



# FSA Newsletter November 2005



Minister for Financial Services Ito receives a written opinion from Mr. Kako, Chairman of the Business Accounting Council, at a council meeting. (October 28)



Minister for Financial Services Ito addresses the Local Financial Bureau Directors at a meeting. (October 26)

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## [Topics]

### Establishing Financial Institution Management with an Emphasis on User Satisfaction

#### 1. Program for Further Financial Reform

In the "[Program for Further Financial Reform](#)," which was released to the public on December 24 of last year, "establishment of financial institution management with an emphasis on user satisfaction" is listed as one of the measures for setting in place a framework in which users can make transactions with understanding and satisfaction, in an attempt to create a vibrant financial system with a high degree of user satisfaction.

Japan's financial system is entering a new forward-looking phase aiming at establishing a desirable financial system for the future, having moved beyond the emergency reaction against the non-performing loans problem by implementing the "[Program for Further Financial Revival](#)" and other measures. Given such a change of environments, financial institutions are also shifting from a phase of management faced with a significant challenge to improve the non-performing loans problem back to normal, to a new phase where they can exert more discretion in management, and are therefore each expected to develop and offer financial products and services catered to diversifying user needs.

Against this backdrop, the Financial Services Agency is driving forward a reform aimed at better quality, such as improved financial services formulated from a user perspective and enhanced competitive strengths. In implementing such a reform, we believe that what is critical for each financial institution is to try to actively comprehend diversifying user needs and gain trust from users by improving their management adequately in a fashion adapted to the user needs, or in other words: to deliver financial institution management formulated from a user perspective.

#### 2. Survey on Actions Intended to Improve User Satisfaction

From March 31 to April 28, 2005, we conducted a survey on actions currently taken in the form of questionnaire-based customer satisfaction surveys and complaint and consultation services, whereby we requested each financial institution through respective business associations to conduct a survey and consequently received valid responses from a total of 1,322 institutions consisting of 744 deposit-taking institutions, 81 insurance companies, 453 securities companies etc. and 44 non-bank money lenders.

(Note: "Securities companies etc." refers to securities companies and investment advisory companies; hereinafter the same)

The questionnaire-based user satisfaction survey rate was 38% in deposit-taking institutions, 69% in insurance companies, 9% in securities companies etc. and 34% in non-bank money lenders, all of which are approximate figures.

##### The following reasons, listed by operation category, were given as to why they do not conduct such a survey:

- Deposit-taking institutions - Comments box system etc. is used to receive complaints and consultation requests
  - Complaints etc. are collected by customer liaison personnel
- Insurance companies - Call center system etc. is used to receive complaints etc.
  - Most users are institutional investors such as reinsurance companies
- Securities companies etc. - Complaints etc. are received directly from users during interpersonal sales activities
  - Customer base is small or consists mostly of institutional investors
  - Proprietary trading (Note: "Proprietary trading" means investments in stock, bonds and foreign exchange etc. that securities companies etc. conduct for their own account)
- Non-bank money lenders - Call center system etc. is used to receive complaints etc. - Lending operation is concentrated on specific customers

Almost all respondents that conduct a questionnaire-based survey were found to utilize survey results in such actions as examination of improvement measures by specialized sections, and regular reports to the executive board for discussion of improvement measures. In the meantime, it is currently not a commonly established practice to release survey results or release a list of improvements based on survey results.

- Use of survey results: 95.7% in deposit-taking institutions, 100% in insurance companies, 97.6% in securities companies etc.,  
100% in non-bank money lenders
- Release of survey results: 14.6% in deposit-taking institutions, 26.8% in insurance companies, 17.1% in securities companies etc.,  
13.3% in non-bank money lenders
- Release of improvements in management: 8.5% in deposit-taking institutions, 3.6% in insurance companies, 17.1% in securities companies etc.,  
13.3% in non-bank money lenders

(Note: All figures show the rates in the respective groups of financial institutions that conduct a questionnaire-based survey)

Many financial institutions were found to address complaints and consultation requests by establishing a dedicated section such as a customer support desk or call center; thus, many institutions take steps to reflect complaints and consultation requests received from users in their business administration.

### 3. Organization of "Conference for Improved User Satisfaction"

In an attempt to implement our reform measure, and with a view to helping financial institutions comprehend a broad spectrum of user voices, we organized the "Conference for Improved User Satisfaction" from May to July 2005 with the participation of experts, users and business associations; the Conference was held separately for the respective operation categories (deposit-taking institutions, insurance companies, securities companies etc., and non-bank money lenders), each with two or three sessions.

While a variety of comments given during the Conference were based on the characteristics of the respective operation categories, the following ideas were presented almost across the board:

- It is necessary for each financial institution to develop a structure in which to receive comments and complaints etc. from users in an organized fashion.
- As to a structure in which to adequately comprehend user voices and reflect the findings in management improvements, each financial institution's voluntarism should be respected.
- From a viewpoint of enhanced information supply to users, any such actions taken by each financial institution etc. should be actively released by the institution to the public.

For a summarization of the Conference by operation category, please refer to the attached (Point) Summary of "Conference for Improved User Satisfaction."

### 4. Request to Financial Institutions Regarding Actions for Improved User Satisfaction

On August 10, 2005, we requested financial institutions etc., through the respective business associations that they belong to, to take actions to comprehend comments and complaints etc. from users through a variety of approaches of their choice, including a questionnaire-based user satisfaction survey, and, based on the comments and complaints etc. thus received from users, to release to the public by the end of June 2006 a list of improvements in management that they work on during the FY2005. We intend to make a similar request for the FY2006 as well.

As this request was made with a view to encouraging each financial institution to take voluntary actions, we have no plan to take any particular administrative steps against financial institutions that take no requested actions, even if there are any such institutions. We nevertheless hope that each institution will actively work towards improved user satisfaction.

### 5. Conclusion

While there is presumably no need to explain the importance of comprehending user voices and delivering management reflecting them, some questioned during the Conference and other occasions whether "such actions should belong to voluntary efforts of private financial institutions." The Financial Services Agency does respect such a view and voluntary efforts that are actually made by financial institutions, but we believe that for an attempt to create a desirable financial system for the future, it is desirable that each financial institution should work harder than ever in its voluntary, unique actions for improved user satisfaction and improve its operation as well as its financial product and service offerings, and should also release as much information as possible on what actions it has taken and thereby supply such information broadly to users.

Specifically, each financial institution is expected to improve its operation by addressing user voices and, by releasing to the public the details of such improvement, work on further enhancement of user protection. It is

also hoped that each financial institution will improve its management through, for instance, the development of unique financial products and services by exploring user needs as part of its marketing activities, and will, according to its own corporate decision-making, release to the public as many details as possible of such efforts so that users can have convenient and easy-to-understand access to financial products and services that they want. By, among other means, encouraging financial institutions to work harder on such actions, the Financial Services Agency is committed to setting in place an environment aimed at creating a financial system with a high degree of user satisfaction, an objective of the Program for Further Financial Reform.

**(Point) Summary of "Conference for Improved User Satisfaction"**

	Deposit-Taking Institutions	Insurance Companies	Securities Companies etc.	Non-Bank Money Lenders
Basic ideas on actions for improved user satisfaction	<ul style="list-style-type: none"> <li>● From the perspective of filling the information divide between users and financial institutions through enhanced supply of information to users, it is necessary to develop at least a structure of some form under which to comprehend comments and complaints etc. from users in an organized fashion and supply the information to users.</li> <li>● As to a financial institution's undertaking of adequately comprehending user voices and reflecting the findings in their management improvements, voluntary efforts of the financial institution should be respected.</li> <li>● The survey being discussed is different from a simple survey on complaints but needs to lead to improved customer satisfaction and higher quality in financial services: this is also commensurate with the purpose of the Program for Further Financial Reform.</li> <li>● It might be important for financial institutions to establish an organization that will connect the findings from a survey of user comments etc. to improvement in management.</li> </ul>	<p>[Survey on user voices]</p> <ul style="list-style-type: none"> <li>● It is necessary for each insurance company to voluntarily develop a structure of some form under which to comprehend user voices in an organized fashion.</li> <li>● In consideration of a characteristic of insurance products that there is a time lapse between the purchase made by reason of future security and the insurance claim payment, which is when insurance emerges as a real necessity, it is necessary to comprehend the degree of satisfaction at the time of insurance payment, in addition to that at the time of purchase.</li> <li>● A series of processes, from conducting and sharing a survey on user voices to taking actions towards correction and improvement, needs to be checked outside of the company with the participation of users.</li> </ul> <p>[Complaint and consultation request handling]</p> <ul style="list-style-type: none"> <li>● It is necessary to develop a structure under which to receive and manage complaints and consultation requests in an organized fashion, exercise process management over how complaints and consultation requests are handled, and ensure appropriate involvement of members of the management.</li> <li>● It is necessary to develop a structure under which users who are invited to participate from outside of the company will check and inspect if complaints and consultation requests are handled appropriately.</li> </ul>	<ul style="list-style-type: none"> <li>● As information that users want for "peace of mind and security" is currently not supplied sufficiently, it is necessary to develop a structure under which to comprehend user comments and complaints etc. in an organized fashion.</li> <li>● In the securities industry etc., actions to improve user satisfaction might have another significance in that they would accelerate shifts from savings to investment.</li> <li>● Someone raised the point that if the Financial Services Agency requests actions towards comprehending user needs, such comprehension of user needs should serve exclusively for the benefit of users, and not for purposes of marketing and profit enhancement of financial institutions. On the other hand, someone pointed out that comprehending user needs for the benefit of customers would presumably lead to profit enhancement in the end.</li> </ul>	<ul style="list-style-type: none"> <li>● It would likely lead to an improved image of the whole industry as well as a higher degree of satisfaction if non-bank money lenders and business associations listen to user voices sufficiently and each company makes voluntary efforts towards improving its management by referring to the findings.</li> <li>● While there will probably be various restrictions in the actual conduct of a questionnaire-based user satisfaction survey, what is important is that conducting such a survey should be a starting point for dialogue between businesses and users. At this point in time, it would probably suffice to start with what can be done.</li> </ul>
Ideal approach in user satisfaction survey etc.	<ul style="list-style-type: none"> <li>● An appropriate way would be to basically make it up to a financial institution's voluntary decision to choose a survey method.</li> <li>● The survey being discussed might become effective only if a financial institution conducts it on a continual basis to see if customer satisfaction has been improved, as opposed to a one-time exercise.</li> <li>● It is quite useful to survey the degree of satisfaction on complaint and consultation request services.</li> </ul>	<p>[Survey on customer voices]</p> <ul style="list-style-type: none"> <li>● In addition to questionnaire-based surveys, companies might be able to use such other occasions as regular notices of policy details, contact with users from call centers and replies from users via direct channels.</li> </ul> <p>[Complaint and consultation request handling]</p> <ul style="list-style-type: none"> <li>● Given the increasing trend of so-called "separation of production and distribution," it is necessary for insurance companies to develop a structure under which to comprehend firmly complaints and consultation requests brought to agencies and agents and share information.</li> </ul>	<ul style="list-style-type: none"> <li>● Intended survey subjects ("users") are basically individual investors, but inclusion of institutional investors might be appropriate. Survey findings should probably be shown separately for individual investors and for institutional investors.</li> <li>● It might be appropriate to include as survey subjects "future users" and "previous users (those with past investment experience)."</li> <li>● As the size and clientele etc. vary greatly depending on the financial institution, no single survey method should be required.</li> </ul>	<ul style="list-style-type: none"> <li>● It might be necessary to choose a third-party outsourcing option as a questionnaire survey method in order to receive more objective replies.</li> <li>● In addition to current money-lending service users, it might be necessary to target a wide range of users such as former users.</li> <li>● It is necessary that questionnaire-based surveys etc. should be conducted in a fashion adapted to the characteristics of the respective operation categories in the money lending industry (consumer financing, business financing etc.).</li> </ul>

Release of improvements based on survey findings, etc.	<ul style="list-style-type: none"> <li>● It is important that each financial institution will release as much information as possible on, for example, those findings of a survey of user voices which were referred to and actually led to improvement in management.</li> <li>● While an appropriate way would be to leave it up to a financial institution's voluntary decision to choose a method of public release, reports on how improvements were achieved would hopefully be included, as well as customer satisfaction and customer ratings.</li> <li>● Each financial institution needs to contemplate developing a structure under which to utilize survey results.</li> </ul>	<p>[Survey on user voices]</p> <ul style="list-style-type: none"> <li>● It is important that each financial institution will release to the public how, among other matters, how the findings from the survey on user voices have been used and led to improved and better products and services.</li> <li>● Examples of improvements might be: revised ledgers, enhanced information materials, procedural changes, improved operation, product and service changes etc. (applicable commonly to complaints and consultation requests).</li> </ul> <p>[Complaint and consultation request handling]</p> <ul style="list-style-type: none"> <li>● Properly releasing and showing typical cases leading to complaints would likely serve as a reminder and help augment awareness of consumers.</li> <li>● Companies should utilize complaints and consultation requests so that they can make their policies clearer and simpler, and easier for users to understand.</li> </ul>	<ul style="list-style-type: none"> <li>● As there is a substantial gap in awareness between financial institutions and users, it is critical for each financial institution to release findings of consumer needs surveys and results of its actions taken to improve management, in order to correct the situation.</li> </ul>	<ul style="list-style-type: none"> <li>● From the viewpoint not only of improving user satisfaction, but also of improving the image of the entire industry, it is necessary to release findings from questionnaire-based surveys etc. and outcomes of management improvement efforts.</li> </ul>
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Note: For insurance companies, the Conference was held on two occasions each with a specific theme, namely, "Survey on user voices" for Session 1 and "Complaint and consultation request handling" for Session 2.

**(Point) Summary of "Conference for Improved User Satisfaction"**

	Deposit-Taking Institutions	Insurance Companies	Securities Companies etc.	Non-Bank Money Lenders
User satisfaction survey items	<p>* Sample survey items were suggested as follows:</p> <ul style="list-style-type: none"> <li>● Service desk service</li> <li>● Customer liaison personnel service</li> <li>● Store environment - inside and outside</li> <li>● ATM</li> <li>● Supply of various information</li> <li>● Products and services</li> <li>● Complaint and consultation request handling</li> <li>● Lending</li> <li>● Regional contribution</li> </ul> <p>&lt;Other opinions on survey items&gt;</p> <ul style="list-style-type: none"> <li>● An appropriate way would be to leave it up to a financial institution's voluntary decision to choose survey items.</li> <li>● It is necessary to set a certain minimum extent of common survey items with respect to user needs that should be comprehended.</li> <li>● Each individual financial institution will hopefully choose survey items through inventive thinking and show uniqueness in its chosen method of public release and use of survey results, and such efforts will hopefully lead to more competition.</li> </ul> <p>It might be a good idea to include in a questionnaire such survey items that would enable a financial institution to learn about users' visions for the future or expectations on future service offerings, rather than looking only at their satisfaction with what they see now.</p>	<p>* Sample survey items were suggested as follows:</p> <ul style="list-style-type: none"> <li>● Service desk service <ul style="list-style-type: none"> <li>- Speaking manners, accuracy in clerical work, waiting time, etc.</li> </ul> </li> <li>● Agent and agency service <ul style="list-style-type: none"> <li>- Frequency and other state of visits, post-purchase service etc.</li> </ul> </li> <li>● Supply of various information <ul style="list-style-type: none"> <li>- Insurance product lineup and features, understandability of explanations of policies, advertisements and product features etc., ability to make suggestions suited to needs, etc.</li> </ul> </li> <li>● Complaint and consultation request handling <ul style="list-style-type: none"> <li>- Customer support desk or call center service state, follow-up service state, etc.</li> </ul> </li> <li>● Insurance details <ul style="list-style-type: none"> <li>- Motives for purchase, reasons for product choice, insurance premiums, etc.</li> </ul> </li> <li>● Insurance claim payment <ul style="list-style-type: none"> <li>- Responses in the event of a covered incident (mainly in non-life insurance), promptness in insurance claim payment, contrast between motives for purchase and actual insurance claim payment, etc.</li> </ul> </li> </ul> <p>&lt;Other opinions on survey items&gt;</p> <ul style="list-style-type: none"> <li>● While the choice of items should basically be up to each financial institution's voluntary decision, it is desirable that a certain degree of common items will be set.</li> <li>● Different items might be set depending on the difference in features between life and non-life insurance products, or the difference in user attributes between personal and corporate insurance products.</li> </ul>	<p>* Sample survey items were suggested as follows:</p> <ul style="list-style-type: none"> <li>● Solicitation <ul style="list-style-type: none"> <li>- Whether the company comprehends investment experience, investment purposes and financial means etc. of the user, and conducts solicitation in a fashion suited to the user's intent and actual situation</li> <li>- Whether the user knows the existence of the customer card and what is written there; whether the user has ever had the card renewed. . . etc.</li> </ul> </li> <li>● Explanations regarding products and services <ul style="list-style-type: none"> <li>- Whether sufficient explanation has been given as to important matters including product and service features (risk-return relationship, costs etc.) and trading rules</li> <li>- Whether explanations by personnel (including those in a call center) and information materials (advertisements and homepages etc.) are formulated in an easy-to-understand fashion</li> </ul> </li> <li>● Store environment - inside and outside <ul style="list-style-type: none"> <li>- Store location and status of establishment of other infrastructure (ATM etc.). . . etc.</li> </ul> </li> <li>● Supply of various information (investment-related) <ul style="list-style-type: none"> <li>- Whether the contents of information offered and the method of offering, as well as post-trading reporting and advice are satisfactory. . . etc.</li> </ul> </li> <li>● Product and service lineups</li> <li>● Complaint and consultation request handling <ul style="list-style-type: none"> <li>- Whether the receiving method, processing time and personnel service manners are appropriate. . . etc.</li> </ul> </li> <li>● Disclosure of information on the surveying company <ul style="list-style-type: none"> <li>- Whether information concerning the surveying company (including, on an as-required basis, group companies), for a leading example, its business and financial conditions, is disclosed sufficiently. . . etc.</li> </ul> </li> <li>● Fees <ul style="list-style-type: none"> <li>- Whether fees are set appropriately, commensurate with products and services etc. offered. . . etc.</li> </ul> </li> </ul> <p>&lt;Other opinions on survey items&gt;</p> <ul style="list-style-type: none"> <li>● Attention must be paid so that the choice of items should be based on each financial institution's voluntary decision and not be of a uniform mix.</li> <li>● "Investor protection" would likely be an important factor in comprehending user needs.</li> <li>● In consideration of characteristics of securities trading, it is necessary to check whether service that is satisfactory to users is successfully offered from the beginning of a transaction all the way until the end.</li> </ul>	<p>* Sample survey items for those who have used a money-lending service were suggested as follows:</p> <ul style="list-style-type: none"> <li>● Advertisements and solicitation <ul style="list-style-type: none"> <li>- Whether the advertisement contents are misleading</li> <li>- Whether the solicitation activity was excessive</li> <li>- (For consumer financing only) Whether the TV commercial contents and quantity of broadcasting etc. are appropriate. . . etc.</li> </ul> </li> <li>● Contract Signing <ul style="list-style-type: none"> <li>- Whether employee manners, such as speaking manners, are appropriate</li> <li>- Whether explanation was given as to the loan agreement, and whether it was easy to understand</li> <li>- Whether explanation of the repayment amount, interest rate and repayment period etc. was sufficient</li> <li>- Whether documents including the written contract were easy to understand</li> <li>- Whether steps taken for personal information protection at the time of contract signing were appropriate</li> <li>- (For consumer financing only) For automated loan-contracting machines, items similar to the five items described above should be set</li> <li>- (For business financing only) Whether any explanation was given regarding important matters on guarantees and secured loans</li> <li>- (For business financing only) Whether documents including the guarantee agreement etc. were easy to understand. . . etc.</li> </ul> </li> <li>● Post-contract customer service (such as supply of information) <ul style="list-style-type: none"> <li>- Whether information on contractual revisions and information on improved convenience for customers, etc. was appropriately supplied</li> <li>- Whether there was any solicitation for an excessive additional loan. . . etc.</li> </ul> </li> <li>● Product features <ul style="list-style-type: none"> <li>- Interest rates</li> <li>- Convenience in borrowing and repayment. . . etc.</li> </ul> </li> <li>● Complaint and consultation request handling <ul style="list-style-type: none"> <li>- Whether the system of receiving complaints and repayment consultation requests is sufficient, and whether the handling was appropriate</li> <li>- Whether employee manners, such as speaking manners, are appropriate</li> </ul> </li> <li>● Collection and payment reminder <ul style="list-style-type: none"> <li>- Whether there was any conduct that appears to constitute a prohibited act of collection under the Money-Lending Business Control and Regulation Law</li> <li>- Whether steps taken for personal information protection were appropriate</li> <li>- Whether employees' speaking manners were appropriate. . . etc.</li> </ul> </li> <li>● Other items - degree of overall satisfaction etc.</li> </ul> <p>* Sample survey items for those who have never used a money-lending service were suggested as follows:</p> <ul style="list-style-type: none"> <li>● Reasons why they do not use consumer financing and business financing</li> <li>● Views on advertisements and solicitation. . . etc.</li> </ul>

				<p>Note 1: The items that are not specified as "(For consumer financing only)" or "(For business financing only)" are common to both.</p> <p>Note 2: Depending on the surveyor's voluntary decision and on an as-required basis, other items might be added to, or some items might be removed from, the items described above.</p>
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## Requests for FY2006 Tax Reform

On August 31, the Financial Services Agency submitted "Requests for FY2006 Tax Reform" to the Ministry of Finance and the Ministry of Internal Affairs and Communications. This year, we have made requests for tax reform mainly from three perspectives, namely:

- 1. Promoting market participation of a diverse range of investors**
- 2. Enhancing the competitiveness of financial institutions**
- 3. Creating a financial system that is internationally open**

### **1. Tax system for promoting market participation of a diverse range of investors**

From a perspective of facilitating shifts "from savings to investment" and thereby promoting market participation of a diverse range of investors by setting in place an easy environment for investors to invest in risk-bearing assets, we have requested, among other requests, that:

- (1) The period of application of the currently-existing stock investment tax break should be extended, and the scope of application expanded; and
- (2) As an action towards "standardized financial product taxation," aggregation of dividend income from stock etc. and capital losses should be permitted.

### **2. Tax system for enhancing the competitiveness of financial institutions**

From a perspective of having the competitiveness of financial institutions enhanced by such actions as promoting strategic investment in IT by financial institutions, we have made, among other requests, the following requests:

- (1) Extending the currently-existing IT investment tax cuts, and creating taxation measures by which to support IT investment by financial institutions for information security purposes
- (2) In relation to financial institutions: (a) extending the scope of tax-free write-offs for bad loans, from a perspective of preventing a recurrence of the non-performing loans problem, and; (b) lifting the freeze on the carry-back refund system and extending the eligible period, and extending the carry-over deduction period for losses, all in an attempt to solve the problem of instability of deferred tax assets as an asset class.

### **3. Tax system for creating a financial system that is internationally open**

From a perspective of creating a financial system that is internationally open by setting in place an environment in which it is easy for Japanese companies to borrow foreign currencies and for overseas investors to participate in Japanese markets, we have made requests for necessary taxation measures.

## Summary of FY2006 Budgeting Requests

### 1. Introduction

The Financial Services Agency has made requests for organizational, staffing and budgeting matters that are necessary for the steady implementation of, among other actions, various measures listed in the "[Program for Further Financial Reform](#)" (announced on December 24, 2004) and the "[Work Schedule](#)" for the Program (announced on March 29, 2005), including emphasis on user needs and thorough implementation of user protection rules, enhancement of the competitiveness of financial institutions and financial market infrastructure development through the strategic use of IT etc., in order for us to continue fulfilling, in view of the phase transition of Japan's financial system, our given responsibilities in an appropriate fashion.

### 2. Details of Organizational and Staffing Requests

In order to steadily implement the "[Program for Further Financial Reform](#)," the Financial Services Agency sets four areas of emphasis, based on a particular focus on enhancing our market administration structure, in making requests for organizational and staffing matters for FY2006, namely: "emphasis on user needs and thorough implementation of user protection rules," "enhancement of the competitiveness of financial institutions and financial market infrastructure development through the strategic use of IT etc.," "development of a financial system that is internationally open and the financial administration with an international perspective," and "establishment of a reliable financial administration, etc."

#### (1) Emphasis on user needs and thorough implementation of user protection rules

In order to enhance the framework for information supply and consultation etc. for user protection purposes, we are set to work on, among other plans, more extensive financial and economics education and enhanced financial service user support services, and to develop a structure necessary to enhance our market administration structure, including an enhanced structure for the establishment of investment service rules. In view of the partial amendments to the Insurance Business Law etc. in April of this year, we are also planning to develop a structure necessary for inspections of and supervision over small claims and short-term insurance businesses.

#### (2) Enhancement of the competitiveness of financial institutions and financial market infrastructure development through the strategic use of IT etc

In order to promote the strategic use of IT in the financial sector, we are set to develop a structure necessary to enhance our structure of planning and supervising policy programs in relation to IT applications in financial services. In view of the partial amendments to the Securities and Exchange Law in June of this year, we are also planning to work on the development of a structure associated with the penalty system against false descriptions in securities reports etc. and to develop a structure necessary to introduce a rating system in inspections.

#### (3) Development of a financial system that is internationally open and a financial administration with an international perspective

In order to address the growing importance of cross-industry supervision tasks as a result of, among other developments, further conglomeratization of financial services and the rapid increase in international supervision tasks, we are set to develop a structure necessary to strengthen our system of supervision over financial conglomerates and international supervision systems. For the purpose of preventing acts of terrorism, we are also planning to develop a structure necessary to strengthen our system of, among other actions, analyzing information on terrorism funding.

#### (4) Establishment of a reliable financial administration, etc.

We are set to develop a structure necessary to set in place a structure by which to, among other actions, enhance staff and strengthen the compliance in the Financial Services Agency, conduct inspections with a high degree of effectiveness and efficiency, and establish a more robust system of supervision over financial institutions.

We have requested increased staffing by 190 people in total for the purpose of developing those structures, consisting of 53 in the Planning and Coordination Bureau, 35 in the Inspection Bureau, 39 in the Supervision Bureau, 62 in the Securities and Exchange Surveillance Commission and 1 on the Certified Public Accounts and Auditing Oversight Board.

(Reference: Staffing request for FY2006)

	End-FY2005 staff size	Staffing increase requested for FY2006	Staffing increase requested for FY2005 (Amount of increase)
Planning and Coordination Bureau	289	53	50 (31)
Inspection Bureau	454	35	35 (14)
Supervision Bureau	203	39	34 (19)
Subtotal	946	127	119 (64)
Securities and Exchange Surveillance Commission	307	62	76 (44)
Certified Public Accountants and Auditing Oversight Board	41	1	5 (1)
Aggregate total	1,294	190	200 (109)

### 3. Details of Budgeting Requests

In our budgeting requests for FY2006, we have asked for a total of approximately 22.8 billion yen, an amount we reached by estimating expenses for increased staffing intended to respond to new administrative demands, as well as expenses required for, among other actions, our voluntary efforts in the "result-based projects," implementation of responsive inspections and supervision, enhanced collaboration with overseas regulatory authorities, development of an information system for higher user convenience and more efficient work execution, all in an attempt to steadily implement the "[Program for Further Financial Reform](#)," while striving to narrow the gap between budget and performance.

As an additional note, we have requested 50.15 trillion yen for government guarantees earmarked for the Deposit Insurance Corporation, which we did on the basis of our conviction that such budgeting will serve as continued assurance for financial system stability.

## Establishing the "Human Resources Network"

The "[Program for Further Financial Reform](#)," released in December 2004, along with another policy package, listed as one of the discussion agenda items the establishment of a scheme for financial institutions to secure recruitment of financial experts. In response, the Financial Services Agency (FSA) and private-sector business associations worked in collaboration to formulate a basic scheme for the "Human Resource Network," which was released to the public by the FSA on August 26 this year. A summary of the scheme is provided below.

### 1. Background

The establishment of a scheme for financial institutions to secure recruitment of financial experts was listed as one of the discussion agenda items in the "[Program for Further Financial Reform](#)," released last December, from a perspective of "enhancing governance of financial institutions and promoting sound competition through highly-developed risk management." It was also included in the "Action Program to Promote Further Enhancement of Region-based Relationship Banking Functions (FY2005-06)," released in March this year, as part of the "proactive efforts for business revitalization" of small- and medium-sized enterprises by regional financial institutions.

Behind this initiative is the fact that it is currently not always easy for a financial institution to obtain information on potential candidates when it tries to proactively seek recruitment of external personnel with professional knowledge in the financial field in its attempt to take strategic actions based on its autonomous management decision. The establishment of such a scheme is intended to support such spontaneous efforts of financial institutions by providing a structure that may enable easier access to such information.

In order to address such an issue, the FSA and five business associations for deposit-taking institutions representing different sub-sectors of the industry (namely: [Japanese Bankers Association](#), [Regional Banks Association](#), [Second Association of Regional Banks](#), National Association of Credit Associations, and National Association of Credit Unions) jointly held sessions of discussion on specific details of the planned scheme starting in March this year, in accordance with the "[Work Schedule for the Implementation of the Program for Further Financial Reform](#)." As a result, the basic scheme was recently formulated as the "Human Resource Network" and was subsequently released to the public.

### 2. Specific Details of the Scheme

As its name suggests, the "Human Resource Network" is a network connecting the five business associations listed above. If an individual financial institution intends to proactively seek recruitment of external personnel across different sub-sectors of the banking industry, that institution could make use of the network through the business association to which it belongs, and thus inquire to other sub-sectors about the availability of any candidates that may meet its needs. Meanwhile, the business associations would maintain the mutual network as infrastructure so that information can be communicated at any time according to the needs of their members.

Specifically, the scheme will work in the following fashion:

Take an example of a case where financial institution  $\alpha$  in sub-sector A needs to "recruit an expert in the area of X from a financial institution in sub-sector C." (please refer to (Appendix) *Basic Scheme of the "Human Resource Network"*).

- (1) First,  $\alpha$  presents its recruitment needs to  $A$ , the business association to which it belongs. In so doing,  $\alpha$  is required to present a minimum list of information on its needs that specifies (i) area of expertise, (ii) age group, (iii) work location or hometown, (iv) desired starting date of work, (v) deadline for reply, and (vi) name of the desired personnel supplying financial institution or, if not that specific, desired regional location of the potential supplier, desired sub-sector of the potential supplier, *etc.*
- (2) Having been presented with the needs information by  $\alpha$ , business association  $A$  communicates, via the network, the needs information to business association  $C$ , representing sub-sector C, which meets  $\alpha$ 's needs.
- (3) Having received the needs information of  $\alpha$ , business association  $C$  communicates that information to  $\beta$ ,  $\gamma$  and  $\delta$ , which are members of  $C$  that meet the needs (such as being a financial institution located in a specific region) (the involvement of the network ends when this procedure is completed).
- (4) Among  $\beta$ ,  $\gamma$  and  $\delta$ , that have received the needs information of  $\alpha$ , if  $\gamma$  becomes interested, it would directly

contact  $\alpha$  and start specific negotiations.

Any of the five sub-sectors that make up the scheme (*i.e.*, major banks, regional banks, regional banks II, credit associations, and credit unions) can be on the recruiting side, and those on the recruiting side can make inquiries on its member's needs without any restrictions on the number of sub-sectors to which it presents the information.

### **3. Significance of the Scheme**

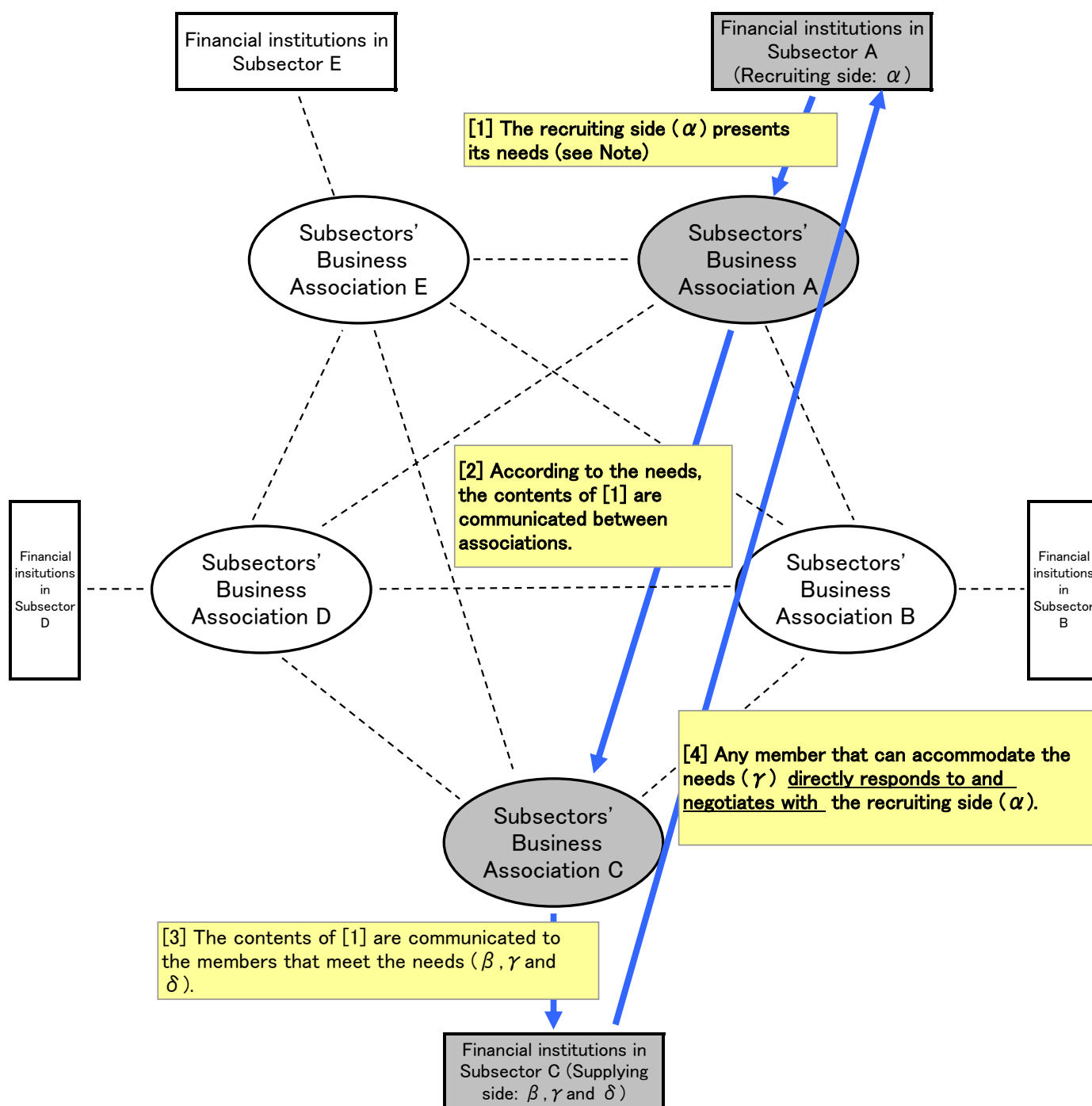
As mentioned above, it is currently not always easy for a financial institution to obtain information on potential candidates when it tries to proactively seek recruitment of external personnel with professional knowledge in the financial field in its attempt to take strategic actions based on its autonomous management decision. Given this situation, we believe that this scheme could be useful in supporting such proactive efforts by financial institutions, as it enables the recruiting financial institution to check the availability of potential candidates in a relatively short time by using the network to provide information on requirement needs to financial institutions that could potentially supply personnel.

While it will be up to each individual financial institution's voluntary decision whether or not to actually use the scheme, we hope that it will serve as a new option for financial institutions in their attempt to take strategic actions based on their autonomous management decisions, whereby they seek recruitment of external financial experts.

Note: Following caveats may be noted with respect to this scheme:

- (1) As the role of the scheme is limited to communicating information on recruitment needs of the financial institution on the recruiting side in one direction only, any financial institution contemplating responding to those needs should directly contact the recruiter and start specific negotiations outside the network. Accordingly, the network itself does not have a "job placement" function in such a sense as "brokering the establishment of an employment relationship between a recruiter and a job seeker" (Article 4, Employment Security Law).
- (2) As needs information to be communicated under the scheme comprises a specific mix of conditions regarding the needs for external personnel (from (i) to (vi) above) presented by the recruiting financial institution, the scheme basically does not expect any sharing of information on a specific individual among participating parties via the network to take place. As the process in the actual use of the scheme begins with the recruiting side presenting needs information, formulating a list of available personnel in advance is not envisioned, either.
- (3) As the scheme is set up to serve the purpose of developing a network between the five business associations for deposit-taking institutions, each representing respective sub-sector of the industry, its current framework is designed principally to address the recruitment needs among sub-sectors within the industry, while the scope of the financial institutions' needs for external financial experts may reach further out.
- (4) While the FSA and the business associations jointly held deliberations in developing the scheme, the work of establishing an actual network rests with mutual cooperation by and between those associations with no further involvement of the FSA. Also, any use of the scheme is left entirely up to each individual financial institution's voluntary decision.

## Basic Scheme of the "Human Resources Network"



Note: This example assumes a case where Financial Institution  $\alpha$  in Subsector A is in need of "recruiting an expert in the area of X from a financial institution in Subsector C."

(Any of the subsectors, A to E, may be on the recruiting side, and those on the recruiting side can make inquiries on its member's needs without any restrictions on the number of subsectors to which it presents the information.)

In presenting its needs, the recruiting institution is required to show a minimum list of information on the following matters:

- Area of expertise
- Age group
- Work location or hometown
- Desired starting date of work
- deadline for reply
- Name of the desired personnel supplying financial institution or, if not that specific desired regional location of the potential supplier, desired subsector of the potential supplier, etc.

\* The Japanese Bankers Association (a) receives information as the business association representing major banks, and also (b) manages the coordination between the five business associations.

## **Revision of Business Revitalization Plans**

The Early Strengthening Law prescribes that improvement of management of financial institutions that were recapitalized (hereinafter referred to as the “Recapitalized Financial Institutions”) must be facilitated under public pressure by announcement of Business Revitalization Plans and the progress in the implementation of the plans. Business Revitalization Plans must be revised in principle two years after establishment of the plans by Recapitalized Financial Institutions.

On August 12, 2005, Business Revitalization Plans were revised by 10 out of the 18 Recapitalized Financial Institutions that were supposed to revise those in principle every two years.

On the other hand, the Financial Services Agency (hereinafter referred to as the “FSA”) issued Business Improvement Orders to Sumitomo Mitsui Financial Group, Inc., Momiji Holdings, Inc. and Kyushu-Shinwa Holdings, Inc on July 22, 2005, because the actual figures of profits considerably underperformed the profit targets as of the end of March 2005, set in the Business Revitalization Plans, requiring them to, among other actions, establish and implement Business Improvement Plans including profitability improvement measures and facilitating them to strengthen their profitability.

These three Recapitalized Financial Institutions established new Business Revitalization Plans on September 6, 2005, into which those Business Improvement Plans were incorporated.

Recapitalized Financial Institution announced to the public new Business Revitalization Plans described above and FSA announced to the public those on an aggregated basis.

Note: Business Revitalization Plans are four year plans which financial institutions requesting to be recapitalized should be required to submit pursuant to Article 5.1 of the Early Strengthening Law, containing measures for management streamlining, etc.

## **Progress Report on Business Revitalization Plans**

The financial institutions that were recapitalized (hereinafter referred to as the “Recapitalized Financial Institutions”) under the Early Strengthening Law are required to report to the government and announce to the public the progress in the implementation of their Business Revitalization Plans until they carry out the disposal, including retirement of the preferred shares, etc. held by the government.

On August 12, 2005, the Recapitalized Financial Institutions reported on the progress in the implementation of their plans to the FSA on the basis of their 2005 March financial statements, and announced that to the public.

Note: Business Revitalization Plans are four-year plans which financial institutions requesting to be recapitalized should be required to submit pursuant to Article 5.1 of the Early Strengthening Law, containing measures for management streamlining, etc.

**Public Release of the Summary of May 2005**  
**"Small- and Medium-Sized Enterprise Financing Monitoring" Results**

### 1. Objectives and Background

The "Small- and Medium-Sized Enterprise Financing Monitoring" is performed on a quarterly basis by employees of the Local Finance Bureaus and Offices in the 47 prefectures nationwide with the help of Chambers of Commerce and Industry etc. for the purpose of accurately grasping specific issues concerning financial institutions viewed from the perspectives of small- and medium-sized enterprises, as part of efforts towards facilitating small- and medium-sized enterprise financing.

On August 12 of this year, we released to the public the results of the Monitoring performed in May 2005, which we did in accordance with the fact that releasing to the public the results of the "Small- and Medium-Sized Enterprise Financing Monitoring" was listed in the "Action Program concerning enhancement of Region-Based Relationship Banking Functions (for FY2005 to 2006)," which was released to the public on March 29, 2005, as one of the actions to be taken to make further use of the Monitoring.

The Financial Services Agency is poised to continue working on facilitating SME financing by, for instance, actively comprehending voices raised in real scenes of SME financing through the Monitoring and using the findings as important information in our conduct of inspections and supervision of financial institutions.

We are also planning to release the results on a continuous basis in the future.

### 2. Subjects of Monitoring

We conducted interviews with a total of 390 individuals from 171 organizations in the 47 prefectures nationwide, including Chambers of Commerce and Industry, Federations of Societies of Commerce and Industry, Societies of Commerce and Industry, Small Business Associations, Federations of Chambers of Commerce and Industry, and Small and Medium Entrepreneurs Associations.

Organization Category	No. of Organizations (No. of Interviewees)
Chamber of Commerce and Industry	79 (170)
Society of Commerce and Industry	49 (57)
Federation of Societies of Commerce and Industry	22 (123)
Small Business Association	16 (31)
Federation of Chambers of Commerce and Industry	2 (3)
Small and Medium Entrepreneurs Associations	1 (1)
Others	2 (5)
Total	171 (390)

### 3. Inquiry Topics

The major topics of inquiry in the recent Small- and Medium-Sized Enterprise Financing Monitoring are as follows:

- Trend in issues on SME financing over the most recent three months
- Overview of problems that SMEs face in the area of financing (those commonly found in the cases of consultation in the most recent three months)
- Case examples showing the penetration of the measures for facilitating SME financing
 

- Degree of awareness among SMEs, of the Supplementary Issue to the Financial Inspection Manual [for Small- and Medium-Sized Enterprise Financing] (revised version)

(Note 1) As the Monitoring is not a fixed-point survey whereby inquiries are conducted with the same interviewees every time, the number or makeup of interviewees may not always be consistent.

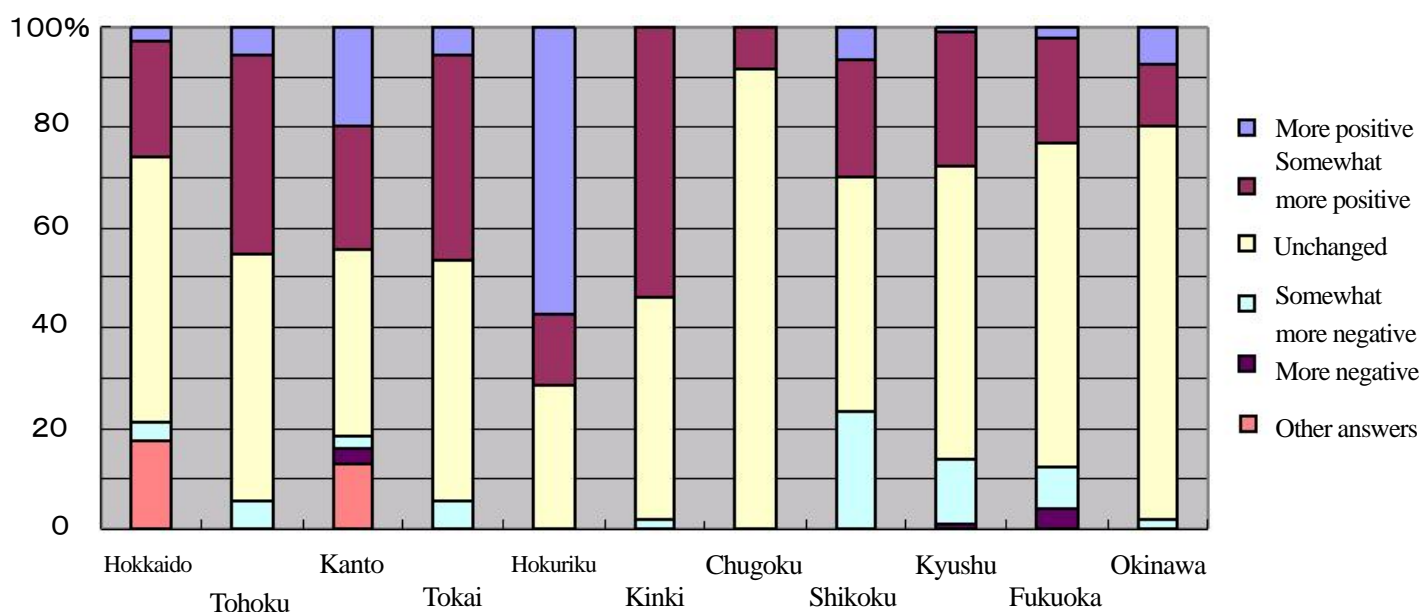


(Note 2) As one interviewee may provide multiple comments, the number of interviews and the number of replies do not match.

#### 4. Answers to Inquiries

##### (1) Trend in issues on SME financing over the most recent three months

The trend in lending attitude towards SMEs over the most recent three months is as follows:



An observation of this figure reveals that "More positive" and "Somewhat more positive" answers take up a majority in the Hokuriku and Kinki regions.

As well, the trend over the most recent three months by operation category has been summed up as follows:

Trend over the last 3 months	Major banks	Regional banks, Second Association regional banks	Shinkin banks, Credit unions	Government-affiliated financial institutions	Total no. of answers (Percentage)
1. Turned positive	8 ( 4.4)	21 ( 6.5)	28 ( 8.8)	35 (10.7)	92 ( 8.0)
2. Turned somewhat more positive	18 ( 9.9)	91 (28.1)	80 (25.2)	81 (24.8)	270 (23.5)
3. Unchanged	106 (58.6)	177 (54.6)	194 (61.2)	183 (56.0)	660 (57.4)
4. Turned somewhat more negative	3 ( 1.7)	24 ( 7.4)	11 ( 3.5)	22 ( 6.7)	60 ( 5.2)
5. Turned negative	6 ( 3.3)	4 ( 1.2)	1 ( 0.3)	4 ( 1.2)	15 ( 1.3)
6. Other answers	40 (22.1)	7 ( 2.2)	3 ( 0.9)	2 ( 0.6)	52 ( 4.5)
Total	181 (100.0)	324 (100.0)	317 (100.0)	327 (100.0)	1,149 (100.0)

The elaborated answers of those interviewees who selected 4 or 5 in the question of the "Trend in lending attitude towards SMEs" have been classified as follows:

Specified cause for finding SME financing to be negative (Elaboration of choices 4 and 5 above)	Major banks	Regional banks, Second Association regional banks	Shinkin banks, Credit unions	Government-affiliated financial institutions	Total no. of answers (Percentage)
Refusal of new loan requests	3 (25.0)	14 (35.0)	4 (25.0)	9 (33.3)	30 (31.6)
Collateral and guarantee	1 ( 8.3)	12 (30.0)	5 (31.3)	7 (25.9)	25 (26.3)
Loan assessment procedures	1 ( 8.3)	6 (15.0)	4 (25.0)	7 (25.9)	18 (18.9)
Lending terms	0 ( 0.0)	3 ( 7.5)	0 (0.0)	2 ( 7.4)	5 ( 5.3)
Interest rates	0 ( 0.0)	3 ( 7.5)	0 (0.0)	0 ( 0.0)	3 ( 3.2)
Other causes	7 (58.3)	2 ( 5.0)	3 (18.8)	2 ( 7.4)	14 (14.7)
Total	12 (100.0)	40 (100.0)	16 (100.0)	27 (100.0)	95 (100.0)

Note 1: As the Monitoring is not a fixed-point survey whereby inquiries are conducted with the same interviewees every time, the number or makeup of interviewees may not always be consistent.

Note 2: As one interviewee may provide multiple comments, the number of interviews and the number of replies do not match.

## (2) Overview of problems that SMEs face in the area of financing (those commonly found in the cases of consultation in the most recent three months)

Problems that SMEs face in the area of financing have been classified into the eight categories indicated as follows:

Problem Category	No. of answers (Percentage)
Lending attitude	103(28.2)
Collateral and guarantee	86(23.6)
Management guidance and business startup or revival assistance	34( 9.3)
Attitude in providing explanation when lending	24( 6.6)
Quality and ability of financial institutions	18( 4.9)
Period of loan assessment	10( 2.7)
Interest rates	8( 2.2)
Other problems	82(22.5)
Total	365(100.0)

Note 1: As the Monitoring is not a fixed-point survey whereby inquiries are conducted with the same interviewees every time, the number or makeup of interviewees may not always be consistent.

Note 2: As one interviewee may provide multiple comments, the number of interviews and the number of replies do not match.

**A. Comments made with respect to lending attitude**

- No grievances on lending crunch or oppressive debt collection have been reported. (Hokkaido, Kanto, Kinki, Hokuriku and Tokai)
- Well-regarded borrowers seem to have frequent visits of multiple financial institutions and seem to be asked to borrow funds that are not necessarily needed. As, on the other hand, other borrowers receive few visits, the relationships between banks and those borrowers have become more distant and, as a consequence, banks have less comprehension of their situation. (Kanto, Kinki, Chugoku, Shikoku, Fukuoka and Kyushu)
- Financial institutions are becoming more selective about companies to lend to, resulting in the appearance of polarization in their lending attitude. (Hokkaido, Tohoku and Kanto)

**B. Comments made with respect to collateral and guarantee**

- Some active efforts have been observed, such as guaranteed loans making use of private credit guarantee companies (Kinki)
- Unsecured, unguaranteed loans for business startup have been provided. (Kanto, Fukuoka, Shikoku and Kyushu)
- There has been no change in the lending attitude of financial institutions, which rely heavily on collateral and guarantee. (Hokkaido, Kinki, Chugoku, Fukuoka and Okinawa)
- Collateral devaluation and deteriorating guarantee capability due to land price depreciation have emerged as problems. (Tohoku and Kyushu)
- Businesses are in need of financing that do not rely excessively on collateral and guarantee. (Kyushu)
- While cases of unsecured, unguaranteed loans and publicly-backed loans are increasing, loan approval has become harder. (Fukuoka)

**C. Comments made with respect to management guidance and business startup or revival assistance**

- For promising companies, banks appear to provide loans flexibly, guide them and help them grow. (Shikoku, Fukuoka and Hokuriku)
- For companies with poor performance, banks still appear to try to find some way to finance them by scrutinizing the company representative's quality, as well as assets and liabilities. (Shikoku, Kyushu and Hokuriku)
- Relationship banking efforts are in good progress, as seen from the fact, for instance, that some financial institutions are taking specific steps towards forming a partnership with Chambers of Commerce and Industries with a view to assisting SMEs. (Hokkaido, Tokai and Hokuriku)
- As managers of SMEs and micro enterprises are not in a state to design a long-term vision, it is desirable that financial institutions will put more efforts into management guidance. (Tohoku)
- Steps taken by financial institutions in the areas of management guidance and business revival assistance still remain insufficient, reflecting their lack of efforts in penetrating the measures targeting SMEs among their branches. (Hokkaido)

**D. Comments made with respect to attitude in providing explanation when lending**

- Customer service manners etc. have improved from the past. (Shikoku)
- Financial institutions are found to properly fulfill their accountability to borrower companies when lending. (Tokai)
- Explanations and advice on what should be improved are not sufficiently provided. (Hokkaido, Kinki, Shikoku and Kyushu)
- Further improvement is required as to explanations of financial institutions' views and standpoints etc. when they refuse a loan. (Kyushu)
- In the case of using an automatic credit check, lending restrictions that may apply are not explained sufficiently. (Chugoku)

**E. Comments made with respect to quality or ability of financial institutions**

- Banks are working responsively and patiently on management plan development. (Tokai and Shikoku)
- Given deteriorating financial conditions of applicant companies, it is probably understandably difficult for financial institutions to decide whether to lend or not. (Tohoku)
- In loan assessment procedures, a company's past business records (financial statements) and self-owned capital are weighed heavily, while growth potential etc. is not considered. (Hokkaido, Kyushu and Fukuoka)

- Businesses in arrears, due to their inability to repay excessive loans, are sometimes left without any effective assistance because there is no coordination between lending financial institutions. (Kanto)
- Due to the lack of a "good eye" for business plans in the case of business startup loan, it is hard to reach a financing decision. (Chugoku)

#### **F. Comments made with respect to period of loan assessment**

- Improvements have been made to the complexity formerly existing in document submission associated with assessment procedures. (Kyushu)
- Credit-scoring loan products that started to be sold under partnerships between financial institutions and credit guarantee corporations are popular due to their feature of a shortened assessment period. (Kanto)
- Recently, financial institutions are often found not to give a prompt answer to a loan application and to leave it unanswered for an extended period of time. (Kanto, Shikoku and Kyushu)
- With the Personal Information Protection Law in force, it now takes longer to go through management consulting. (Hokuriku)

#### **G. Comments made with respect to interest rates**

- As competition between financial institutions regarding preferred borrowers is becoming fiercer, interest rates are increasingly lowered. (Tokai)
- Companies sometimes are disadvantaged in terms of interest rates due to worsened business conditions etc. (Fukuoka and Okinawa)
- Unless borrowers complain about an interest rate offered by the bank at the time of borrowing, they end up borrowing with a high interest rate. (Kanto and Okinawa)
- Although a smooth supply of money is available to SMEs, it is difficult for them to borrow because of high interest rates applied by financial institutions. (Chugoku)

#### **H. Others - region-specific comments**

- In Sado, many businesses suffer from deteriorating financial conditions due to such problems as a decreased demand for financing due to a declining population and sluggish tourism, and generational shifts in business owners, as well as a decrease in major economic demand due to the municipal merger. Many businesses in the tourism industry have received emergency loans from the city of Sado as a remedy for the damage caused by rumors in the wake of the Chuetsu Earthquake, but they are still all in bad financial shape. (Kanto)

#### **I. Comments made with respect to borrowers**

- Companies increasingly refrain from borrowing. (Hokkaido)
- Sometimes a problem rests on the part of borrower businesses, such as financial statements with no credibility, business plans lacking in specifics, and the utter non-existence of self-owned capital. (Kinki and Kyushu)
- Although financial institutions are supposed to carry out assessment and provide management assistance primarily on the basis of a borrower's financial conditions, there are many SME managers who are unable to present their financial conditions. (Hokuriku)
- Loathing to prepare documents required by banks, businesses increasingly choose high-interest loans. (Hokuriku and Fukuoka)

### **5. Case examples showing the penetration of the measures for facilitating SME financing**

In the Small- and Medium-Sized Enterprise Financing Monitoring, a specific theme concerning inspection and supervision is set each time for the purpose of inquiring about cases showing the penetration of the measures for facilitating SME financing. The following theme was set this time around:

Degree of awareness among SMEs, of the Supplementary Issue to the Financial Inspection Manual [for Small- and Medium-Sized Enterprise Financing] (revised version)

#### **[Comments Received]**

- While the awareness of the existence of the Supplementary Issue to the Financial Inspection Manual itself is up, its contents are yet to be understood.
- It is far more effective to raise the awareness by using mass media such as newspapers, than distributing leaflets, etc.
- It is unrealistic to expect SME managers to read a lengthy and difficult document. It would be a good idea to develop a simple leaflet, etc. using, for instance, a *manga*-style illustration that can be

comprehended in a minute or two.

- As we do recognize the government's efforts from the fact, for instance, that we frequently see publicity pamphlets, penetration among companies has also probably been achieved to a certain degree.

## **6. How the Financial Services Agency Uses the Results**

### **(1) Conducting Interviews**

Making use of the information on specific financial institutions that was obtained through the Small- and Medium-Sized Enterprise Financing Monitoring, we conducted interviews with them as to their action policies and relevant structures etc.

### **(2) Making Requests at Discussion Meetings**

At discussion meetings (held every month) between top officials of the Financial Services Agency and business association representatives and on other occasions, we have presented cases learned through the Small- and Medium-Sized Enterprise Financing Monitoring and have requested participants to, for example: further facilitate a supply of funds to sound SMEs, including loan arrangements focusing on cash flows from business activities and not relying excessively on collateral and guarantee; provide sufficient explanation, sufficient enough for the customer to be able to reach an understanding and satisfaction, that takes into consideration the past relationship with and the knowledge, experience and asset conditions of the customer, and; work on making the Supplementary Issue to the Financial Inspection Manual further known.

## **7. How Local Finance Bureaus Use the Results**

### **(1) Conducting Interviews**

Making use of the information on specific financial institutions that was obtained through the Small- and Medium-Sized Enterprise Financing Monitoring, Local Finance Bureaus conducted interviews with them as to their action policies and relevant structures, etc.

### **(2) Presentation Opportunities at Conference for Regional Financing Facilitation**

On various occasions, including the "Conference for Regional Financing Facilitation," which has been established (with its membership consisting of financial authorities, small- and medium-sized and regional financial institutions and relevant business associations) in each prefecture and is organized on a bi-annual basis for the purpose of developing customer-targeting explanation structures and strengthening consultation and complaint handling functions, and meetings between top officials of Local Finance Bureaus and representatives from financial institutions, Local Finance Bureaus have raised the awareness of participants and requested them to work on facilitating SME financing.

## **(Draft) Comprehensive Guideline for Supervision of Major Banks, etc.**

On August 19, the Financial Services Agency developed and released to the public its (Draft) Comprehensive Guideline for Major Banks, etc., with a view to seeking public comments.

Having substantial influences on Japan's economy and, in many cases, also operating on a global scale, the major banks, etc. (see Note) are expected to offer financial services that are among the best in the world and contribute to the further growth of Japan's economy and the improvement of people's daily lives.

To that end, they need to exercise highly-developed risk management, which is a crucial element in the financial intermediation business, and aim at providing better user protection and enhancing their international competitiveness while practicing appropriate corporate governance suitable in the industry that they operate in.

(Note) The major banks, etc. refer to the 11 major banks (The Bank of Tokyo-Mitsubishi, Ltd., Mizuho Bank, Ltd., Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, UFJ Bank, Limited, Resona Bank, Ltd., The Sumitomo Trust & Banking Co., Ltd., The Chuo Mitsui Trust and Banking Company, Limited, Mizuho Trust & Banking, Mitsubishi Trust and Banking Corporation, and UFJ Trust Bank, limited), as well as Shinsei Bank, Ltd. and Aozora Bank, Ltd.

Based on such a viewpoint and by reference to the contents of the Comprehensive Guideline for Supervision of Small- and Medium-Sized and Regional Financial Institutions, which has already been established, the (Draft) Comprehensive Guideline for Supervision of Major Banks, etc. provides clear and systematic descriptions of the basic ideas for the work of supervision of the major banks, etc., as well as points to note in administrative procedures and items of evaluation in supervision, for the administrative convenience of officials who are charged with supervision of the major banks, etc., all of which were thought out in consideration of what standards would be expected of the world's leading banks.

Taking into account the characteristics, etc. of the major banks, etc., the (Draft) Guideline contains additional items that are not found in the currently-existing "Comprehensive Guideline for Supervision of Small- and Medium-Sized and Regional Financial Institutions," including:

- (1) More extensive descriptions of such subjects as governance, capital adequacy, information disclosure, information technology system risk management, and procedures applicable to new entries into the banking business, and
- (2) New provisions for such subjects as profitability improvement, integrated risk management, credit risk management (including early recognition of non-performing loans and steps to turn them back to health), information technology system integration risk management, Internet banking, overseas operation management, and supervision of Japanese branches of foreign banks.

We are planning to finalize the Guideline by referring to the comments that we receive, and then proceed to release the finalized version to the public.

# Summary of (Draft) Comprehensive Guideline for Supervision of Major Banks Etc.

## I. Basic Ideas

The purpose of financial supervision is to ensure sound and appropriate administration of operations conducted by financial institutions, from the perspectives of maintaining orderly credit transactions, ensuring depositor protection and facilitating financing activities.

The basic ideas for the work of supervising the major banks, etc., as well as points to note in administrative procedures and items of evaluation in supervision, have been organized as systematically as possible, by reference to the contents of previous administrative guidelines and the Comprehensive Guideline for Supervision of Small- and Medium-Sized and Regional Financial Institutions" (the administrative guideline will be abolished upon the establishment of the proposed Guideline). Additionally, provisions have been created for the supervision of bank holding companies and bank groups on a group consolidated basis, the supervision of Japanese branches of foreign banks, and procedures applicable to new entries etc. to the banking business.

Considering that the proposed Guideline is intended to ensure sound and appropriate administration of operations conducted by the major banks, etc. while respecting their voluntary efforts, care must be taken in their implementation so that the circumstances, etc. unique to each bank should be fully taken into account and that procedures to be applied should not be mechanical or uniform.

"Major banks, etc.", to which the proposed Guideline applies, refers to the so-called major banks as well as Shinsei Bank and Aozora Bank. For other banks that operate in both trust and traditional banking businesses, new entrant banks, and Japanese branches of foreign banks, etc., the proposed Guidelines should be applied on an as-required basis.

## II. Points to note in administrative procedures for supervision of major banks, etc.

(1) Flow of supervision work (2) Assurance of coordination with the Inspection Bureau, etc. (3) Bank-related complaint handling and information supply, etc. (4) Responses to inquiries about statute interpretation, etc. (5) Points to note in delivering administrative guidance etc. (6) Points to note in delivering administrative action etc.

## III. Items of evaluation in supervision of major banks etc.

### 1. Corporate governance

Check the effectiveness of corporate governance of major banks, etc.

- (1) Responsibilities of representative directors, directors and board of directors
- (2) Management oversight functions of auditing officers and board of auditing officers
- (3) Management oversight functions of internal audit sections
- (4) Use of external auditors
- (5) Coordination between external audit functions and internal audit sections etc.

### 2. Financial soundness, etc.

Check systems of control for assuring financial soundness of major banks etc.

- (1) Capital adequacy  
*E.g.*, development of systems of evaluating the degree of capital adequacy in light of its own risk characteristics, analysis of equity capital quality, and disclosure of deferred tax assets
- (2) Profitability improvement  
*E.g.*, actions towards business reconstruction based on accurate profitability analysis and evaluation, strategic use of IT
- (3) Risk management systems  
*E.g.*, integrated risk management, credit risk management (provisions have been created that set forth the establishment of systems designed for major borrower credit management, country risk management, and early recognition of non-performing loans and steps to turn them back to health (concerted revival of industry and finance)), market risk management, liquidity risk management

(Note) In the provisions concerning credit risk management, the matters that have previously been requested to the major banks for non-performing loans problem solution purposes under the Program for Financial Revival, etc. have all been put together (such as the application of the DCF method to major borrowers whose debts are categorized as special attention loans).

### 3. Appropriateness of operations, etc.

Check compliance systems, etc. of major banks, etc.

- (1) Statutory compliance
- (2) Information disclosure  
*E.g.*, appropriate disclosure of risk-monitored loans (such as revision of rules for restructured loans), development of internal control systems formulated to ensure proper financial reporting, disclosure in a fashion easy for users to understand
- (3) User protection  
*E.g.*, customer-targeting explanation structures and consultation and complaint handling functions with respect to credit transactions, deposits and the sale of risk-bearing products (investment trust products etc.), customer information management, and assurance for appropriate administration of private banking operation
- (4) Computer system risks  
*E.g.*, constant review of computer system risk management structures, ATM system security measures, appropriate risk management regarding the use of interbank system networks
- (5) System integration risk project management  
*E.g.*, clear division of responsibilities among directors and clear definition of the management's position for system integration, rationality of the management's decision on system integration approaches, development of a sufficient testing and rehearsing structure, internal controls and third-party evaluation with effectiveness
- (6) Internet banking *E.g.*, security assurance
- (7) Overseas operation management *E.g.*, appropriate actions in relation to overseas regulatory authorities

### 4. Further improvement of customer convenience, etc.

Diverse and high-quality financial product and service offerings catered to user needs  
Disclosure of information concerning corporate social responsibilities (CSR)  
Business continuity management (BCM)

## IV. Bank holding companies

In the supervision of bank holding companies, the basic approach should be to apply the "Guidelines for Financial Conglomerate Supervision" and the provisions for banks in the proposed Guidelines; separate provisions have been created for any matters that must be noted specifically in the case of supervising bank holding companies.

## V. Supervision of bank groups on a group consolidated basis, etc.

As matters that must be noted in supervising bank groups, provisions have been created for the scope of operations of a bank's subsidiary etc. and arm's-length rules etc.

## VI. Supervision of Japanese branches of foreign banks

As points to note in supervising Japanese branches of foreign banks, provisions have been created for proper branch management and business administration by the bank's head office and the branch, development of information management structures, and coordination and information exchange with regulatory authorities of the bank's home country, etc.

## VII. Procedures applicable to new entries etc. to the banking business

Provisions have been created for banking license application procedures applicable, respectively, for cases of limited banking operation, cases of principally operating in a non-interpersonal service such as Internet-based banking or ATM operation, and cases in which an applicant has a parent company in business, and for the major shareholding approval application procedures for companies in business and investment funds.

## Children's Kasumigaseki Visit Day

On Wednesday, August 24 and Thursday, August 25, the Financial Services Agency hosted the "Children's Kasumigaseki Visit Day" program.

"Children's Kasumigaseki Visit Day" is a program in which ministries and agencies etc., including the Ministry of Education, Culture, Sports, Science and Technology, the organizing ministry, work in collaboration to offer opportunities for families to deepen their connection and for children to learn broadly about society in a hands-on fashion during their summer vacation, as well as to promote more understanding of what each ministry or agency etc. does, by, for instance, providing program participants with explanations of their activities and tours of their premises.

Joining this program since last year, the Financial Services Agency also aims at creating an opportunity for participants to develop a deeper understanding of the workings of finance in their daily lives and what the work of the Financial Services Agency is all about.

This year, we sought applications for participation in the program in advance and welcomed twenty-two children on the 24th and twenty on the 25th, despite the latter having the unfortunate weather conditions of an approaching typhoon.

On both days, the participants were asked to come to the special conference room on the ninth floor at 10:00 a.m., where they received an orientation and explanations of the Agency's activities etc. and sat for a talk given by the Director of the Public Relations Office about the organization of the Financial Services Agency.

Subsequently, they toured the Minister's office where they took pictures and examined the room according to their fancy; some of them sat on the Minister's chair and had pictures taken with the parliament building in the background.

After visiting the Minister's office, the participants moved to the press conference room where a lecture on "financial and economic education" was given by Mr. Hiroshi Ikushima, a news anchor, on the 24th and Ms. Mikiko Ariake from the Association for the Promotion of Financial Literacy on the 25th.

On the 24th, Mr. Hiroshi Ikushima appeared to the tune of Mr. Antonio Inoki's ring song and, after encouraging the participants to relax first by doing some hand exercises, spoke about finance and the economy by citing examples of familiar foods, products and companies.

On the 25th, Ms. Mikiko Ariake gave a talk about money in the form of a quiz (for example: "How much does it cost to print a 10,000-yen bill?") under the title of "Check It Out! Relationship Between You and Money."

After the lecture, the participants moved to a tribunal room where the children each played, by drawing lots, the role of "administrative law judge," "designated official" or "respondent / attorney" to hold a "moot tribunal" to decide whether or not to impose penalties against insider trading etc. The Visit Day was wrapped up with this moot tribunal, which was reported by the media etc. and was highly appreciated by the participants as well.

Over the same two days of August 24 and 25, a total of 51 children showed up in the first floor lobby of the Central Common Government Offices to participate in a get-it-stamped event held there that was organized jointly by ministries and agencies, and they got a Financial Services Agency stamp.

In the questionnaires that we asked the children and accompanying adults to fill out, we received many comments that "the program was interesting and instructive as a whole," with particular references made to the "moot trial experience" and "lecture," saying, for example, that they learned a lot or enjoyed themselves.

On the other hand, this also revealed the reality that children learn almost nothing about "finance" in their respective schools.

We are intent on delivering the program even better next time so as to make good use of the various voices of the participants that we received this time and also to encourage the children to develop an interest in and have a deeper understanding of the workings of finance and the work done by the Financial Services Agency.



## Proposed Ministerial Notification concerning a Partial Revision to Capital Adequacy Requirements

### [Background]

Financial institutions in Japan have used tax effect accounting since the fiscal year ended March 1999. Tax effect accounting is designed to adjust the differences between business accounting and tax accounting. These differences result from differences in timing between the recognition of revenues and expenses for business accounting purposes and that of profit and loss for taxable income calculation purposes. Specifically, expenses that are reported for accounting purposes but are not treated as losses for tax purposes (tax-deductible write-off and provisions) reduce tax payments in the future when these expenses are recognized as losses upon generation of taxable income. This portion is treated as deferred tax assets because they are deemed to represent prepayment of taxes. In recent years, the write-off of non-performing loans, mainly by major banks, has accelerated, causing these deferred tax assets to grow.

In light of this situation, the “Program for Financial Revival”, etc. charged the Financial System Council with the “task of speedy examination” to introduce a proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios. In response, the Working Group on the Capital Adequacy Requirements (chaired by Prof. Kazuhito Ikee of Keio University) within the Second Subcommittee of the Sectional Committee on Financial System, the Financial System Council, held discussions, examining issues from legal, accounting and tax perspectives. After 15 rounds of discussions, the group compiled a report.

The report of the working group was accepted at the 17<sup>th</sup> meeting of the Second Subcommittee of the Sectional Committee on Financial System, the Financial System Council, held on June 22, 2004 under the title of Subcommittee Report: “Regulatory Treatment of Deferred Tax Assets in Calculating Capital Adequacy Ratios and Other Issues related to Capital Adequacy of Banks.”

Regarding the necessity to introduce a proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios, the report stated that the vulnerability of deferred tax assets could not be overlooked from the point of view of depositor protection and that “there was broad support for the idea that proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios should be introduced as it is important to make capital adequacy ratios serve well as trigger of prompt corrective actions.”

However, the report also made the following three cautionary points that should be heeded in the implementation of such a change:

1. Consistency with macroeconomic policy management, financial system stability and its current situation should be taken into consideration when introducing proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios, and the implementation should be phased in over a reasonable period of time.
2. The change should preferably take effect after the goal of slashing the ratio of non-performing loans in half is met.
3. It is desirable that differences between the tax systems of Japan and those of countries which are believed to use tax-deductible write-off and provisions more extensively are taken into consideration when introducing a proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios.

Based on the contents of the report, the FSA studied the issues of introducing a proper regulatory treatment of deferred tax assets and released the following proposal to revise the requirements on September 22, 2005.

### [Banks Subject to the Proposed Revision]

Based on the above-described background of deliberation, **the “Major Banks” are subjected** to the proposed revision. The Major Banks reached their goal of halving their non-performing loan ratios in the fiscal year ended March 2005 as had been mandated by the “Program for Financial Revival.” The environment is thus considered to be ready for implementation of the change to introduce a proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios.

(Note) The “Major Banks” consist of the following banks and bank holding companies:

Mizuho Financial Group, Inc., Mizuho Bank, Ltd., Mizuho Corporate Bank, Ltd., Mizuho Trust & Banking Co., Ltd., Mitsubishi UFJ Financial Group, Bank of Tokyo-Mitsubishi, Ltd., UFJ Bank, Ltd., Mitsubishi UFJ Trust and Banking Corp., Sumitomo Mitsui Financial Group, Sumitomo Mitsui Banking Corp., Resona Holdings, Inc., Resona Bank, Ltd., Mitsui Trust Holdings, Inc., The Chuo Mitsui Trust and Banking Co., Ltd., and The Sumitomo

Trust & Banking Co., Ltd.

**[Description of introducing proper regulatory treatment of deferred tax assets]**

**The percentage (upper limit) of deferred tax assets booked in Tier 1 of the equity capital will be gradually reduced to 40% starting with the end of March 2006, 30% starting with the end of March 2007, and 20% starting with the end of March 2008. Any excess above the limit will be deducted from the amount of Tier1.**

\* Please refer to **the Primer on Financial Literacy: “Tier 1” and “Tier 2”**, found in this Newsletter, for explanation of Tier 1 of the equity capital.

## Introduction of the Financial Administration Advisory System

The aim of the Financial Administration Advisory System is to gather and accurately gauge the opinions of a wide range of Japanese people about financial administration, incorporate their opinions in the planning and design of financial administration and its operational improvement so as to further raise the quality of financial administration services. In addition, it hopes to raise Japanese people's levels of understanding about financial administration by actively furnishing them with information. The Work Schedule for the Implementation of the Program for Further Financial Reform, released this March, declared the creation of the advisory system within the Local Finance Bureaus. We have recently created the advisory system and completed the appointment of the advisors at Local Finance Bureaus and their branch offices as follows:

### - Status of Financial Administration Advisor Appointments

Number of Appointees: Five at each of the Local Finance Bureaus for a total of 50 individuals (including 18 women). Their breakdown is as follows:

- |  |    |
|--|----|
| (i) Users of financial institutions (such as small and medium-sized business owners)   | 15 |
| (ii) Management consultants working at chambers of commerce, etc., management consultants to small and medium-sized enterprises, tax accountants, certified public accountants, etc. | 14 |
| (iii) Members of consumer organizations, employees of local governments (in charge of consumer consultation), etc.   | 8  |
| (iv) University professors and other educators, consultants, financial planners, etc.  | 13 |

Financial Administration Advisors are expected to perform the following duties:

- (i) To furnish opinions about financial administration; and
- (ii) To participate in spreading information about financial administration, such as on efforts to disseminate financial knowledge and educate the public about finance and economy, as well as user protection measures and promotion of Region-Based Relationship Banking

## Summary of the Results of the Survey as for the Status of IT Use by Financial Institutions

### Introduction

Over a period of approximately one month between July 8 and August 1 and with assistance from financial institutions and industry organizations, the FSA asked all deposit-taking financial institutions, securities corporations and insurance companies that operate in Japan to take part in a “Survey of the Status of IT Use.” The agency released the compilation results of the survey on September 30. We would like to take this opportunity to thank all individuals and organizations that assisted us with the implementation of this survey.

This section of the newsletter presents the objective of this survey and introduces the compilation results of the responses, which were received from approximately 80 percent (839 corporations) of those who were requested to respond, and reveals the true picture of IT use by Japanese financial institutions.

### 1. Objective of the Survey of the Status of IT Use

The [Program for Further Financial Reform – Japan’s Challenge: Moving toward a Financial Services Nation](#) was created and released at the end of last year. The Program encompasses the “study of measures to ensure the transparency of the IT investment process of financial institutions, and to encourage improved cost performance and risk management abilities” with a view toward strengthening competitiveness of financial institutions with the strategic use of IT. In response, the Work Schedule, released this March, stipulated the “implementation of a survey to grasp the actual status of IT use by financial institutions, and collection and official announcement of the survey results.”

Based on the contents of the “[Program for Further Financial Reform](#)” and those of the “[Work Schedule](#),” this survey was conducted with the goal of providing financial institutions with useful data for making future investment decisions on IT and constructing business models. At the same time, the survey aims to offer a platform for discussions for the “exchange of opinions among persons with practical experience and influential individuals about improving the efficiency of IT investment and measures for strategic use of IT” as described in the “Work Schedule.”

Needless to say, decisions regarding how to use IT and how to invest in IT are left up to the discretion of individual financial institutions. In the absence of statistical data on IT use in the financial industry, however, collection, compilation and publication of such data by the government are believed to support financial institutions to evaluate the efficiency of their investment in IT and the positioning of IT in their business strategies. Summarization of data that shows the overall picture also makes it possible to compare the reality of IT investment in the Japanese financial sector with situations in foreign countries.

This survey was conducted to collect and subsequently publish data that are difficult for individual corporations or industry organizations to gather. It is our hope that such data will be used by financial institutions in their decision making on future investment in IT.

### 2. Summary of the Results of the Survey

The status of IT use among Japanese financial institutions was surveyed based on the following four perspectives:

- (i) Basic statistics about spending for IT.
- (ii) Current status of IT use, issues and areas of future efforts, viewed in terms of its cost vs. effect
- (iii) Current status of IT use, issues and areas of future efforts, viewed in terms of its strategic use.
- (iv) Current status and issues relating to infrastructure for financial transactions.

The survey results are summarized and presented along the following four perspectives:

### (i) Overall Picture of IT Spending among Financial Institutions

**Fig. 1** presents the total picture of IT spending by Japanese financial institutions as of the end of the 2004 fiscal year.

It shows that Japanese financial institutions' IT-related spending totaled approximately ¥1,800.0 billion as of the end of the 2004 fiscal year. By business mode, the total is broken down to slightly over 30% spent by the major banks, slightly over 20% by regional banks, and approximately 10% each by major securities corporations, life and non-life insurance companies, and cooperative financial institutions.

The graph in **Fig. 2** breaks down the total IT-related spending among independent systems, shared systems and outsourced systems. It shows that spending for independent systems amounted to approximately 75% of the total, representing the largest spending segment. It also shows that spending for shared systems was made mainly by regional banks and cooperative financial institutions, although the total amount of such spending represented only a small portion of the total spending.

(Note) Independent systems refer to systems that are developed, purchased or leased independently by individual financial institutions. Shared systems are business systems that are jointly developed and run by multiple financial institutions. Outsourced systems are systems that are outsourced to vendors (including those that are developed, as well as maintained and run, by vendors).

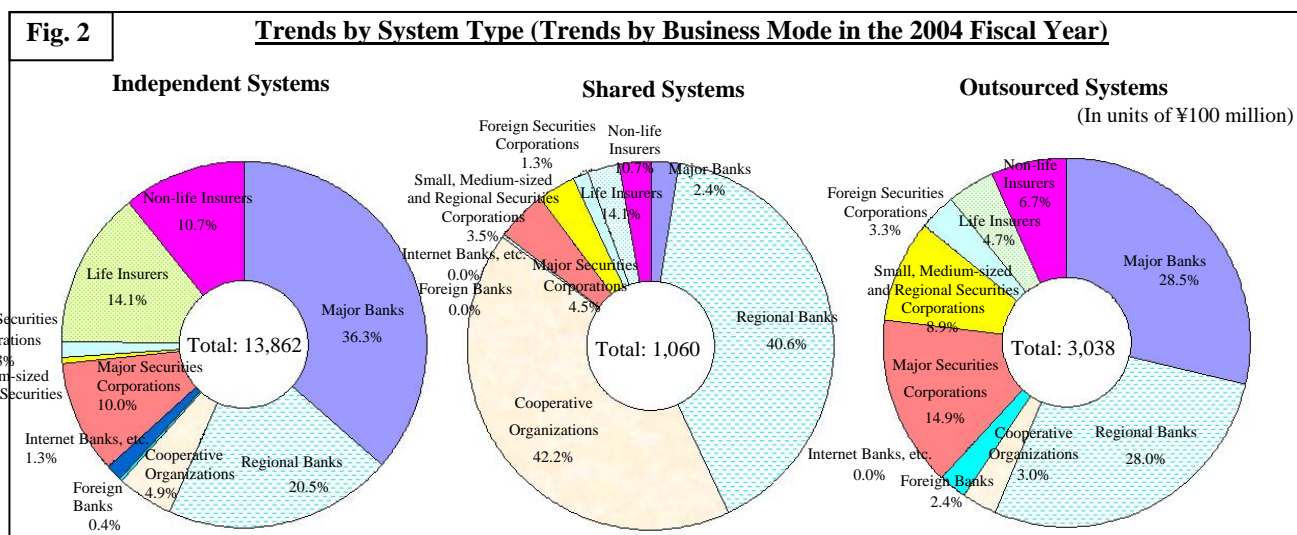
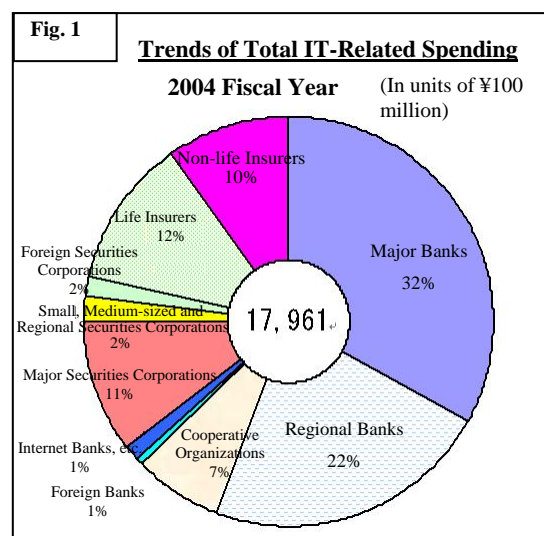


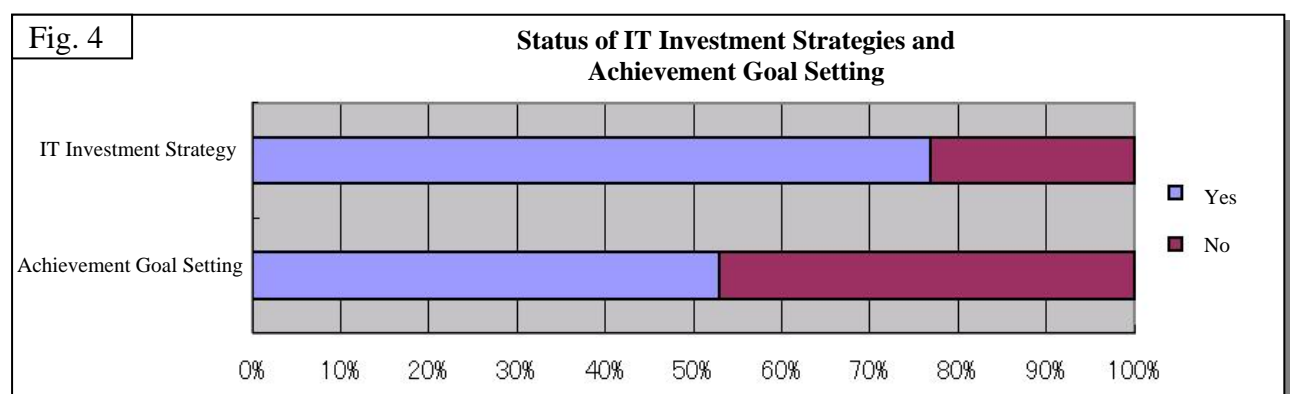
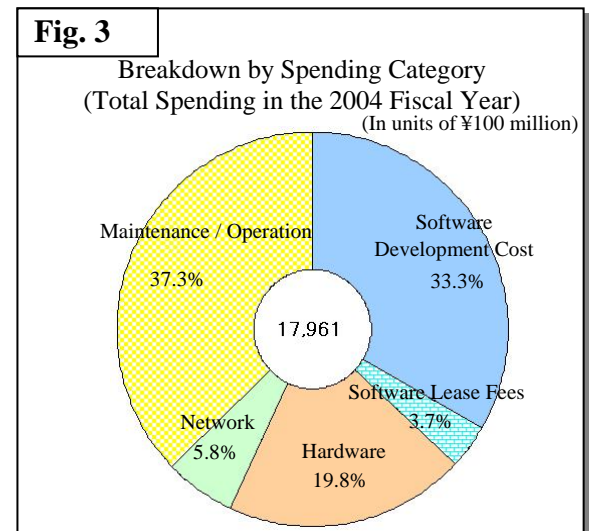
Fig. 3 shows the trends of IT-related spending among five spending categories, consisting of software development cost, software lease fees, hardware, network, and maintenance/operation. The graph shows that spending for maintenance and operation represents the largest spending category.

By business mode, major banks, major securities corporations, and life and non-life insurers were found to have spent substantially on software development whereas regional banks and cooperative financial institutions spent a great deal for hardware and networks.

#### (ii) Current Status of IT Use, Issues and Areas of Future Efforts, Viewed in Terms of its Cost vs. Effect

Next, a summary of the results of a survey on the current status, issues and future areas of efforts with respect to the way IT is used, based on the perspective of cost vs. effect is introduced by breaking down the process into the following phases: planning/design, procurement, development, maintenance/operation and post-spending evaluation.

**Fig. 4** shows the results of a survey on the question of whether or not financial institutions set their IT investment strategies and goals with respect to the effects of their IT investment. The figure reveals that more than 70 percent of financial institutions set strategies for investment in IT, but only approximately half of them established goals for the effects. Regarding the question about “issues that planning and design face,” many responded with such answers as “It is difficult to tell whether the effects of investment are reasonable. (There is no objective external criteria that can be used to evaluate one’s company’s investment decisions.)” On the other hand, financial institutions that already had set goals for effects gave such comments as the following: “Such indicators as ROI, ROA, ROE, internal rate of return, break-even point, net present value, etc. are used as quantitative targets,” “Investment projects are classified into four categories (maintenance of status quo, quality improvement, cost reduction, and profit improvement) and expected effects (financial effects, non-financial effects, opportunity loss prevention effects) are established on a category by category basis.”



In the “procurement” phase, nearly all financial institutions, regardless of their business modes or sizes, responded that they considered “cost” to be important when they were asked about “important factors to consider when making procurement decisions (multiple answers were permitted).” On the question of “efforts to reduce cost when making purchases (multiple answers were permitted),” answers included “extensive use of competitive bidding” (52%), “purchase of systems that are used by many other companies” (39%) and “surveys of other companies in the same industry” (38%). (The figures in parentheses are percentages of financial institutions that

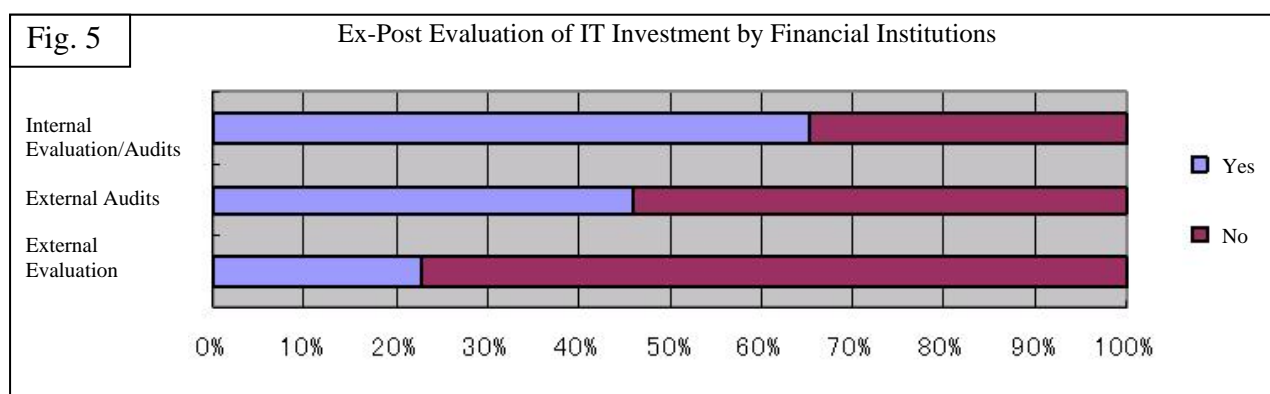


picked respective answers. The same applies in the remainder of this section.) Regarding “specific issues faced in procurement,” a number of respondents stated that “verification of the reasonableness of development man-hours, price, contents, etc. is not possible, due to the fact that systems have been turned into black boxes.”

In the “development” phase, on the question of “efforts to control the development process”, answers included “periodic reporting to the executive board” (61%), “establishment of project control rules” (45%) and “introduction of project management tools” (20%). About “specific issues experienced in development,” answers included the following: “System development has been implemented on a system by system basis under various design concepts instead of taking the concept of overall optimization into consideration. This resulted in high development and maintenance costs and rigidity to change.” “Professionals who have expert knowledge and those who have the skills of project management are in short supply or becoming older.” On the other hand, responses also provided such success stories as the following: “Project management was successfully carried out by holding regular process meetings, where not only system division members but also members from user divisions and other related groups met together.” “Thorough process control was achieved successfully by establishing the ‘development process standards’ that set rules about planning and design, development and testing, and all the way to verification.”

The largest portion of IT-related spending was made in the “maintenance and operation” phase. On the question of “efforts for the reduction of maintenance and operation cost (multiple answers permitted),” such answers as “Use of SLAs (Service Level Agreements)” (41%) and “Procurement that is based on life cycle cost” (28%) were received. These two items were also listed most frequently as the “items that are hoped to be tackled in the future.” Regarding “issues relating to maintenance and operation (multiple answers permitted),” answers included “Maintenance requirement is often greater than initially anticipated” (36%) and “Maintenance and operation cost far surpasses the initial projections” (14%). In addition, such answers as “The support period is short,” and “Vender pricing is ambiguous” were obtained.

Lastly, with respect to the “post-IT investment evaluation” phase, evaluation efforts are depicted in **Fig. 5**. The figure shows that slightly less than 70 percent of financial institutions conducted internal evaluation and audits, whereas slightly less than 50% of them used external audits and slightly greater than 20% of them relied on evaluations by outside organizations. Many of the respondents stated that external audits were conducted as part of financial audits by audit firms.



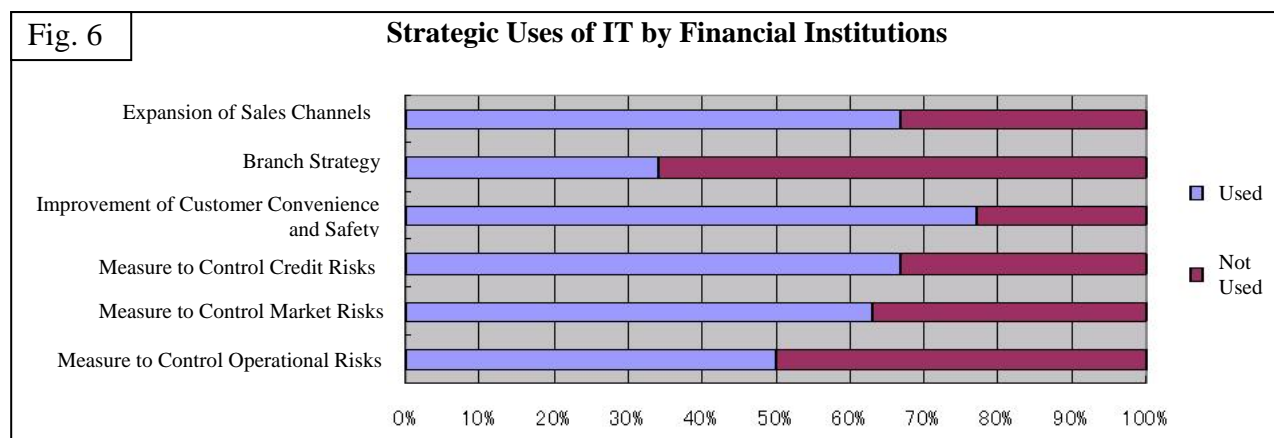
### (iii) Current Status of IT Use, Issues and Areas of Future Efforts, Viewed in Terms of its Strategic Use

Regarding the status of IT use for strategic purposes, the current situation and issues were examined for each of the items, consisting of “an expansion of sales channels,” “branch strategies,” “improvement of customer convenience and safety,” and “risk management.”

Among the objectives that financial institutions rated high as important with respect to their investment in IT, “improvement of customer convenience and safety” generally ranked high, a

reflection of countermeasures to recent revelation of counterfeit cards and the implementation of the Personal Information Protection Law. **Fig. 6** is a summary of whether or not financial institutions have made investment in IT to meet each of the objectives listed.

As for the reasons for “unable to make investment in IT for strategic purposes”, answers included “shortage of budget, manpower and knowledge,” “uneasiness on security” and “difficulty in making cost vs. benefit analysis” were obtained. These answers were pointed out under each of the items.



#### (iv) Current Status and Issues Relating to Infrastructure for Financial Transactions

Lastly, opinions about IT infrastructure for financial transactions, such as Zengin (All Banks) Network system, Bank of Japan Financial Network System and stock exchange systems, are introduced.

The survey revealed that 30.5% of the financial institutions were “satisfied” with the “current situation in terms of cost performance,” whereas 21.6% were “unsatisfied.” “Neither satisfied nor unsatisfied” answers accounted for 47.9%. One big reason for the “unsatisfied” answers was the “high cost of network use and limited capacities.” Many respondents expected that in the future “networks can be used faster and less costly, and security will be ensured.”

With respect to “the level of satisfaction from the perspective of strategic use,” 26.1% of the respondents were “satisfied,” whereas 23.1% were “unsatisfied,” 50.8% were “neither satisfied nor unsatisfied.” These results were similar to the responses to the question about “the level of satisfaction from the perspective of cost performance.” Reasons for the “unsatisfied” responses were “inadequate IT infrastructure for business alliances between different business modes, etc.” and “the capacity and speed for processing transactions not having reached the levels demanded by customers.” Looking ahead, respondents hoped for “establishment of infrastructure which is highly expandable, flexible and applicable to a wide range of uses.”

## 4. Conclusion

In the preceding paragraphs, the results of the Survey of the Status of IT Use by Financial Institutions were presented concisely. The survey revealed that such IT use-related items by financial institutions as “establishment of information security” and “improvement of operational efficiency” generally received higher priority over such items that are aimed at profit growth as “branch strategies” and “an expansion of sales channels.” The survey also found that a number of financial institutions consider that the creation of criteria to determine the effect of pre- and post-IT investment and the establishment of company-wide project management techniques to achieve overall, instead of partial, optimization are challenges that should be tackled in the future.

It is believed that IT will play a significant role as Japan targets for a “desirable financial system that offers high levels of satisfaction to users” as advocated for in the “Program for Further



Financial Reform.” With a view toward realizing the “desirable financial system”, we will appreciate if the results of this survey will support financial institutions as they examine and execute plans for the strategic use of IT in accordance with their respective business models.

## Policy to Review the FSA Operation and System

Incorporation of IT in administrative services in the past was limited to what could be done on the basis of existing services and programs. Adequate efforts were not expended to re-examine the services from the systems and operational points of view before their computerization. Construction and operation of systems that respond to new ways of processing work based on such a re-examination was non-existent. Neither were the services and programs optimized with the adoption of IT, as demonstrated by the creation and operation of separate systems by different ministries with respect to common or similar types of services that were handled among all the ministries although efforts were made by individual ministries to establish consistency with the established legal systems.

Recognizing such a situation, the government released its electronic government construction plan on July 17, 2003, which was subsequently revised on June 14, 2004. The plan called for the creation of an optimization plan that encompasses such tasks as re-examination of services and programs, standardization and centralization of computer systems, and outsourcing of services in connection with services and systems that are common among ministries, as well as other services and systems that are specific to individual ministries. The optimization plan will also have to show a (projected) quantitative impact of the plan execution in reducing the time and cost that are currently required to complete the services. The deadline for the creation of the optimization plan is the end of the 2005 fiscal year.

In addition, policies on the re-examination of the services and systems that encompass the basic philosophy of optimization and specific reform items must be devised as a preliminary step toward the establishment of an optimization plan for services and systems by June 2005 at the latest so as to reveal the overall picture of specific steps involved in the service and system optimization for the entire government.

In response, the FSA established the following service and system re-examination plan on June 29, 2005:

Type of Service	System Name
Financial inspections and supervision services	Financial Inspection and Supervision Data System Monitoring System
Services relating to oversight of securities trading, etc.	Integrated Securities System
Services relating to reporting of suspicious transactions.	Specified Financial Information Database System
Services relating to securities reports, etc.	EDINET (Electronic Disclosure for Investors' NETwork)

Some of the features of the plan are the sharing of appropriate information among relevant departments and strengthened coordination among systems in the areas of “financial inspections and supervision services” and “services relating to oversight of securities trading, etc.”; computerization of administrative work and stepped-up analysis functions in the area of “services relating to reporting of suspicious transactions”; and improvement of convenience to users with the adoption of XBRL (eXtensible Business Reporting Language: a computer language that is capable of efficiently using financial information) in the area of “services relating to securities reports, etc.”

With respect to policies on service and system re-examination, security-related operation and systems will be closely examined on an ongoing basis from a professional point of view, and necessary action will be taken in the areas of systems and operations while recognizing the social demand and technical trends about information security.

Looking ahead, we plan to establish the service and system optimization plan, which translates the policies on service and system re-examination into specific steps, at an earliest possible time before the end of the 2005 fiscal year.

\* For further details about the government-wide efforts on the promotion of e-Government, please visit the [e-Government Home Page](#) and click on “[e-Government](#).”

## **Efforts on Promoting the Use of the Electronic Government (e-Gov)**

The construction of an electronic government aims to improve the convenience to the Japanese people and raise the efficiency of government operations, such as the reduction of procedural burden on users and promotion of administration efficiency, by taking advantage of information technologies, including computers and networks, in every field of administration.

Our efforts so far have been directed at building the base to make available on-line essentially all filing and reporting procedures that the administrative organization of the national government handle. The key task for the future is to determine how best we can encourage the use of the electronic government by utilizing this established base.

To promote the use of the electronic government, it is essential that all ministries and agencies work closely together in addition to constructing systems and improving services that cater to user needs. As government-wide efforts, we plan to promote effective PR and promotional activities, which may include holding try-out events, where people can experience how to use the electronic government, and seminars, and making announcements on our Web site and in newspapers and magazines. (\* For further details about “Electronic Government and the Electronic Municipalities” try-out events (sponsored by the Ministry of Internal Affairs and Communication), please visit the e-Government Home Page (e-Gov) and click on “News.”)

During the current fiscal year, the week from Friday, October 21 to Thursday, October 27 is designated to be the week to promote the use of Electronic Government. Mainly during the week, various ministries and agencies will conduct PR and promotion activities. The FSA too plans to conduct effective activities to promote e-Gov.

## [Explanation of Laws and Regulations]

### **Order to Partially Revise the Enforcement Regulations for the Law concerning the Identity Verification of Customers, etc. by Financial Institutions, etc. and Prevention of Improper Use of Bank Accounts, etc.**

In order to add a method that uses the Public Certification Service for Individuals to the methods of customer identity verification that are specified by the Law on Customer Identification and Retention of Records by Financial Institutions, and Prevention of Fraudulent Use of Deposit Accounts (to be referred to as the “Customer Identification Law”), the enforcement regulations for the law were revised and implemented on October 11.

#### **1. Reason for the Revision**

Under the Public Certification Service for Individuals, personal identity verification services that are required for online filing and other procedures are offered by providing electronic verification services by using electronic certificates that are issued by prefectural governors in accordance with the Law Concerning Certification Services for Electronic Signatures by Local authorities (to be referred to as the “Law of the Public Certification Service for Individuals”). Preventive measures are incorporated in electronic certificates (to be referred to as “JPKI Electronic Certification”) that are used in such services so as to keep them from falsified as the result of the use of electronic signatures based on the Law of the Public Certification Service for Individuals. Certificates are also verified for effectiveness. The certificates are thus assured to have the reliability comparable with that of customer identification verification documents that are used by financial institutions in the verification of their customers’ identities as required by the Customer identification Law.

Electronic verification services that use such electronic certificates in accordance with the Law of the Public Certification Service for Individuals are similar to electronic verification services based on the “Law Concerning Electronic Signatures and Certification Services: (to be referred to as the “e-signature Law”), which have already been approved as a method of customer identity verification for the purposes of the Customer Identification Law. There are therefore no specific obstacles to adding these services as a method of customer identification for the purposes of the Customer identification Law. Consequently, the Enforcement Regulations for the Law on Customer Identification and Retention of Records by Financial Institutions, and Prevention of Fraudulent Deposit Accounts (to be referred to as the “Enforcement Regulations for the Customer Identification Law”) have been partially revised to add the method of customer identification that uses the Public Certification Service for Individuals.

(Note) In connection with this subject, the IT Policy Package 2005 – Toward the Realization of the World’s Most Advanced IT Nation – (approved by the IT Strategy Headquarters in February 2005) advocates for the “promotion of use of the Public Certification Service for Individuals and the Basic Residential Registers Network System” as one of the administrative services items that should be promoted. The current revision corresponds to one of the specific steps mentioned in the package as a way to achieve this goal. Specifically, the package states that “a conclusion should be drawn at the earliest possible time but before the end of the 2005 fiscal year on such tasks as the introduction of electronic certificates by the Public Certification Service for Individuals for use as documents for customer identification for opening accounts, etc. by financial institutions, etc. that provide specified verification services. (The Ministry of Internal Affairs and Communications, the FSA and other relevant ministries)”

#### **2. Outline of the Revision**

The following method, which uses the Public Certification Service for Individuals, has now been added to the methods of customer identification by financial institutions, etc. that are permitted under Article 3 of the Enforcement Regulations for the Customer Identification Law:

(1) The method of receiving from a customer (i) a government-issued electronic certificate that is issued by a prefectural governor, and (ii) information concerning a transaction, such as execution of a depository saving agreement, that uses an electronic signature that is verified by the electronic certificate, simultaneously with (iii) the receipt of information concerning an application for issue of an electronic certificate that is issued by a financial

institution, etc. that is a signature verifier as specified in Paragraph 4, Article 17 of the Law of the Public Certification Service for Individuals.

When the financial institution, etc. is an administrative organization, etc. that is specified in Paragraph 1, Article 17 of the Law of the Public Certification Service for Individuals (i.e., Japan Post or Shokou Chukin Bank), the receipt of (i) and (ii) suffices.

Financial institutions, etc. refer to financial institutions, etc. as specified in Article 2 of the Customer Identification Law.

(2) The method of receiving from a customer (i) an electronic certificate that is issued by a private certification service provider and used for specified certification services that are provided by said private certification service provider (to be referred to as a “privately-issued electronic certificate”), and (ii) information concerning a transaction, such as execution of a depository saving agreement, that uses an electronic signature that is verified by the privately-issued electronic certificate.

A private verification service provider is a person who is appointed by the Minister of Internal Affairs and Communication in accordance with the provisions of Paragraph 1, Article 17 of the Law of the Public Certification Service for Individuals and authorized to issue a privately-issued electronic certificate described in (i) above at the request of a customer, etc.

Specified verification services refer to specified verification services stipulated in Paragraph 3, Article 2 of the e-signature Law.

Privately-issued electronic certificates of (i) above that can be used as customer identification documents for the purposes of the Customer Identification Law are limited to those that are issued by a method that is specified in Article 5 of the enforcement regulations for the Law concerning JPKI Electronic Certificate or Electronic Signatures and Certification Services.

## 【Primer on Financial Literacy】

\* This section provides easy-to-understand explanations on financial terms and various questions related to financial matters which tend to be too specialized and hard to understand.

The key words selected this time are "**Green Sheet**" and "**Tier 1 and Tier 2.**"

### [Green Sheet]

The "**Green Sheet**" system is a system started in July 1997 by the Japan Securities Dealers Association (JSDA) for the purpose of trading stock certificates etc. of unlisted companies, under which it is made possible to buy and sell unlisted stock certificates etc. issued in Japan by Japanese companies if a securities company registers such stock certificates etc. with JSDA and shows their asking prices and bids on a continuous basis (Green Sheet issues).

In Japan, many small- and medium-sized enterprises traditionally did not have their shares listed due to, among other reasons, excessive costs for the development of internal structures required for disclosure or for disclosure itself that would be required as a result of going public. In turn, unlisted stock certificates etc. for which no disclosure was available also contained a problem of difficulty in any attempt to distribute them, because investors had access to little information that they could base their investment decisions on.

Although JSDA rules previously prohibited securities companies from conducting any investment solicitation regarding unlisted securities, JSDA amended the rules in consideration of the problems described above and created the "**Green Sheet**" system, under which it is made possible to buy and sell stock certificates etc. of unlisted companies on the condition that a certain degree of disclosure should be implemented.

While, even after the creation of such a system, there remained no provisions in the Securities and Exchange Law applicable specifically to Green Sheet issues, Green Sheet issues are now defined under the Securities and Exchange Law as "**tradable securities** (toriatsukai yukashoken)" as a result of the April 2005 amendment, which was made for the purpose of boosting their trading and facilitating capital-raising by SMEs by having the Green Sheet system recognized more and augmenting their reliability through the application of rules against unfair trading, such as insider trading regulations.

Under the Securities and Exchange Law, "**tradable securities**" are **subject to the insider trading regulations**, with other legislative measures also taken in the form of statutes for, for example, **the obligation to make the trading value etc. public**, with a view to giving them more recognition and ensuring their reliability.

In consideration of the problem of cost burdens on issuers as described above, no provisions have been created to impose disclosure requirements specifically with respect to Green Sheet issues; under the current setup, it suffices to disclose a certain group of information pursuant to JSDA rules.

It is hoped that as a result of such measures taken in the Securities and Exchange Law and in other forms, the Green Sheet system will be recognized broadly, and they will be traded briskly in the future.

### [Tier 1 and Tier 2]

The capital adequacy requirements were established to maintain financial system stability and protect depositors by ensuring that banks remain sound and do not become bankrupt by requiring them to maintain a minimum level of equity capital that is commensurate with the risks that they hold.

Equity capital is the numerator of the formula in the capital adequacy requirements. In the event that a financial institution suffers a loss, equity capital serves as a cushion (**risk buffer**) to absorb the loss. **High quality components of equity capital are classified as Tier 1, and the rest as Tier 2.** For example, **capital stock, legal reserves, and surpluses are included in Tier 1.** Subordinated loans and subordinated debts have the basic characteristics of liabilities. But they also have an equity-like character in that their repayment can occur only after other general liabilities are paid in the event that the issuer becomes insolvent. For this reason, **financial institutions are permitted to include subordinated loans and subordinated debts in Tier 2 in the calculation of their**

capital adequacy ratios. Similarly, unrealized gains of marketable securities can serve as risk buffers. Banks that meet international standards are therefore permitted to include 45% of such gains in Tier 2. However, the amount that can be placed in Tier 2 is capped by the Tier 1 amount.

The denominator, on the other hand, is the sum of individual classes of assets, multiplied by their respective risk weights. Risk weights are 0% for cash and government bonds, 20% for claims on financial institutions, 50% for loans secured by mortgage on residential property and 100% for claims on the private sector.

A capital adequacy ratio is computed by dividing the numerator by the denominator, both of which are computed in accordance with the above-described calculations. The capital adequacy requirements require that financial institutions that have overseas business offices and operate internationally maintain their capital adequacy ratios at or above 8 percent, which is the international standard, and that domestic financial institutions that do not have any overseas offices maintain their capital adequacy ratios at or above the domestic standard of 4 percent.

The FSA is currently in the process of re-examining the ministerial notification of the capital adequacy ratio, based on the new capital adequacy framework (Basel II) that was released by the Basel Committee on Banking Supervision at the end of June 2004.

#### **Formula for the Capital Adequacy Requirements (International Standards: Financial Institutions with Overseas Offices)**

[Formula]

$$\text{Capital Adequacy Ratio} = \frac{(\text{Tier 1} + \text{Tier 2} - \text{Deduction Items})}{\text{Risk-weighted Assets}} \geq 8\% \quad (\text{4\% for domestic banks.})$$

## 【Hot Picks from the Financial World】

\* We deliver the hottest information of the times in this section, selected from among 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 Financial Services Agency's website.

**Q. We have heard that the Financial Services Agency, having received an application from an investment fund for major shareholding approval with respect to Osaka Securities Exchange shares, conveyed its decision not to approve, and that applicant is saying that "the criteria are unclear." Please tell us your view on that point. Please also tell us why the application was not approved this time.**

A. As for the clarity of the criteria, it is difficult to set detailed standards beyond the existing ones stipulated by the relevant legislation, at this stage. And the authority will, upon application, make decisions on a case-to-case basis regarding approval for a major shareholder of a publicly-traded securities exchange.

To be approved as a major shareholder, the authority will examine the appropriateness of the applicant in order to ensure fairness and other matters about the operation of the securities exchange, since major shareholders of the securities exchange will have substantial influence over its operations. In the present case, examination was carried out in accordance with the criteria stipulated in the Securities and Exchange Law. The authority, having gone through the hearing procedures under the Securities and Exchange Law, had decided not to approve the application on the ground that the authority could not ascertain that the criteria were met as the sound and proper operation of the securities exchange might be prejudiced by the applicant exercising its voting rights.

(from [the press conference following a cabinet meeting on Friday, August 26, 2005](#))

**Q. Another question by looking at the reasons for not approving the Murakami Fund (M&A Consulting, Inc), it might be extremely difficult for investment funds or institutional investors that file such an application to be given approval in the future. What is your view on this?**

A. If I may answer to the question in general, an application for approval to become a major shareholder of a securities exchange will be considered on a case-to-case basis, and approval will be given if there is no risk of conflict of interest and the criteria in the relevant legislations are met.

(from [the press conference following a cabinet meeting on Friday, August 26, 2005](#))

**Q. There has been daily media coverage regarding the responsibility of the auditing firm in the Kanebo accounting fraud incident, some of which point out the violation of the Certified Public Accountant Law. If any accounting problems are found, what kind of administrative measures will be taken against the auditing firm to reveal the facts? As the Minister in charge, what do you think of such a situation in which a CPA played a part in the company's false statements as a sort of accomplice? Further, what should CPAs and auditing firms do to restore confidence?**

A. I am aware that there are various news reports on the said case. However, as it relates to an individual case, I will refrain from commenting on it. The Financial Services Agency (FSA) collects information broadly on a daily basis in regards to the situation surrounding audits by Certified Public Accountants (CPAs). If any infringement of legislations is found in the process, FSA will take proper action as necessary according to legislation.

In general, in regards to the false statements just mentioned, the members of top management who prepared fraudulent financial statements are required to assume criminal, civil and administrative liability. In addition, auditors who certified the fraudulent financial statements as being free of false statements, intentionally or negligently, are also required to assume criminal, civil and administrative liability. Therefore, we will take proper action according to legislation if there is any infringement in this regard.

Auditors—or CPAs and auditing firms—have a serious mission, so their involvement in making false



statements will heavily affect and grossly undermine their trustworthiness. It goes without saying that interested parties should strive to prevent such incidents from happening. It is also extremely important to steadily develop a system to prevent such incidents from occurring. As the trustworthiness of auditors, CPAs and auditing firms is currently at stake, they are urged to make utmost efforts to perform their duties properly based on their respective missions.

(from [the press conference following a cabinet meeting on Tuesday, September 13, 2005](#))

**Q. Having been reappointed to Minister for Financial Services, how do you evaluate the efforts you have made over the past year in office? Please also describe the resolutions you have made and the challenges you have taken on following the reappointment.**

A. Looking back on the past year, various things happened in financial administration. Among them, the major challenge I had been faced with was to complete the task of financial revitalization, specifically, to fulfill the targets set forth in [the Program for Financial Revival](#). I am deeply moved by the fact that the accomplishments have exceeded the targets in [the Program for Financial Revival](#), as a result of implementing the measures set forth in the Program, and due to the tremendous efforts made by the parties concerned. Furthermore, we formulated and announced [the Program for Further Financial Reform](#) as the financial administration guideline following [the Program for Financial Revival](#), and then [the work schedule](#). As I have been reappointed, I will make the utmost efforts to build a dynamic financial system from here on, by implementing the measures set forth in [the Program for Further Financial Reform](#). As financial reform is an extremely important field in promoting structural reform, I hereby reaffirm my determination to do my very best to carry out financial reform.

(from [the press conference following the first cabinet meeting on Wednesday, September 21, 2005](#))

**Q. Last week, the FSA announced the rules for the cap on deferred tax assets in calculating capital adequacy ratios of large banks, which has been a topic of heated debate since the days of the Program for Financial Revival. What is your position on this? It was even referred to as a poison back in the day, but a great deal of attention appears to have been paid to the management capacity of banks upon introducing the rules. Has its meaning changed? Your comments on this will be highly appreciated.**

A. A crucial challenge that remained under the Program for Financial Revival was the issue of proper regulatory treatment of deferred tax assets, so it was addressed in the Program for Further Financial Reform and in the work schedule. As just mentioned, this has been a topic of heated debate since the formulation of the Program for Financial Revival. As one of the three major keys to realizing a sound financial system, we discussed the issue from various angles in the context of capital enhancement, followed by discussions at the Financial System Council, which led to the submission of the report.

In response to fulfilling the target of halving the percentage of non-performing loans (NPLs) under the Program for Financial Revival, we conducted a thorough study in consideration of the gist of the report, and issued a public comment titled “Draft Ministerial Notification on Proper Regulatory Treatment of Deferred Tax Assets under Capital Adequacy Regulations for Major Banks.” We believe the latest measure will help further stabilize the Japanese financial system by making qualitative improvements in capital adequacy.

(from [the press conference following the first cabinet meeting on Tuesday, September 27, 2005](#))

**Q. In what form will you release or publish the results regarding the report order to non-life insurance companies? The life insurance companies were required to report cases dating back five years. Did you set such a period in the case of non-life companies?**

A. It is truly regrettable that there proved to be many cases in which non-life insurance companies

need to make additional payments of ancillary insurance claims such as extra expense claims. In response to this situation, the Financial Services Agency (FSA) has decided to order all non-life insurance companies today to report the number of cases in which such additional payments are needed, the progress of the payments, an analysis of the causes of such additional payments becoming necessary and measures to prevent the recurrence of such cases.

As for the reasons, it is important that non-life insurance companies first strive to establish proper management functions for insurance claim payments of their own accord with respect to the case. While they have been voluntarily conducting verification, the FSA decided to order all non-life insurance companies to report at once, in order to ensure uniform and comprehensive efforts in dealing with this problem.

We assume that the companies should submit the reports within two weeks or so, no later than October 14. As the companies are voluntarily conducting inspection and verification and publishing some of the results, we can receive the reports within about two weeks, by October 14. Then we plan to scrutinize the received reports and to publish them in some form.

We assume that the period will be three years. Under the provisions of the current Commercial Code, a right of claim is valid for two years, so just to make sure policyholders will be protected, non-life insurance companies should conduct verification targeting a period of three years.

(from [the press conference following the first cabinet meeting on Friday, September 30, 2005](#))