

The Action Plan for the New Growth Strategy (Interim Draft)

In the New Growth Strategy – Blueprint for Revitalizing Japan (Cabinet Decision dated June 18, 2010), Financial Strategy is positioned as one of the seven strategic areas, and it poses two roles for the financial sector in the growth strategy.

The first role is to support the real economy. Amidst the low birth rate, the increasingly aging society, and the economy's low growth rate, the financial sector is expected to provide more solid support to the real economy and enterprises, by providing suitable investment opportunities to the household sector, and diverse fundraising methods to enterprises.

The second role is to lead the economy as a growing industry itself. Japan has a household sector with over 1,400 trillion yen of financial assets, advanced human resources and technology, and a stable judicial system, and adjoins the Asian economic region which is growing remarkably. There is a need to utilize these favorable conditions to develop and add extra value to Japan's finance industry as a growth industry.

This action plan summarizes measures for the FSA to take in the future to develop an environment for Japan's financial sector to fully exercise these two roles, showing the path to achieve these in three pillars:

- (1) Appropriate supply of funds related to the company's size and growth stage
- (2) Financial sector serving as a bridge between Asia and Japan
- (3) Asset management capable of effectively utilizing the nation's assets

The FSA intends to quickly implement the measures incorporated in this action plan, with an aim to realize the New Growth Strategy.

I. Appropriate Supply of Funds Related to the Company's Size and Growth Stage

In order for the financial industry completely fulfill its role of supporting the real economy, the FSA will promote the achievement of a diverse and smooth supply of funds to suit the needs of small- and medium-sized enterprises (SMEs), growing companies, etc.

1. Facilitated Supply of Funds for Small- and Medium-sized Enterprises (SMEs), etc.

(1) Promotion of Region-based Relationship Banking

It is important that regional financial institutions take a medium- and long-term perspective, with the entire organization continually working to demonstrate a consulting function in order to support the business improvement and business expansion of client companies, actively participate in comprehensive revitalization of communities, and link this to maintaining and expanding their own customer bases, and enhanced profitability and financial soundness.

To further promote such voluntary efforts by regional financial institutions, the FSA will review supervisory guidelines in order to clarify basic concepts for supervision and points to observe under supervision, and aims to implement them in FY2010. In addition, the FSA will study measures to motivate such efforts and to develop the environment (i.e., symposia, awards, etc.), and aims to obtain conclusions in FY2010.

(2) Review of Guidelines of Accounting Standards for SMEs and Internal Controls Reporting System, including that for SMEs

The FSA will support the activities of the Accounting Standards Board of Japan (ASBJ) and other private sector accounting bodies, in, for example, reviewing guidelines of accounting standards which suit the actual circumstances of small and medium enterprises.

To encourage internal controls reporting systems which suit the actual situations of companies including SMEs, and facilitate internal controls using companies' innovative ideas, the FSA will review related Cabinet Office Ordinances, review the Standards and Practice Standards of internal controls reporting, and create a casebook of effective internal control reporting practices for SMEs with a target of FY2010.

(3) Expansion of a Scope of the Act on Specified Commitment Line Contract

Looking at the development of commitment line contracts, the number of users and balances are both increasing, and we can see that they have taken root to a certain degree. Considering this, the FSA will work to expand a scope of corporations under the act to include those with amounts of net assets over one billion yen and limited liability

companies, and to urgently submit a related bill to the Diet.

In expanding a scope of the act on specified commitment line contracts, the FSA will perform necessary inspections and supervisory actions, from the perspective of curbing the abuse of the dominant positions of financial institutions.

(4) Lifting a Ban on Finance Leases and related Transactions by Banks, Insurance Companies, etc.

Allowing the main bodies of banks and other financial institutions to perform finance lease transactions and the intermediation of similar transactions may contribute to enhanced convenience of capital raising for borrowers such as SMEs, and diversify the organizational forms of banks and other financial institution groups. From this perspective, the FSA will work to allow the main bodies of banks and other financial institutions to perform finance lease transactions and the intermediation of similar transactions, and to urgently submit a related bill to the Diet.

In lifting a ban on finance leases and related transactions by banks, insurance companies, etc., the FSA will perform necessary inspections and supervisory actions, from the perspective of curbing the abuse of the dominant positions of banks and other financial institutions.

(5) Review of Habitual Practice of the Third Party Joint and Several Guarantee (except managers)

In order to establish financing habitual practice which in principle do not demand the third party joint and several Guarantee (except managers) and to promote action that considered guarantors' assets and revenues of the point in time to carry out guarantee, the FSA will study points to observe under supervision in corporation with ministries concerned and revise supervisory guidelines in FY2010.

2. Appropriate Supply of Risk Money for Growing Companies, etc.

(1) Restoring Confidence in and Stimulation of Markets for Growing Companies

Japan does not necessarily ensure that markets for growing companies sufficiently provide the fundraising needed by companies with growth potential. In addition, there have been recent cases which damage confidence from investors, such as false statements in financial statements.

In this environment, various issues which should be addressed were arranged into four categories: (1) Lack of measures for pre-listing companies to encourage listing on markets for growing companies, (2) Lack of confidence and sense of burden at the listing examination stage, (3) Lack of support for listed companies and lack of information delivered from listed companies, (4) Unclear role for markets for growing companies. On the basis of these points, the FSA considers nine items which should be implemented to

steadily address these issues (refer to Annex).

The FSA will request market participants, such as each exchange, Japan Securities Dealers Association and the Japanese Institute of Certified Public Accountants to actively consider more specific details through studies of their own and will also seek to have them publish a timetable in the first half of 2011, with clear implementation deadlines for specific actions. The FSA will coordinate market participants so that they will proceed in desirable directions overall and set up a conference composed of the FSA and market participants.

(2) Lifting a Ban on Subordinated Loans, etc. by Subsidiaries of Banks and Insurance Companies which invest in Venture Companies, etc.

In order to expand investment and loans for venture companies and business revitalization companies, the FSA will take steps to add new stock subscription rights and loans including subordinated loans, as a means of providing funds by specialized investment subsidiaries of banks and insurance companies. To do this, it will amend related Cabinet Office Ordinances in 2010.

(3) Promotion of Financial Institution's Efforts Such as Loans in Consideration of Growth Potential of Companies.

In order to promote efforts, such as loans, by financial institutions with focuses not only on the company's business conditions and financial details, but also on its future potential, the FSA will consider points to observe under supervision and necessary supervisory actions on the development of procedures and arrangements for proactive efforts to facilitate financing, and revise supervisory guidelines in FY2010.

(4) Encouragement of Proactive Utilization of the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (BOJ's scheme)"

"Fund-provisioning measure to support strengthening the foundations for economic growth" was introduced in June 2010 as a temporary measure by the Bank of Japan in order to provide financial support for voluntary efforts by private financial institutions to strengthen the foundations for economic growth. In July 2010, the FSA sent to each financial industry organization a written request to consider active use of this measure. This system is set to expire at the end of FY2011. Until that time, the FSA will understand the proper use of the system through holding hearings with financial institutions.

(5) Clarification of Application of the Financial Instruments and Exchange Act to Partnerships based on the Civil Code

Some partnerships based on the civil code differ in character from group investment schemes which are subject to the regulations of Financial Instruments and Exchange Act (FIEA), in that all the participating specialist businesses jointly invest capital and perform

business aiming at secondary earnings deriving from business which partnerships perform in addition to dividends corresponding to shares of capital invested. Such partnerships include most of the production committees of contents. FIEA does not necessarily clarify that shares of investment in such partnerships do not correspond to Securities under FIEA. Therefore, the FSA will work to amend Cabinet Office Ordinances related to the FIEA in order to clarify this issue, with a target of the first half of FY2011.

3. Flexible Supply of Funds, etc.

(1) Development of Debt Capital Markets for Professional Investors

If debt capital market for professional investors is developed, such as those in the Euro MTN market under a flexible disclosure regime which reduces the issuance cost, it will provide more options for companies in fundraising.

At present, in order to promote this vision, TOKYO AIM exchange is considering creating a bond market, the TOKYO PRO-BOND Market, for professional investors to enable timely issuance of debt instruments by companies through means such as providing flexible disclosure regime.

When TOKYO AIM exchange submits an application for authorization in FY2010, the FSA will examine it appropriately to promote establishment of the new market.

Furthermore, the FSA will continuously encourage market participants to facility the development of domestic debt capital market.

(2) Review of Disclosure Rules and Operations

While considering the perspectives of capital market needs and investor protections, from the perspective of lightening excess burdens on companies, the FSA will study to review the disclosure system, such as the obligation to deliver the Prospectus pertaining to the Shelf Registration Supplements. It will urgently work to submit a related bill to the Diet, and amend a series of related Cabinet Orders and Cabinet Office Ordinances as needed, with a target of FY2011.

(3) Promotion of Addressing and Consideration about the Disclosure of Earnings Forecast by Stock Exchanges and Participants

From the perspective of providing suitable forecast information of companies in financial and capital markets, the FSA will seek a study in FY2010 of how results forecast disclosure should be done in exchanges. Based on the results of that study, it will recommend the execution of initiatives in exchanges from FY2011 onwards.

(4) Broader Simplification of Quarterly Securities Reports

From the perspectives of ensuring transparency in capital markets, and avoiding excess burdens on companies, the FSA will carry out required system developments in FY2010 in

order to greatly simplify quarterly securities reporting.

(5) Development of the Disclosure Rules for Smooth Implementation of “Rights Offering”

A “Rights Offering” needs to be implemented smoothly and properly as another means of capital increase, in addition to publicly offered capital increase, and capital increase through third-party share issuance. Then, the FSA will study to make the disclosure procedures more flexible, work to urgently submit a related bill to the Diet, and amend a series of related Cabinet Orders and Cabinet Office Ordinances as needed, with a target of FY2011.

(Reference) A rights offering is an offering of common stock to existing shareholders who hold subscription rights or pre-emptive rights that entitle them to buy newly issued shares at a discount from the price at which they will be offered to the public later.

(6) Vitalization of the Corporate Bond Market

Vitalization of the corporate bond market can strengthen the financial and capital markets through dispersion and diversification of financing methods of private companies as well as expansion of investment opportunities. The FSA will actively support initiatives by market participants to stimulate the corporate bond market, focused on (1) review of underwriting examinations by securities companies, (2) granting of covenants and information disclosure, (3) corporate bond management and (4) development of infrastructure of disseminating corporate bond price information.

(7) Transition to the Notification System Concerning Representative and Alternate Services in the Insurance Group

From the perspective of effective use of business resources in insurance company groups, and enhancing user convenience for customers, it is necessary to facilitate the representation by insurance companies for operations and clerical work of other insurance companies. There is currently an approval system for the representation of operations and clerical work of an insurance company by another insurance company in the group. To facilitate the representation, while considering the perspective of ensuring the sound and proper management of insurance company operations, the FSA will work to change this approval system into a reporting system, and to urgently submit a related bill to the Diet.

II. Financial Sector Serving as a Bridge between Asia and Japan

Enhance the attractiveness of Japanese markets, ensure fairness and transparency, and establish financial and capital markets which are reliable and highly convenient for both domestic and foreign users. Also, remove barriers to activities by Japan's financial institutions in Asian countries.

1. Establishing Japan's Status as a Main Financial Market in Asia

(1) Development of Systems and Measures to Promote the Establishment of Integrated Exchanges Handling Securities and Other Financial Instruments as well as Commodities

The Integrated Exchange Study Team was launched, comprised of the Senior Vice Ministers and Parliamentary Secretaries of the FSA, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry. This team will publish an interim report by the end of this year. Whether to submit related bills to the next ordinary session of the Diet will be discussed, if considered necessary on the basis of the report.

(2) Development of System to Expand the Scope of English Language Disclosure by Foreign Companies, etc.

In order to encourage foreign companies to raise capital in Japan's markets, and to expand opportunities for Japanese investors to invest in foreign companies, it is necessary to further expand and enhance English language disclosure. The scope of English language disclosure documents is currently limited to continuous disclosure documents. In order to develop an English language disclosure system which considers the needs of foreign companies while working to protect investors, the Disclosure System Working Group is currently studying the expansion of the scope of English language disclosure to include certain issuance disclosure documents. Based on the results of its study, the FSA will urgently work to submit a related bill to the Diet, and amend a series of related Cabinet Orders and Cabinet Office Ordinances as needed, with a target of FY2011.

(3) Promotion of Utilization of Accountants in Businesses

Developing companies' activities and accounting standards across the world, accounting and auditing in Japan needs to be developed to ensure proper disclosure and enhance fairness and transparency in the markets. At the same time, accounting practices among corporations need to be enhanced through the promotion of taking advantage of Accountants in Business. Then, the FSA will review the CPA and examination system, and based on the results of that review, take measures as necessary.

(4) Facilitation of Block Trading

Block trading is used in cases where large lot shareholders sell shareholdings without affecting market prices. Acts of intermediation by securities companies to sell more than 5% of total share are taken in the process of block trading. The acts correspond in form to “activities for collection of shares”, which are subject to insider trading regulations. Nonetheless, “activities for collection of shares” are to be made inapplicable to acts of intermediation by securities companies related to block trading since these acts of intermediation are not aiming at control of the corporation. Cabinet Orders and Cabinet Office Ordinances related to FIEA are to be amended with a target of FY2011.

(5) Change of Tax System on Cross-border Transactions

In order to promote participation by foreign investors in Japan’s financial and securities markets, the following items are to be implemented in the FY2011 tax reforms regarding the tax system on cross-border transactions (being requested): (1) Tax reforms necessary for Islamic finance, (2) Tax reforms necessary for securities lending and (3) Change of international tax principles (change from “entire income principle” to “attributable income principle”).

Along with the implementation of (1) above, the FSA will promote the development of the environment for Islamic bond issuance in Japan.

(6) Perpetuation and Expansion of the Japanese Bond Income Tax Exemption Scheme (J-BIEM)

The Japanese Bond Income Tax Exemption Scheme (J-BIEM) is a system under which book-entry transfer bond interest received by foreign investors is tax exempt. In the FY2010 tax reforms, as a three-year temporary measure, book-entry transfer corporate bonds are to be added as tax exempt bonds under J-BIEM. The FSA aims to make this temporary measure into a permanent measure in FY2013.

In addition, from the perspective of working to expand the use of this system by foreign investors, the FSA is working to have the FY2011 tax reforms clarify that overseas pension funds and foreign limited partnerships are included in tax exempt parties (being requested).

(7) Support for the Activities towards the International Convergence of Accounting Standards

The FSA is actively handling convergence of international accounting standards focused on International Financial Reporting Standards (IFRS). With the aim of higher quality standards, the FSA supports the activities of the Accounting Standards Board of Japan (ASBJ).

Regarding the application of IFRS to the consolidated financial statements of listed companies in Japan, the FSA will study discussions in other countries and the content of IFRS while considering the perspective of supporting the growth of Japanese companies

and Japan's capital markets. The decision on whether to apply IFRS will be made around 2012.

(8) Active Engagement in International Financial Regulatory Reforms

International discussions on financial regulatory reforms have been developing in various fora including the G20, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision, the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS). The FSA will take following measures in order to more actively contribute to and increase its presence in these discussions:

- (1) Participate in international meetings more actively, and enhance human resource development for that purpose;
- (2) Upgrade the form of contribution including personnel contribution in senior positions such as chair in international meetings;
- (3) Increase the number of staff seconded to international organizations;
- (4) Facilitate outreach activities by having dialogues with non-member countries of the G20 and the FSB etc.; and
- (5) Strengthen co-operation with the financial supervisory authorities of other countries through bilateral talks.

(9) Enhancement of Surveillance on Cross-border Trading

In recent years, in securities markets in Asian countries, securities transactions extending across borders are increasing in importance. In order to ensure fairness and transparency in Japan's financial and capital markets and establish Japan's status as a main financial market in Asia, strengthening the market surveillance system by closer cooperation with supervisory authorities of Asian countries is a pressing issue. Considering this situation, from the perspective of strengthening the surveillance of cross-border transactions, the FSA will encourage the development of human resources and the organization of the Securities and Exchange Surveillance Commission, including educating and recruiting professionals in the fields of international law, accounting and security transactions, and dispatching employees to overseas supervisory authorities, etc.

2. Expansion of Japanese Financial Institutions' Activities in Asia

(1) Promoting Policy Coordination regarding Financial and Capital Markets in Asia

In recent years, Asian countries have achieved rapid economic growth and their importance in the global economy has been steadily increasing. At the same time, development of their financial and capital markets is gradually developing but still is in progress.

Against this background, the FSA will conduct a survey on the current status of financial and capital markets in Asian countries with a view to disseminating information about lessons from financial crises and financial regulatory and supervisory frameworks in Japan as a reference for future Asian development, thereby making these frameworks (including the cross-sectional user protection under the Financial Instruments and Exchange Act and the electronically recorded monetary claims system, etc.) widely available in Asia (related budget is being requested).

Furthermore, the FSA will continue to promote dialogues with the financial authorities of Asian countries utilizing international conferences/symposiums in order to enhance strategic co-operation with Asian countries in areas including international discussions on financial regulatory reforms (related budget is being requested).

(2) Development and Strengthening System of Support by Financial Institutions for Small and Medium Enterprises' Entry into Asia

In recent years, micro, small and medium enterprises also have an increasing desire to enter overseas markets, for example actively seeking to expand their sales channels into Asia (market development) by establishing local subsidiaries. Thus there is a need to work on developing and strengthening systems for financial institutions to support entry into Asia. Therefore, with a target of FY2010, the FSA will study policies enabling financial institutions to accurately understand the expectations and needs of SMEs, etc., and support them in entry into Asia while working to cooperate with related institutions as needed.

(3) Review of Regulatory Barriers to Overseas Real Estate Investment and Acquisition of Foreign Insurance Companies by Insurance Companies

When an insurance company makes an overseas real estate investment, there is a regulation for subordinate operations subsidiaries that are "companies which perform investments for the insurance company" that requires the company to hold all of the voting rights. It has been pointed out that there are cases in which this regulation becomes an obstacle to expansion of the insurance company's earnings opportunities. Considering this, where (1) a company is a subsidiary of the concerned insurance company (holding 50% or more of the voting rights) and (2) 50% or more of its total fund is provided by the insurance company and its fully owned subsidiaries, this company is also to be regarded as a subordinate operations subsidiary, and related regulatory notices are to be urgently revised, with a target of 2010.

Also, for cases in which an insurance company makes a foreign country's insurance company its subsidiary, the FSA will study in FY2010 how it should regulate the scope of operations of that foreign country's insurance company's subsidiaries, etc., together with the required handling of legislative aspects including legislative amendments. From FY2011 onwards, it will obtain conclusions and implement required system developments.

III. Asset Management Capable of Effectively Utilizing the Nation's Assets

In order to provide suitable investment opportunities to various parties, the FSA will develop the environment which enables them to effectively use financial assets, take suitable risks corresponding to their asset size and knowledge, and obtain return.

Development of an Environment for Higher Quality, Reliable Asset Management

(1) More Flexible Rules for Asset Securitization Schemes

Considering the situation of the real estate securitization market after the financial crisis and the revision of the government's urban redevelopment policies, there is a need to stimulate Japan's real estate market by promoting acquisition, development and renovation of real estate using securitization techniques.

Therefore, while considering investor protection in mind, the FSA will work to simplify procedures for changing asset securitization plans under the Act on Securitization of Assets, to make regulations on asset acquisition and finance more flexible, and to urgently submit a related bill to the Diet.

(2) Clarification of Tasks and Consideration of Review of Investment Trust and Investment Corporation System

Regarding various issues based on current diversification of the investment trust and problems on REIT, the FSA will examine the actual state and issues of investment trust and investment corporation system, study revisions from a broad perspective while considering the opinions of experts, and implement system developments by FY2013.

(3) Relaxing the Regulation of Investment Management Businesses

Current regulations on the investment management business impose strict registration requirements. It is pointed out that this results in investment managers moving overseas. Considering this, the FSA will work to relax regulations on investment management businesses to encourage the launch of investment management funds which meet various asset management needs of the people, and curb the trend of asset managers moving overseas. Specifically, in the case of investment managers with limited types of clients, the FSA will work to establish exceptions which partially ease registration requirements, which are an obstacle to the launch of small funds. The FSA will work to urgently submit a related bill to the Diet.

(4) Abolishment of the Regulation of the Asset Management Ratio of Insurance Companies

For the asset management of insurance companies, there is a regulation which sets a ceiling on the amount of each type of asset held, based on total assets multiplied by certain ratios. It is pointed out that this is an obstacle to flexible asset management. Considering this, while working to ensure the sound management of insurance companies, in order to enable flexible asset management, asset investment ratio regulations are to be eliminated, and related Cabinet Office Ordinances are to be amended, with a target of FY2011.

(5) Extension of Reduced Tax Rate on Securities

For dividend income and capital gains on listed shares, etc., considering the severe economic and financial situation, in order to stimulate the financial market, the tax rate has been lowered to 10% from 20% until 2011.

However, considering the present grim economic and financial situation, concerns about worsening future conditions in economy, and the issue of double taxation of dividends, etc., the FY2011 tax reforms are to extend the reduced tax rate on securities (being requested).

(6) Expansion of Profit/loss Offset Scope and Loss Carryforward Period for Financial Instruments

In order to encourage active participation in markets by individual investors, it is important to develop an environment which makes it easy to invest in diverse financial products.

However, under the current system, there is limited scope for offsetting profit and loss between financial products. For example, capital losses on shares cannot be offset against interest income on deposits and bonds, and there is a limited (three year) loss-carryforward period. This situation makes it difficult for investors to invest in diverse financial products.

Therefore the FY2011 tax reforms are to expand the profit/loss offset scope and the loss-carryforward period for financial products (being requested).

(7) Change to Separate Self-assessment Taxation for OTC Derivative Transactions, etc.

Currently, market derivative transactions are subject to separate self-assessment taxation, while OTC derivative transactions are subject to aggregate taxation.

Although OTC derivative transactions and market derivative transactions are financial transactions with the same economic substance, they are not equally taxed. There are concerns that this current tax system creates distortions in choices of financial products by individuals.

Considering this situation, from the perspective of building a simple and neutral tax system, the FY2011 tax reforms are to implement a change to separate self-assessment taxation for OTC derivative transactions, etc. (being requested).

(8) Measures Required to Enhance Convenience of Designated Accounts

Designated accounts are part of a system established for the purpose of reducing the tax administration burdens of individual investors. The advantages include not requiring self-assessment tax procedures for capital gains of listed shares, etc. managed in designated accounts.

Tax law specifies limits on which listed shares, etc. can be deposited in designated accounts. From the perspective of expanding participation by individual investors, the FY2011 tax reforms are to expand the scope of listed shares, etc. which can be managed (being requested).

(9) Steady Implementation of the Financial Services ADR (Alternative Dispute Resolution)

The financial services alternative dispute resolution (ADR) system was introduced in October 2010. This aims to enhance user protection and user convenience, by working for fast, simple, neutral, fair complaint handling and dispute resolution for problems with financial institutions. The FSA is actively performing public relations for the solid and wide implementation of this system, and uses the framework of the Financial Service Dispute Resolution Liaison Group to periodically perform follow-ups on the operation of the system. The FSA will investigate points for further improvements as needed.

Study of Policies for Restoring Confidence in and Stimulation of Markets for Growing Companies

Japan has seen a dramatic drop in trading volumes and new company listings in markets for growing companies opened by financial instruments exchanges, and one does not necessarily ensure that markets for growing companies sufficiently provide the fundraising needed by companies with growth potential. Recently some growing companies were listed on other Asian markets for growing companies. In addition, there have been recent cases which damage confidence from investors, such as false statements in financial statements.

Under the New Growth Strategy released in June 2010, which incorporated a study of policies for the restoration of confidence in and stimulation of markets for growing companies, the FSA listened to a broad range of opinions from exchanges, securities companies, audit firms, listed companies, venture capitals, institutional investors, etc., and proceeded to study possible responses to problems faced by Japan's markets for growing companies.

As a result, various issues which should be addressed were arranged into four categories: (1) Lack of measures for pre-listing companies to encourage listing on markets for growing companies, (2) Lack of confidence and sense of burden at the listing examination stage, (3) Lack of support for listed companies and lack of information delivered from listed companies, (4) Unclear role for markets for growing companies. On the basis of these points, from the perspectives of policies to restore confidence for preventing the betrayal of investor expectations of markets as well as policies to stimulate markets for meeting expectations, the FSA considers nine items which should be implemented to steadily address these issues.

Many of these items are closely related to listing practices and operations. Therefore, the FSA will request market participants, such as each exchange, Japan Securities Dealers Association, and the Japanese Institute of Certified Public Accountants to actively consider more specific details through studies of their own. The FSA will also seek to have them publish a timetable in the first half of 2011, with clear implementation deadlines for specific actions.

- (1) The FSA will take the initiative on items concerning systems (review of the internal control report system), out of the items which should be implemented, and
- (2) For items on which market participants will take the initiative, the FSA will encourage studies by market participants, and coordinate them so that they will proceed in desirable directions overall. To achieve this, the FSA will set up a conference regarding restoring confidence in and stimulating the markets for growing companies, composed of the FSA,

exchanges, Japan Securities Dealers Association and the Japanese Institute of Certified Public Accountants, etc.

◆ Study Items ◆

1. Encourage Pre-listing Companies to List on Markets for Growing Companies

- (1) Encourage use of Green Sheet
- (2) Establish a list of pre-listing companies which ensures a certain level of quality

2. Restore Confidence and Reduce Burdens in Listing Examinations

- (3) Highly detailed information sharing to prevent false statements in financial statements, etc.
- (4) More proper and clear underwriting examinations, etc

3. Reduce Burdens on Listed Companies and Perform Suitable Listing Management

- (5) Review of the internal control report system
- (6) Strengthen the support in order to actively create successful examples
- (7) Encourage continuous delivery and disclosure of information, including that on risks.

4. Promote Shift from Markets for Growing Companies to Other Markets, etc.

- (8) Clarify roles of markets for growing companies
- (9) Prepare a venue to receive delisted stocks

Note: Japan's markets for growing companies have diversity of both numbers of listed companies and histories of their establishment. For items which exchanges should study, each exchange must proceed with its study according to the actual situation.

1. Encourage Pre-listing Companies to List on Markets for Growing Companies

(1) Encourage use of Green Sheet

For companies which may list on a market for growing companies in the future, but have still not reached the listing preparation stage, it is important to encourage listing while providing support for raising capital.

Currently, Green Sheet serves as a way for pre-listing companies to raise capital. For companies in the start-up phase which are considering as a future strategy listing on a market for growing companies, but due to the fact that listing preparations are a large burden, there is a need to provide sufficient aid in stages towards listing, and studies should be done to encourage the use of Green Sheet.

From these viewpoints, how should we consider the execution of the following initiative?

- For example, if a company has a good disclosure history while the company's stock is designated Green Sheet stock, then the company is granted the benefit of a simpler examination when listing on a market for growing companies, and reduce burdens on the company for listing.

(2) Establish a list of pre-listing companies which ensures a certain level of quality

Pre-listing companies have relatively limited opportunities, especially when building an alliance with a listed company. New polices to support smooth capital raising and promote their listing on markets for growing companies should be executed for such pre-listing companies.

From this viewpoint, how should we consider the execution of the following initiative?

- For example, prepare and publish a list of companies which have received venture capital investment, and companies which have submitted securities registration statements.

2. Restore Confidence and Reduce Burdens in Listing Examinations

(3) Highly detailed information sharing to prevent false statements in financial statements, etc.

In order to restore confidence from investors in markets for growing companies, it is important to prevent false statements in financial statements for listing examinations which are the entry to such markets, and develop an environment which enables investors to invest without anxiety. In a new listing, the lead managing securities company, auditor and exchange each examine the company applying for listing from their own standpoints, and in addition, closer cooperation among three parties should be encouraged.

From these viewpoints, how should we consider the execution of the following initiatives?

- Consider to set up early information sharing among a lead managing securities company and auditor which are in contact from an early stage with the company applying for listing.
- Consider to set up information sharing among lead managing securities companies, auditor and exchanges regarding examples of false statements in financial statements.

(4) More proper and clear underwriting examinations, etc

When a lead managing securities company performs an underwriting examination, there are cases in which the company applying for listing is told findings which do not necessarily have a clear reason, or findings considered minor from an overall perspective. There are also cases in which examinations of other items are suspended when such findings arise. Considering these points, predictability for companies applying for listing should be improved in order to avoid damaging the desire of companies to list. A similar initiative should also be studied for listing examinations by exchanges.

From these viewpoints, how should we consider the execution of the following initiatives?

- When suggesting delay or abandonment of listing during underwriting examinations, in principle, present clear reasons in writing, etc. For cases in which clear reasons are problematic to present, such as the participation of anti-social forces, arrange and review the scope which the company should confirm and the examinations by exchanges.
- For example, simplify examinations of items considered minor when viewing the overall company, such as differences between forecasts and actuals for items which account for a very small percentage of sales.
- Even if findings arise for some items, continue examining other items in order to shorten the examination time.

In addition, about audits, how should we consider the execution of the following initiative?

- The Japanese Institute of Certified Public Accountants, Japanese Securities Dealers Association and exchanges will cooperate to confirm concepts about conducting so-called retroactive audits for companies deemed to have a certain level of structures, such as companies that have signed an advisory contract with an audit firm for a certain period. These concepts also will have to be announced to companies which do not reach the listing preparation stage.

3. Reduce Burdens on Listed Companies and Perform Suitable Listing Management

(5) Review of the internal control report system

There are many relatively small companies among companies applying for listing on

markets for growing companies, and among companies already listed. For such companies, it has been pointed out that there are large burdens related to the current internal control report system.

Regarding this point, considering requests and opinions of companies which implemented the system, in order to create an efficient system while ensuring the system's effectiveness, the FSA is creating an efficient internal control report practices "casebook" for small and medium companies, and performing a review to establish efficient operation for the internal control report system.

(6) Strengthen the support in order to actively create successful examples

To enhance the image which investors have of markets for growing companies, it is important to create a steady funding cycle based on examples of successful listed companies. To achieve this, exchanges and lead managing securities companies should give intensive support to companies which have growth potential immediately after listing, companies which actively deliver their information to investors, companies whose stocks have high market liquidity, etc. In addition, exchanges and lead managing securities companies should also actively inform listed companies of the initiatives they implement.

From these viewpoints, how should we consider the execution of the following initiatives?

- For example, under the exchange's initiative, expand analyst report coverage of companies whose stocks have high market liquidity and companies which have been providing a certain level of IR activities, etc.
- Exchanges will create indices comprised of stocks selected with a focus on liquidity, market capitalization, etc., and will encourage the formation of ETFs, thereby attracting investment funds.
- For companies which have a relatively undeveloped internal structure immediately after listing, the lead managing securities company will support their IR activities, for only a certain period after listing.

(7) Encourage continuous delivery and disclosure of information, including that on risks

Companies listed on markets for growing companies are generally more risky than companies in a stable period that are listed on main markets. Therefore, to gain confidence from investor, there is a need for continuous delivery and disclosure of information, such as on the progress of management strategy and risks. "Business and other risks" are now disclosed in financial statements, but methods should be studied which consider the characteristics of companies listed on markets for growing companies.

From these viewpoints, how should we consider the execution of the following initiatives?

- Study the information on risks which companies listed on markets for growing

companies should deliver and disclose to investors. Also arrange the forms of information on risks corresponding to the industry sectors and characteristics of each listed company.

- Exchanges will encourage active information delivery and disclosure including information on risks in IR activities such as company presentations carried out periodically and continuously.

4. Promote Shift from Markets for Growing Companies to Other Markets, etc.

(8) Clarify roles of markets for growing companies

Each exchange's market for growing companies claims that it aims at companies with growth potential. The exchange should clarify the positioning of companies listed on the market for growing companies.

From these viewpoints, how should we consider the execution of the following initiatives?

- For companies which stay listed on the exchange despite no longer having strong growth potential, clarify the role of the market for growing companies, while considering the position of each exchange's main market, etc (including the JASDAQ "Standard" classification). Also, establish certain criteria for delisted companies for which it is inappropriate to maintain their listings.

(9) Prepare a venue to receive delisted securities

A problem related to delisting is how to ensure opportunities to exchange delisted stocks for money. It is assumed that if a shareholder wants to exchange a stock for which delisting is decided, then the stock should be sold before delisting. However, certain preparations should be also studied to provide shareholders with opportunities to exchange their stocks for money after delisting.

From these viewpoints, how should we consider the execution of the following initiatives?

- Prepare a system needed in case there is an increase in stocks to be delisted, as there is now only one stock designated as a Phoenix Stock, which is a way to handle delisted stocks.