

Items	Timing of Implementation and Relevant Information
<p>1. Framework for a new financial system</p> <p>(1) Developing a financial system which the people can rely on without anxiety</p> <p>(a) Financial administration for the people</p>	
<p>(b) Securing the stability of the payment and settlement functions</p>	<p>A draft law has been submitted to the Diet for deliberation in the current Extraordinary Diet session.</p>
<p>(c) Enhancing the monitoring system of the FSA</p>	<p>"Task Force on Financial Issues" will be established by the end of this year. Members of the Task Force will be selected from CPAs, lawyers, academics, relevant persons from industry and businesspersons in financial sector.</p>
<p>(2) Due consideration to loans to small- and medium-sized enterprises (SMEs)</p> <p>(a) Entry of new lenders to SMEs</p>	<ul style="list-style-type: none"> • Approval of banking license will be expedited immediately. • Necessary examination will be undertaken expeditiously for establishing "Small-and Medium-Sized Enterprises Loan Trust Companies (J loan)". In addition, issues on trust business will be examined broadly by the Financial System Council.
<p>(b) Developing financial schemes to support revival of SMEs</p>	<p>Establishment of trust-type schemes to revitalize SMEs (schemes to utilize the trust function of the RCC) and clarification of "Measures considered as removal of assets from the balance sheet" were announced (November 22).</p>
<p>(c) Issuing a "Business Improvement Administrative Order" to a bank which has not achieved its plan for lending to SMEs</p>	<p>This policy will be applied from the settlement of accounts of March 2003.</p>
<p>(d) Ensuring inspections which take account of SMEs' actual conditions</p>	<ul style="list-style-type: none"> • Inspections will be conducted utilizing information including that provided through "Hotline for credit crunch and credit withdrawal" with fully taking account of SMEs' actual conditions of management. • Briefing sessions on the "Supplement to the Financial Inspection Manual: Treatment of Classifications regarding Credits to Small- and Medium-Sized Enterprises" are being held intensively.
<p>(e) Strengthening the monitoring system on financing to SMEs</p> <p>Creation of a "Hotline for credit crunch and credit withdrawal"</p>	<p>The Hotline has been set up within the FSA (October 25) and Local Finance Bureaus (November 1).</p>

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Implementation of “Inspections on credit crunch and credit withdrawal”	<ul style="list-style-type: none"> • A system to analyze information provided through the Hotline was developed. Such information is to be utilized in inspection and supervision. In case that the FSA identifies serious problems, the agency will order the financial institution in question to submit reports. If necessary, it would conduct inspections and take appropriate administrative measures.
<p>(3) Termination of Non-Performing Loans Problems towards FY 2004</p> <p>(a) Strengthening the support system in full cooperation between the Government and the Bank of Japan</p> <p>Provision of liquidity through special loans by the BOJ</p>	<p>This measure will be taken promptly as needed.</p>
<p>Injection of public funds based on Deposit Insurance Law</p>	<p>This measure will be taken promptly as needed.</p>
<p>Dispatch of de facto resident inspectors</p>	<p>Concrete ways of dispatch are examined within this fiscal year. The FSA takes necessary measures, while paying attention to the Banking Law, the Commercial Code and relevant regulations.</p>
<p>(b) Managerial reform of “ Special Support Financial Institutions”</p> <p>Pursuit of responsibilities of the management</p>	<p>The responsibilities will be clarified rigorously.</p>
<p>Appropriate management of accounts (a "New account", a "Revival Account")</p>	<p>A concrete scheme will be developed within this fiscal year.</p>
<p>Monitoring of business plans</p>	<p>"Task Force on Financial Issues" will be established by the end of this year.</p>
<p>(c) Establishment of a new public funds scheme</p>	<p>The Financial System Council will begin to discuss the necessity of a new scheme and other relevant issues and reach a conclusion within about six months.</p>

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<p>2. New framework for corporate revival</p> <p>(1) Corporate revival through “Special Support”</p> <p>(a) Promoting removal of loans from balance sheets</p>	<p>Promotion will be carried out adequately.</p> <p>Fiscal measures will be examined with assessing the balance of accounts for purchase of banks' loan assets by the RCC based on Article 53 of the Financial Reconstruction Law.</p>
<p>(b) Utilization of self-assessments as reference information in judging fair value</p>	<p>The concept of fair value will be elaborated by the end of this year.</p>
<p>(c) Credit Guarantee system for DIP Finance</p>	<p>The Small and Medium Enterprise Agency submitted a draft law to the Diet in the current Extraordinary Diet session. The law was enacted (November 15).</p>
<p>(2) Further utilization of the RCC and corporate revival</p> <p>(a) Strengthening corporate revival function</p>	<p>• Measures to strengthen the RCC’s corporate revival function was announced (November 22).</p> <p>• A basic policy will be formulated and announced within this year to promote collections and sales of loans purchased by the RCC.</p>
<p>(b) Enhancing the cooperation with corporate reconstruction funds</p>	
<p>(c) Developing a market for loans</p>	<p>The FSA requested the Japanese Bankers Association to examine a system to develop a market for loans (November 22). Other relevant institutions are also requested to join in such efforts.</p>
<p>(d) Enhancement of the securitization function</p>	<p>A basic policy will be developed and announced by the end of this year</p>
<p>(3) Developing favorable environments for corporate revival</p>	<p>The Strategic Headquarters for Industrial Revival and Employment Measures asked the relevant ministries and the Cabinet Office to take necessary actions (November 12).</p>
<p>(a) Developing favorable environment for supporting corporate revival</p>	
<p>(b) Responding to the excess-supply problem</p>	
<p>(c) Developing Guidelines on Prompt Business Revival</p>	
<p>(d) Measures to deal with the stock price volatility risk</p>	
<p>(e) Expectation of further monetary easing</p>	
<p>(4) New framework for corporate and industrial revival</p>	<p>• The Strategic Headquarters for Industrial Revival and Employment Measures was established (November 12).</p> <p>• A preparatory office for establishing "Institution for Industrial Revival" (provisional name) was set up (November 8).</p>

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<p>3. Framework of the New Financial Administration</p> <p>(1) Tightening assessment of assets</p> <p>(a) Review of assessment standards on assets</p> <p>Acceptance of DCF type methods on provisioning</p>	<ul style="list-style-type: none"> • The FSA requested the Japanese Institute of Certified Public Accountants (JICPA) to examine relevant issues (November 12). The JICPA has set up a special team and examines promptly rational calculation methods based on DCF in order for such DCF type methods to be available for the settlement of accounts of March 2003. • The FSA established a liaison group to coordinate views with the JICPA from the standpoint of supervisory and inspection authority (Announced on November 15). The Inspection Manual will be amended in order for the amended manual to be available for the settlement of accounts of March 2003.
<p>Review of the criteria of average remaining period of loans to figure out provisioning</p>	<ul style="list-style-type: none"> • The FSA requested the JICPA to examine relevant issues (November 12). The JICPA has set up a special team and examines them promptly. • The liaison group examines relevant issues from the perspective of the treatment of average remaining period in business accounting standards and impacts on the Japanese finance (periods of lending contracts, financing to SMEs) and coordinates views.
<p>Harmonized classification of large borrowers among banks</p>	<p>The FSA will develop an appropriate system for harmonization within this year. It will be utilized in inspections from January 2003.</p>
<p>Evaluation of Debt Equity Swaps (DEs) at fair value</p>	<p>The Major banks and the JICPA are requested to apply fair value regardless of the timing of transactions.</p>
<p>Rigorous examination of reconstruction plans</p>	<p>A special team which includes knowledgeable experts in corporate revitalization, CPAs, lawyers, real estate appraisers will be established within this year. From January 2003, this team will give information and advice to other inspectors. It will also participate in inspections.</p>
<p>Rigorous examination of assessment of collateral</p>	<p>This measure will be applied from the settlement of accounts of March 2003.</p>
<p>(b) Conducting another round of special inspections</p>	<p>Special inspections will be carried out towards the settlement of accounts of March 2003.</p>
<p>(c) Disclosure of the gap between major banks' self-assessment and the result of FSA's inspections</p>	<p>The FSA disclosed the gap between major banks' self-assessment and the result of FSA's inspections (November 8).</p>
<p>(d) Strengthening administrative measures against inadequate correction of self-assessments</p>	<p>The Guidelines for Supervision will be amended within this year.</p>

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(e) Declaration by the management regarding the accuracy of financial statements	The Financial System Council is deliberating relevant issues for listed companies and others (it will come to a conclusion within this year). The relevant cabinet ordinances will be amended based on the conclusion in the Council within this fiscal year. The major banks are requested to implement this measure from the accounting settlement of March 2003.
(2) Enhancing capital adequacy (a) Tax reform for enhancing capital adequacy Introduction of a new tax measure which enables provisioning to be recognized as tax-losses Removal of the freeze on the refund carry-back system Consideration of the extension of carry-over period for tax deficit	Requests in this regard were submitted to the relevant ministries and the Cabinet Office (November 7).
(b) Proper calculation of deferred tax assets	<ul style="list-style-type: none"> • The FSA requested major banks to assess deferred tax assets rigorously (November 11). • The Financial System Council starts prompt deliberation on the upper limit of deferred tax assets from the broad viewpoints such as legal, accounting and tax system, within this year.
(c) Verification that deferred tax assets are reasonably assessed	The FSA asked the JICPA to audit deferred tax assets strictly (November 12). The FSA verifies such assets rigorously through inspections.
(d) Review of increased capital through the allocation of new stocks to debtors	This measure will be implemented within this fiscal year. The FSA will improve the Guidelines for Supervision to be observed in carrying out capital increase through the allocation of new stocks to debtors. Compliance is to be checked through inspections and supervision.
(e) Review of the issues on capital adequacy of banks	The Financial System Council examines relevant issues in a expeditious manner.
(f) Introduction of external auditing of capital adequacy ratio	This measure will be applied from the settlement of accounts of March 2003. The format of the business report defined in the Ministerial Ordinance of the Banking Law and relevant regulations will be reviewed.

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(3) Strengthening governance (a) Function of external auditors	The FSA requested the JICPA to conduct this measure (November 12).
(b) Conversion of preferred stocks into common stocks	<p>The operational guidelines will be clarified within this fiscal year to strengthen governance of banks which received capital injection based on the Early Strengthening Law and the Stabilization Law.</p> <ul style="list-style-type: none"> • The FSA examines concrete conditions for converting preferred stocks into common stocks and will clarify the operational guidelines on this matter.
(c) Issuance of a "Business Improvement Administrative Order" to a bank which has not achieved its rationalization plan	<ul style="list-style-type: none"> • The Guidelines will be reviewed in line with the following ideas: where a bank has not achieved its rationalization plan submitted to the FSA, the FSA is to take appropriate administrative measures, depending on the causes and extent of failure of its achievements; and where the bank can not show an improvement in its performance, even after the administrative measures are issued, the FSA will take rigorous measures including making clear the responsibility of the management.
(d) Rigorous review of prompt corrective action framework	<ul style="list-style-type: none"> • The Guidelines for Supervision will be amended within this year. The period for a financial institution (to which a prompt corrective action order is issued) required to improve capital adequacy ratio will be shortened from three years to one year. • The FSA continues to examine promptly relevant issues while taking account of regional financial institutions.
(e) Utilization of the "Early Warning System"	The Guidelines for Supervision will be amended within this year.
4. Future Steps	As to the disposal of NPLs of small- and medium-sized and regional financial institutions, the FSA aims to develop an "Action Program" within this fiscal year, after examining appropriate models of "Relationship Oriented Banking" in the Financial System Council.