareholdings report concerning Morgan Stanley Investment Management Limited
August 12	<a href="#">Access</a>	Administrative actions against ShinTokyo Securities Co.
August 19	<a href="#">Access</a>	FSA publishes the status of loans held by all banks as of end-March 2011, based on the Financial Reconstruction Act
	<a href="#">Access</a>	Use of Reserve Funds for Restoration and Recovery from the Great East Japan Earthquake in relation to Debt Restructuring for Individual Debtors
August 22	<a href="#">Access</a>	Additions to Frequently Asked Questions on Clarification of Special Measures in the Financial Inspection Manual and Supervisory Guidelines in relation to the 2011 Great East Japan Earthquake, and How They Operate
August 24	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for falsification of financial statements, etc. concerning Tohken Co.
	<a href="#">Access</a>	Decision on an order to pay an administrative monetary penalty for failure to report bond subscriptions concerning Toa Energy Co.
August 26	<a href="#">Access</a>	Agenda for a joint meeting of the Business Accounting Council and the Planning and Coordination Committee

	<a href="#">Access</a>	Publication of “Specific Use of Transferred Money in the DICJ” by the Project Team on Issues Surrounding Transferred Money in the DICJ Stipulated in the Criminal Accounts Damage Recovery Act
	<a href="#">Access</a>	Results of Public Comments on the “Draft Cabinet Order for Partial Amendment of the Order for Enforcement of the Financial Instruments and Exchange Act”
	<a href="#">Access</a>	Supervisory Policy and Basic Policy for Financial Inspections in Program Year 2011
August 29	<a href="#">Access</a>	Relevant draft Orders and Cabinet Office Ordinances for enforcement of the Act Partially Amending the of Deposit Insurance Act published
August 30	<a href="#">Access</a>	Updated Administrative Action Cases
August 31	<a href="#">Access</a>	Relevant draft Orders and Cabinet Office Ordinances for the 2011 Financial Instruments and Exchange Act revisions (to be enforced within six months) published
	<a href="#">Access</a>	Partial revision of the FSA notice on the designation of credit rating corporations (designation of groups with regard to explanatory items for unregistered ratings)
	<a href="#">Access</a>	Updated money lending industry information
	<a href="#">Access</a>	Draft Cabinet Office Ordinance Partially Amending the Rules on Terminology, Forms and Preparation of Financial Statements) – Results of public comments, etc.
	<a href="#">Access</a>	is a link to the webpage on which the information is published.

## Web Pages Most Accessed in August

This section shows the most-accessed August Press Releases webpages.

To see past most-accessed webpages, visit the FSA website’s [webpages most accessed \(past data, etc.\)](#)

(Available in Japanese only)

- [Financial institutions being inspected by the FSA](#)
- [List of licensed \(registered\) financial institutions](#) (English)
- [Financial Facilitation Measures for Small and Medium-sized Enterprises](#)
- [Supervisory Policy and Basic Policy for Financial Inspections in Program Year 2011](#)
- [Status of responses to the recent earthquake by the FSA, Local Finance Bureaus and Finance](#)
- [Draft Cabinet Office Ordinance Partially Amending the Rules on Terminology, Forms and Preparation of Financial Statements\) published](#)
- [Great East Japan Earthquake – Related Information We are putting all efforts into financial countermeasures](#) (English)
- [Updated Administrative Action Cases](#)
- [Draft Cabinet Office Ordinance Partially Amending the Cabinet Office Ordinance, etc. on Financial Instruments Business Operators, etc. published](#)
- [“Considerations on the Application of IFRS” Statement by Shozaburo Jimi, Minister of State for Financial Services \(June 21, 2011\)](#) (English)