

Specific Cases from Past Applications for New License and Registration by Foreign Operator

1 . Past Application for New License

Case 1: Example of foreign bank branch

One summer, a foreign bank contacted the FSA about how it could obtain the license required to establish a Japanese branch during that administrative year. The FSA and the bank agreed on a goal of completing the application for the license by the following spring.

While drafting a statement of reasons, the foreign bank, its consultancy (a law firm) and the FSA communicated closely. The FSA asked them about the progress in developing a management framework for starting services in Japan and responded to inquiries. As the drafting of the statement of reasons for applying for the license was going on, the FSA recommended the bank to hire a compliance officer for the Japanese branch, who has sufficient qualifications/experience for the work related to legal compliance.

Key points that were checked with the bank

- Whether it had clearly defined the risk management roles for its business division, risk management department and internal control/governance functions based on the “three lines of defence” concept*.

* The first line of defence is the front-office divisions, which recognize and manage risks related to their work. The second line of defence is comprised of the risk management and compliance divisions, which support risk management in the first line of defence and verify the effectiveness of its management. The third line of defence is the internal audit division, which verifies and assesses whether the first and second lines of defence are functioning in a valid manner.

- Whether the management of the Japanese branch had sufficient qualifications/experience and whether the management established a system for the branch staff to comply with Japanese laws/ordinances/rules. Whether the compliance officer has sufficient qualifications/experience for the work related to legal compliance.
- Whether a system was in place to ensure legal compliance to address organized crime acts, such as money laundering.
- Whether channels for raising or managing funds were appropriate (especially whether the branch relied excessively on other branches of the group for fund management). Whether the branch's liquidity risk management relied excessively

on the liquidity provision by headquarters.

Although it took a long time for the foreign bank to hire a compliance officer for the Japanese branch (hired about a month before the target date for the completion of the application), the FSA was able to ascertain, through dialogue with the foreign bank, that the management framework of the branch was properly prepared. The FSA thus requested submission of the license application. The issuance of the license was completed in about a month (the FSA was able to issue the license around the target date).

Case 2: Example of foreign insurer, etc.

One summer, a foreign insurance company that did not have a Japanese branch contacted the FSA about their intention to set one up. The FSA agreed with the insurer on a goal of completing the license application in time to open the branch the following spring.

After examining preliminary documents of the intended application received from the company, the FSA raised issues to further confirm compatibility with the legal screening criteria. The following are the key issues raised at that point.

Key points that were checked with the insurance company

- The FSA needed to examine the rationale and validity of the company's business plan (service plans, etc.) to see if their profitability outlook for the operation was sound, but it was not clear to the FSA what was the basis for the figures used in the business plan.
- The FSA needed to check if the branch could maintain the soundness of the operation after obtaining the license to see if the branch would have a valid degree of financial base, but it was not clear to the FSA what the prospects would be for the branch to receive support, such as capital injection from the headquarters, if the branch fell into a situation in which it alone could not maintain its soundness.

After discussions with the company about these points, the FSA:

- received documents showing specific grounds for the unclear figures in the business plan, and
- ascertained a clear demonstration of the company's intention that the headquarters would provide a capital injection if the branch fell into a situation in which it alone would not be able to maintain its soundness.

The FSA thus requested submission of the license application.

As the FSA found no need to correct the submitted application, the FSA issued the license in about two weeks (the FSA was able to issue it around the target date).

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Case 3: Example of insurance company

One spring, foreign insurance companies (life and non-life) that belong to the same insurance group contacted the FSA with their plan to convert their form from a branch to a subsidiary. The FSA shared the companies' aim of submitting an application for a license in time for the launch of their operation in the new form the following spring.

While two different sections within the FSA are respectively in charge of the life insurance company and the non-life insurance company, these sections communicated closely with each other and had discussions with the companies in a co-ordinated manner regarding their schemes and time schedule toward the conversion.

Moreover, after an application was received from the respective companies, these sections processed the applications concertedly and accordingly the FSA issued a license to the respective companies in approximately one month at around the target date.

2. Past Application for New Registration

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Case 1: Example of Financial Instruments Business, etc.

On April 1, 2017, the FSA launched the "Financial Market Entry Consultation Desk" to give advice on Japan's financial regulations to foreign financial business operators which plan to establish a business base in Japan.

The Desk received a consultation from a foreign asset management firm, which was planning to establish a Japanese subsidiary and get registration for Investment Management Business and other business activities.

Considering the firm's prospective entrustment of asset management by large asset owners in Japan, including pension funds, it was highly probable that the firm would establish its business base in Japan. For this reason, a cross-organizational project team, consisting of staff from the FSA, the Kanto Local Finance Bureau, the Tokyo Local Finance Office and the Tokyo Metropolitan Government, was set up to collaborate toward the realization of "fast entry" through prompt support.

From the initial interview between the project team and the firm, the project team continued consultations with the firm. Through the process, the project team explained the various procedures required for registration and other necessary matters and shared the schedule until completion of registration with the firm. In addition, as described below, the firm responded quickly to the team's requests. Furthermore, the firm demonstrated the

adequacy of its staffing and organizational structure to conduct its business. Thanks to these factors, the screening process progressed smoothly, leading to the completion of registration in approximately three months from the initial interview, nearly half the time it takes in standard cases.

- Foreign business operators usually need a long time to obtain various certificates regarding their officers, etc. required for registration application. Unlike them, the firm had arranged for these documents in advance. In addition, the firm promptly returned clear answers to inquiries and requests for correction from the team.
- In the stage of drafting the registration application, the firm demonstrated its readiness for registration. For example, the firm indicated the details of the intended businesses in a clear and concrete manner. Its business plan and income and expenditure plan were appropriate. The firm ensured adequate staffing and organizational structure to conduct its business, such as appointing officers with extensive business experience at financial institutions, etc. inside and outside Japan.