



# FSA Newsletter October 2008



Minister Nakagawa at the press conference following the first cabinet meeting (September 25)



Minister Nakagawa giving instructions to FSA employees (September 25)

## 【International Affairs】

- Minister for Financial Services Motegi visits the United States

## 【Topics】

- "Annual Supervisory Policies for Major Banks, etc. for Program Year 2008"  
"Annual Supervisory Policies for Small- and Medium-Sized and Regional Financial Institutions for Program Year 2008"  
"Annual Supervisory Policies for Insurance Companies, etc. for Program Year 2008"  
"Annual Supervisory Policies for Financial Instruments Firms, etc. for Program Year 2008"
- Requests for FY2009 Tax Revision
- Publication of the Annual Report on the SESC's Activities
- Report on Activities of the Certified Public Accountants and Auditing Oversight Board (Business Year 2007)

## 【The Minister in His Own Words】

## Statements, Speeches & Material

In this corner, we post statements and speeches made by the Minister, the Senior Vice Minister, the Parliamentary Secretary and FSA officials, as well as presentation material they used.

### Speeches

#### [September 22, 2008](#)

Statement by Toshimitsu Motegi, Minister for Financial Services, on ensuring market fairness for stabilization of international financial markets

#### [September 25, 2008](#)

"Global Market Turmoil and Beyond -Need for Longer-Term Perspectives-" Keynote, Address by Takafumi Sato, Commissioner, Financial Services Agency at the Euromoney Japan Capital Markets Congress 2008, Tokyo

#### [September 18, 2008](#)

"Financial Innovation and Global Market Turmoil ~ Preparing for the Post-Subprime World of Finance ~" speech by Takafumi Sato, Commissioner, Financial Services Agency at the FIA Asia Derivatives Conference, Tokyo

#### [September 11, 2008](#)

"FSA Action in Response to Global Market Turmoil ~ Preparing for the Post-Subprime World of Finance ~" speech by Takafumi Sato, Commissioner, Financial Services Agency at the IIF Asian CEO Summit, Tokyo

#### [September 11, 2008](#)

"Internationalization of Japan's Property Markets and the FSA's Better Market Initiative" speech by Takafumi Sato, Commissioner, Financial Services Agency at the Real Estate Investment Forum TOKYO

## Photograph Gallery

In this corner, we post photographs of the Minister, the Senior Vice Minister, the Parliamentary Secretary and FSA officials at work in meetings, conferences and other events.



Former Minister Motegi and new Minister Nakagawa shake hands at the handover ceremony (September 25)



Bidding farewell to departing Minister Motegi (September 25)

### Minister for Financial Services Motegi visits the United States

Toshimitsu Motegi, then Minister for Financial Services, visited the United States for 4 days starting August 27. There, he met Chairman Ben Bernanke of the Federal Reserve Board (FRB), Chairman Christopher Cox of the US Securities and Exchange Commission (SEC), President Timothy Geithner of the Federal Reserve Bank of New York and Managing Director Dominique Strauss-Kahn of the International Monetary Fund (IMF).

In the string of meetings, the Minister was able to reach a common understanding that cooperation between the financial authorities in the two countries is vital in face of new developments that are emerging in the global financial market turmoil triggered by the subprime mortgage crisis in the US. Views were also exchanged on a broad range of issues, based on the perspective of strengthening the international competitiveness of Japan's financial and capital markets.

FSA expects to strengthen cooperation with financial authorities in other countries through a direct and candid exchange of views at top levels and to push for advances in its drive to strengthen market competitiveness.



Meeting with Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF)



Meeting with Mr. Ben Bernanke, Chairman of the Federal Reserve Board (FRB)

## 【Topics】

**"Annual Supervisory Policies for Major Banks, etc. for Program Year 2008"**

**"Annual Supervisory Policies for Small- and Medium-Sized and Regional Financial Institutions for Program Year 2008"**

**"Annual Supervisory Policies for Insurance Companies, etc. for Program Year 2008"**

**"Annual Supervisory Policies for Financial Instruments Business Operators, etc. for Program Year 2008"**

In fulfilling its function of supervising major banks, small- and medium-sized and regional financial institutions, insurance companies, etc., and financial instruments Business Operators, etc., the Financial Services Agency (FSA) adopts and publishes Annual Supervisory Policies clarifying its basic approach and key points of its supervisory role in each sector at the beginning of each program year.

For the Program Year 2008, "Annual Supervisory Policies for Major Banks for Program Year 2008" "Annual Supervisory Policies for Small- and Medium-sized and Regional Financial Institutions for Program Year 2008," "Annual Supervisory Policies for Insurance Companies, etc. for Program Year 2008" and "Annual Supervisory Policies for Financial Instruments Business Operators, etc. for Program Year 2008" have been adopted and published to identify priority areas in implementing financial supervision.

There policies are summarized below.

### 1. Introduction

At the time of establishing the Annual Supervisory Policies for Program Year 2008, global financial markets remain tense, triggered by the subprime mortgage problem. Furthermore, the economy is weakening, and is exposed to further downside risks depending on movements in crude oil prices and other such factors.

Against this backdrop,

- (i) Major banks are further expected to fully perform their financial functions, including smooth finance, and help improve security and convenience for users such as depositors and borrowers. In order to fully perform their financial function, it is important for the banks to maintain their own financial soundness at the same time, and it is necessary for them to conduct high-quality risk management. It is also important to develop a business environment that vitalizes the banking industry and promotes competition, while encouraging the banks to make positive use of it, in order to ensure that they highly perform their financial function.
- (ii) Small- and medium-sized and regional financial institutions are expected to exercise their financial functions adequately in order to boost lending to small and medium-sized enterprises and to contribute to improvements in security and convenience for users, including depositors. To demonstrate full financial function, these institutions must concurrently maintain their own financial health. For this purpose, it is important for regional financial institutions to work to build an environment in which the smooth supply of funds to small- and medium-sized enterprises and maintenance of financial health are realized under suitable business management and in a positive growth cycle.
- (iii) Insurance companies, etc. are expected to run their businesses with the view of further improving security and convenience for policyholders and to contribute to greater stability of daily lives of the citizens and other such benefits. They are also

expected to meet users' needs, including medical care and the nursing of elderly people, as Japan enters into an aging society with a declining birthrate. In order for insurance companies, etc. to fulfill their functions in this regard and their responsibilities appropriately to policyholders, it is important that they maintain financial soundness, and it is necessary that they execute high-quality risk management and further improve its quality.

- (iv) Financial Instruments Business Operators, etc. are required to make efforts for improving security and convenience for investors through compliance with the Financial Instruments and Exchange Act. They are also required to engage in business operations in recognition of the public nature of their roles as market intermediaries, and help build a reliable market infrastructure. On top of this, they are expected to establish appropriate internal control systems to provide higher-quality services, and at the same time, aggressively run their businesses.

Based on these expectations, the supervisory policies for Program Year 2008 place an emphasis on the following areas and, to address these various issues, on actions based on an approach of qualitative improvement in financial inspection (Better Regulation).

## **2. Key Areas**

### **(1) Major banks**

#### **(i) Financial Function and Security/Convenience for Users**

Finance has much contribute to supporting national life and economic activities. In the current economic situation, it is important that major banks perform their financial function properly and help improve security and convenience for users by making voluntary efforts based on the banks' innovative ideas.

- Smooth finance
- Meeting asset management needs
- Business continuity
- Preventing abuse of financial functions

#### **(ii) Risk Management and Financial System Stabilization**

In the midst of changes in the economic and market environment both at home and abroad, in order for major banks to continue performing their financial intermediary functions properly, they need to conduct high-quality risk management under proper corporate governance; this, in turn, will help stabilize the financial system. The FSA will encourage the banks to make voluntary efforts by giving consideration to the following:

- Strengthening risk management related to securitized products
- Enhancing profit base
- Disclosing necessary and sufficient Information about risks
- Active participation in international forums

#### **(iii) The Better Market Initiative – Business Environment that Vitalizes the Financial Services Industry and Promotes Competition**

The Better Market Initiative (*Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets*<sup>1</sup>) announced by the FSA in December 2007 proposed various measures to vitalize the financial services industry and promote competition in Japan's markets in order to make the markets more attractive to both domestic and foreign customers, as well as to contribute to overseas operations of major banks. As part of the efforts based on the Initiative, the FSA will strive to develop a business

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<sup>1</sup> <http://www.fsa.go.jp/policy/bmi/index.html>

environment that will vitalize the banking industry and promote competition, in the course of supervising major banks.

- Broadening the scope of businesses permitted to banking groups
- Enhancing dialogues with domestic and foreign financial institutions

## **(2) Small- and medium-sized and regional financial institutions**

### **(i) Facilitating financing for small- and medium-sized enterprises by promoting based relationship region banking**

In the severity of the state of business for small- and medium-sized enterprises (SMEs) and the need for proper and active execution of financial intermediary functions, it is important for small- and medium-sized financial institutions to take risks and implement risk management with thorough attention to details in the corporate borrower's characteristics and state of business and to secure a smooth flow of funds to SMEs. For regional financial institutions, FSA believes that action should be taken to boost SME lending, considering the importance of fostering relationship-based banking further, with attention to the following points:

- A more detailed assessment of facts in SME financing and reinforcement of surveillance
- Promoting region-based relationship banking

### **(ii) Security and convenience of regional users**

In view of the importance of regional finance in economic activities in local economies, regional financial institutions must be able to contribute to the enhancement of the security and convenience of the users as important players in the local economies, through voluntary and innovative activities. Based on this understanding, emphasis is placed on the following activities:

- Action on asset management needs
- Continuity of business operations
- Prevention of unfair and illegal use of financial functions

### **(iii) Risk management and stability of the financial system in local communities**

For regional financial institutions to continue adequately exercising their function as financial intermediaries amid continuing economic and market changes both in Japan and abroad, they must implement risk management of a high caliber under proper corporate governance and ultimately contribute to the stability of the financial system in local communities. For this reason, FSA plans to encourage voluntary action by the regional financial institutions with attention to the following points:

- Proper risk management
- Strengthening of profit base

## **(3) Insurance companies, etc.**

### **(i) Promoting Efforts to Improve Security and Convenience for Policyholders**

Since 2005, problems such as the payment leakage and non-payment of insurance claims have come to light at insurance companies. In order for insurance companies, etc., to ensure the appropriateness of their operations and improve security and convenience for policyholders voluntarily, it is important that they make voluntary business improvement efforts at the organization level, in a unified manner based on proper governance. The FSA plans to take supervisory actions with attention to the following point:

- Building Appropriate Claims Payment Management Systems
- Establishing Appropriate Insurance Solicitation Systems



- Enhancing Queries and Complaints Handling Systems

## **(ii) Promoting the Sophistication of Risk Management**

In the midst of the increasingly diversified needs of financial services users and the volatility in financial markets, insurance companies need to ensure financial soundness through the sophistication of risk management, and disclose their financial information appropriately, in order to properly identify various risks and fulfill their responsibility to policyholders, in an appropriate manner. Based on this understanding, supervisory action is to be conducted with attention specifically to the following points:

- Sophistication of Risk Management by Using a Lesson Learned from the Subprime Mortgage Problem
- Reform of Solvency Assessment
- Promoting Enterprise Risk Management

## **(iii) Taking a Supervisory Response Proportionate to the Nature of Insurance Companies, etc.**

Insurance companies, etc. vary widely in terms of business scale, ranging from massive companies to those that are generally small, such as small-amount and short-term insurance providers. Insurance solicitation styles are also diversifying, ranging from those focusing on insurance agent/agency-oriented solicitations to those focusing on correspondence sales. In consideration of these circumstances, the FSA will take a supervisory response according to the business scale, style and other such nature of insurance companies, etc.

- Stance on Insurance Groups, etc.
- Stance on Small-amount and Short-term Insurance Providers
- Stance on Specified Insurers
- Stance based on Characteristics of Insurance Solicitation Styles

## **(4) Financial instruments businesses Operators, etc.**

### **(i) Improving security and convenience for investors**

The shift of funds from savings to investment cannot be accelerated without developing an environment in which ordinary investors can participate in investment activities with a sense of security. The FSA will properly implement the Financial Instruments and Exchange Act, check the financial soundness of each financial instruments business operator, and take a strict stance on unqualified business operators, in an effort to develop such an environment.

- Disseminating and Instilling the Financial Instruments and Exchange Act
- Eradicating Unqualified Financial Instruments Business Operators
- Properly Managing Investors' Assets

### **(ii) Building a reliable market infrastructure**

In order to enhance the competitiveness of Japan's financial and capital markets, the FSA will ensure fairness and transparency in the markets, and bolster the confidence placed in the markets. In addition, the FSA will develop a highly secure and convenient market infrastructure in which a wide range of transactions can be executed smoothly and reliably.

- Facilitating the Dematerialization of Stock Certificates
- Fulfilling Public Role as a Market Intermediary
- Further Enhancing Self-regulation Functions

### **(iii) Diversified, Sophisticated and Multinational Operations, Building Appropriate Internal Control Systems, etc.**

In order to create vibrant markets according to the Better Market Initiative (Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets), it is



necessary to develop an environment in which financial instruments business operators can provide higher quality services based on their own innovative ideas. The FSA will closely monitor the management strategies of each financial instruments business operator, identify the extent to which their operations are diversified, sophisticated and multinational, and then check whether they have built appropriate internal control systems.

- Responding to Revamp of Firewall Regulations
- Aggressive Business Operations and Appropriate Internal Controls
- Managing Risks commensurate with Aggressive Business Operations
- Enhancing Proper Risk Assessment of Securitized Products and Disclosure of Information
- Dealing with Various Funds

### **3. Materializing “Better Regulation”**

Improving the quality of financial regulation is important in order to make Japan’s financial markets more competitive. Also, financial regulation should place a greater emphasis on voluntary efforts and innovative ideas by financial firms, in light of the current phase of Japan’s financial sector where it should continue and further refine its efforts to stabilize the financial system, protect customers, and establish and maintain fair and transparent financial markets.

Under these circumstances, the FSA will continue to be engaged in the efforts to solve supervisory issues in program year 2008 based on “better regulation” which centers on the following four pillars. The agency will have all its supervisory staff appreciate the concept and materialize it by the following efforts.

- Optional combination of rules-based and principle-based supervisory approaches
- Timely recognition of priority issues and effective response
- Encouraging voluntary efforts by financial firms and placing greater emphasis on providing them with incentives
- Improving the transparency and predictability of regulatory actions

For the purpose of enhancing the effectiveness of such efforts, the FSA will endeavor to improve the skills of its staff by such means as cultivating and hiring experts, and enhancing training programs.

Based on the supervisory policies mentioned above, FSA will continue to implement supervision of financial institution with both effectiveness and efficiency, while paying attention to their self-help efforts and innovative actions.

## Requests for FY2009 Tax Reform

On September 1, the FSA submitted the “Requests for FY2009 Tax Reform” to the Ministry of Finance and the Ministry of Internal Affairs and Communication.

This year, for the purpose of strengthening the competitiveness of Japan’s financial and capital markets, we have requested tax measures required to promote:

- 1. Changes in investment trends (“from savings to investment”); and**
- 2. Building of an environment to facilitate domestic and foreign investments**

**1. In order to promote changes in investment trends (“from savings to investment”), we requested:**

- (i) Creation of a "Japanese version of ISA" (tax-free accounts available for small sum, long-term investment)** (Request for development of small investors through asset formation based on small-sum, continuing and long-term investments)
- (ii) Introduction of tax-free investments for senior citizens** (Request to offer senior citizens security in old age, in view of the fact that citizens aged 60 and over hold 60% of total financial assets in the country and nearly 70% in stocks and investment trusts, etc. With the decline in interest earnings in recent years in the low-interest financial environment, income from dividends is growing rapidly in importance in the budgets of senior citizens and can therefore be called "second pensions")
- (iii) Consideration of investor convenience in preferential measures under the securities taxation system**
- (iv) Improvement of the defined contribution pension fund (401k) system**
- (v) Broader scope in aggregation of profit and loss for financial products and others.**

**2. To build an environment that facilitates domestic and foreign investment,** requests have been made to review partnership investment fund taxation (PE No. 1).

A request has been submitted to enable foreign investors investing into a collective fund in Japan not to be held liable for reporting such investments in Japan.

Similar problems existed in the past in the case of bulk delegation of investment to a Japanese investment management service, which was addressed in the 2008 tax reform.

# The Key Points in Requests for 2009 Tax Reform

## Basic approach

To strengthen the competitiveness of Japan's financial and capital markets, the FSA requested tax measures required to promote: (1) changes in investment trends ("from savings to investment") and (2) building of an environment to facilitate domestic and foreign investments

## Principal Requests

### 1. To promote changes in investment trends ("from savings to investment")

#### Current state

Japan's private financial assets are as high as ¥1500 trillion (2.9 times the GDP) and provide the strength of the Japanese markets

However...

Breakdown of financial assets

The ratio of money in cash and savings is extremely high (52.0%) and the ratio of stocks and investment trusts is low (9.3%)  
⇒ It is necessary to offer suitable investment opportunities to the citizens and to enable them to benefit from such investments

Owners of financial assets

Ownership by senior citizens account for approx. 60% (approx. 70% in stocks and investment trusts)  
While income from interest declines, the percentage of income from dividends has grown in household budgets in recent years

⇒ They are growing in importance as the "second pensions"

Stock and investment trust ownership is small among young people, and the ratio in outstanding financial assets is low  
⇒ Asset formation through small-sum, continuous and long-range investment is important

※Approx. 70% of stock/investment trust investors earn annual income of ¥5 million or less (In particular, the same class of citizens investing investments in recent years) Criticism of "preferential break for the rich" does not apply

#### Issues

To promote changes in investment trends ("from savings to investment")

Preferential measures required for  
➢ Small-sum, continuous, long-range investment  
➢ Investment by senior citizens

#### Two key points in the Requests

◆ **Creation of "Japanese version of ISA" (tax-free accounts available for small-sum long-term investment)** (Expanding the investor base by providing incentives to small investors)

- Dividends paid to small investors for investment in listed stocks for up to a certain level every year (such as ¥1 million) to be tax-free
- Limited measures for 10 years (cumulative investment of up to ¥10 million possible (¥1 million x 10 years) if annual investment ceiling is ¥1 million)

◆ **Inception of tax-free investment scheme for senior citizens** ("Second pension" tax preferential measure to provide security to senior citizens)

- Dividends received by senior citizens for listed stocks, etc., work less than ¥1 million and gain on sale worth less than ¥5 million to be tax-free (At least for 2 years, 2009 and 2010)

#### Other Requests

- ◆ Consideration for investor convenience in preferential measures for the securities tax system (Simplification of preferential measures for investor convenience, etc.)
- ◆ Improvement of the defined contribution pension (401k) plan (Promoting "depth in stock market" and "formation of retirement assets")
- ◆ Broader scope in aggregation of profit and loss for financial instrument (Creating environment that encourages

### 2. To build an environment that facilitates domestic and foreign investments

- ◆ Review partnership investment fund taxation (No. 1 PE) (Strengthen Japan's market competitiveness through growth of Japan's asset management business)

### 3. Others

- ◆ Review life insurance premium deductions scheme (Support the self-help efforts of policyholders)

## Annual Report on the SESC's Activities

### **1. Introduction**

The Securities and Exchange Surveillance Commission (hereinafter referred to as "SESC") is required to publish an annual report on its activity under Article 22 of the Act for Establishment of the Financial Services Agency. In line with this requirement, the SESC published its annual report for the period from July 1, 2007 to June 30, 2008 (hereinafter referred to as "Business Year 2007"). This is the 16th such report to be issued by the SESC since its establishment.

### **1. Outline**

In response to the various results of financial system reform and other reform measures, as well as advances in information technology (IT), drastic changes are taking place in the financial and capital markets, including growth in Internet and cross-border transactions and increases in complex transactions involving investment funds, etc.

Amid these changes, SESC's market surveillance has also been strengthened and expanded. In particular, in 2005, SESC was granted the authority to conduct inspections on information disclosures, financial health and other data for securities companies, etc., and into investment trust and investment counseling service businesses, etc., in addition to its existing operations of investigating into regulations violation cases and into fairness in transactions by securities companies, etc., and to the newly introduced inspection of transaction charges. The scope of SESC inspections have been expanded dramatically, newly including inspection of business operators dealing with foreign exchange margin trading as financial futures trading firms.

Furthermore, the new chairman and two commissioners took office in July 2007, and its new medium-range policy "Towards Enhanced Market Integrity - Policy Statement of New SESC" was issued. Activity is currently underway to achieve the two goals of the policy statement, which are to realize market oversight with outstanding versatility and strategic focus and to strengthen discipline and order in the market.

#### **(Market Surveillance)**

The SESC received a total of 5,841 pieces of information from the general public such as investors in Business Year 2007.

Meanwhile, the number of oversight cases handled by the SESC in Business Year 2007 totaled 1,096, which represented an increase by 59 cases over the previous business year and an all-time high since SESC's establishment in 1992.

Furthermore, SESC is also paying broad attention to transactions that cannot necessarily be immediately classed as infringing regulations and is working on comprehensive and timely market oversight, including prioritized analysis of issues that underlie specific transactions and market trends.

#### **(Inspections of Securities Companies and Other Entities)**

The SESC completed 219 inspections, the highest number since its establishment,

and recommended administrative disciplinary actions to 28 out of the 122 companies regarding which the SESC found problems. Particularly notable is that the SESC conducted a special inspection on selected inter-industry themes that are market-related issues and topics of interest in Business Year 2007, with selection of inspection targets based on common issues (verification of the risk management organization, etc. at securities companies, in relation to OHT stock credit risks, verification of the financial health of foreign exchange margin traders, with attention to risk management, etc. and others), in addition to existing inspections executed with comprehensive attention to reference data, and information gathered, etc. regarding inspection targets.

#### **(Recommendations and Formal Complaints Unfair Trading)**

Regarding recommendations relating to unfair trading, the SESC recommended the issuance of an order for the payment of administrative monetary penalties in 21 cases (all concerning insider trading). These included cases wherein a transaction was based on internal information of an audited business that was gained by a certified public accountant in the course of an audit (insider trading by employee of Ernst & Young ShinNihon LLC), trading was done prior to public offering, based on important information found in broadcast script in an information terminal by employees of a media company (insider trading by NHK employees) and other cases that pose problems in the professional ethical code of those with access to vital information of companies listed in stock exchanges and in the information management systems of corporate entities.

The SESC filed formal complaints of unfair trade in 8 cases, namely, 2 cases on spreading of rumors and on suspicion of fraudulent means or devices, 4 on suspicion of market manipulation and 2 on suspicion of insider trading. SESC has been working on conducting inspections effectively and efficiently in cooperation with other investigative organizations, depending on case circumstances, represented by a joint criminal investigation with the Osaka Prefectural Police on the fraud case pertaining to acquisition of ICF stocks.

#### **(Recommendations and Formal Complaints Disclosure)**

Regarding disclosure-related actions, the SESC recommended the issuance of an order for payment of an administrative monetary penalty of 1,594,579,999 yen, the highest amount ever, on June 19, 2008 (for submission of false financial information in securities report, etc., related to IHI Corporation), as well as 9 other administrative monetary penalties issued for falsification on disclosure documents.

In formal complaints related to disclosure, complaints on violation of the Securities and Exchange Law (FIEL) were issued in 2 cases involving 9 persons (Access and IXI cases) for submission of false securities reports, etc.

#### **(Policy Proposal)**

Although there was not any specific policy proposal made in Business Year 2007, the SESC has stated its opinion on raising surcharge levy standards, etc. based on the current state of implementation and management of the administrative monetary penalty system, at the Financial System Council. The opinion has been applied in the amended Financial Instruments and Exchange Act enacted on June 6, 2008, and has produced an effect similar to submitting a policy proposal.

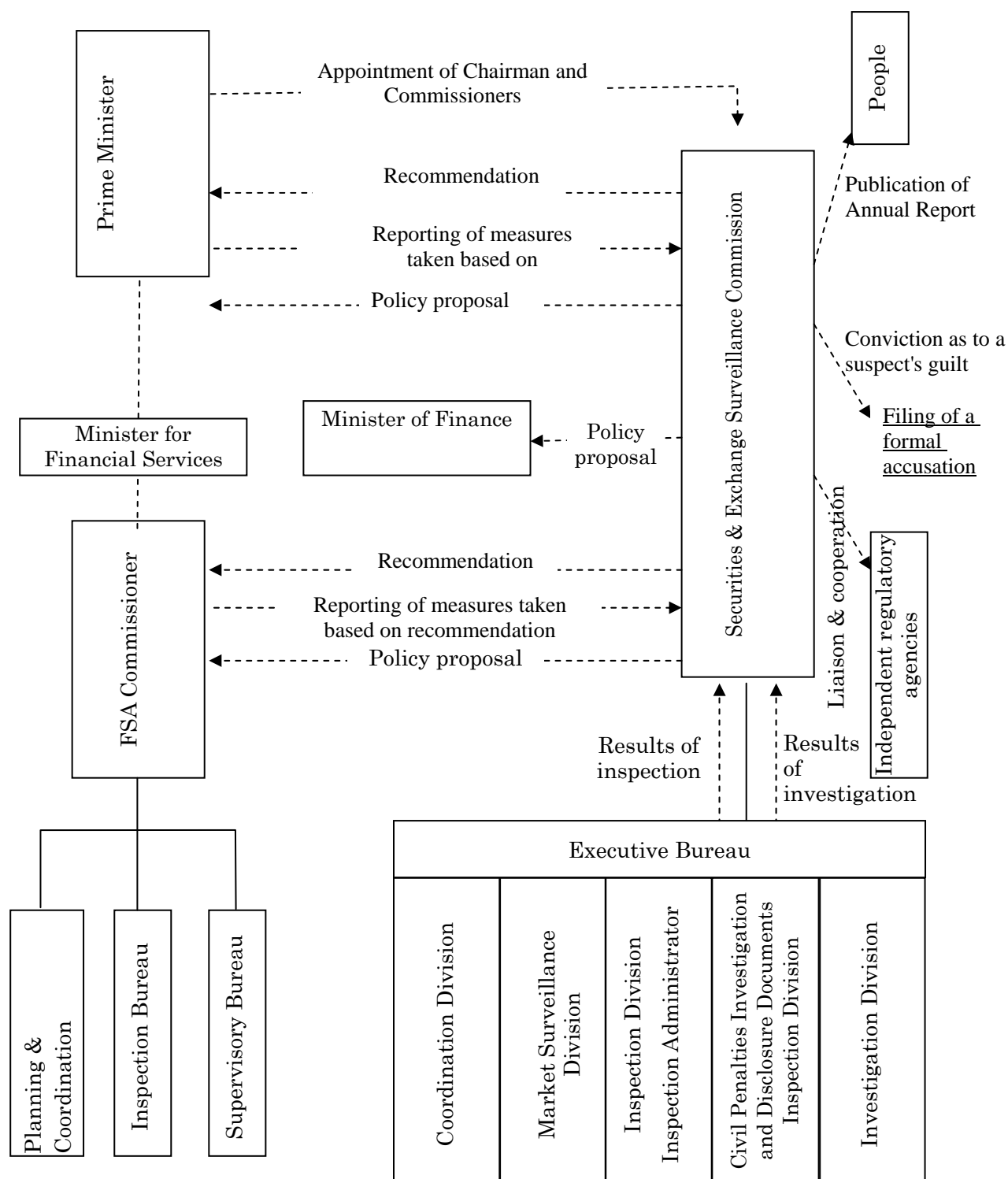
□ SESC Activities in figures

Category	BY1992 - 2002	BY2003	BY2004	BY2005	BY2006	BY2007	Total
Filing of complaints of criminal cases	53	10	11	11	13	10	108
Recommendations (based on the results of)	244	26	17	39	43	59	428
Inspection of securities companies, etc.	244	26	17	29	28	28	372
Administrative civil monetary penalties investigation				9	14	31	54
Disclosure document inspection				1	1	0	2
The number of companies where problems were pointed out	686	67	67	93	142	121	1,176
Policy proposals	6	1	0	5	3	0	15

(Business year is from July 1st to June 30 of the following year)

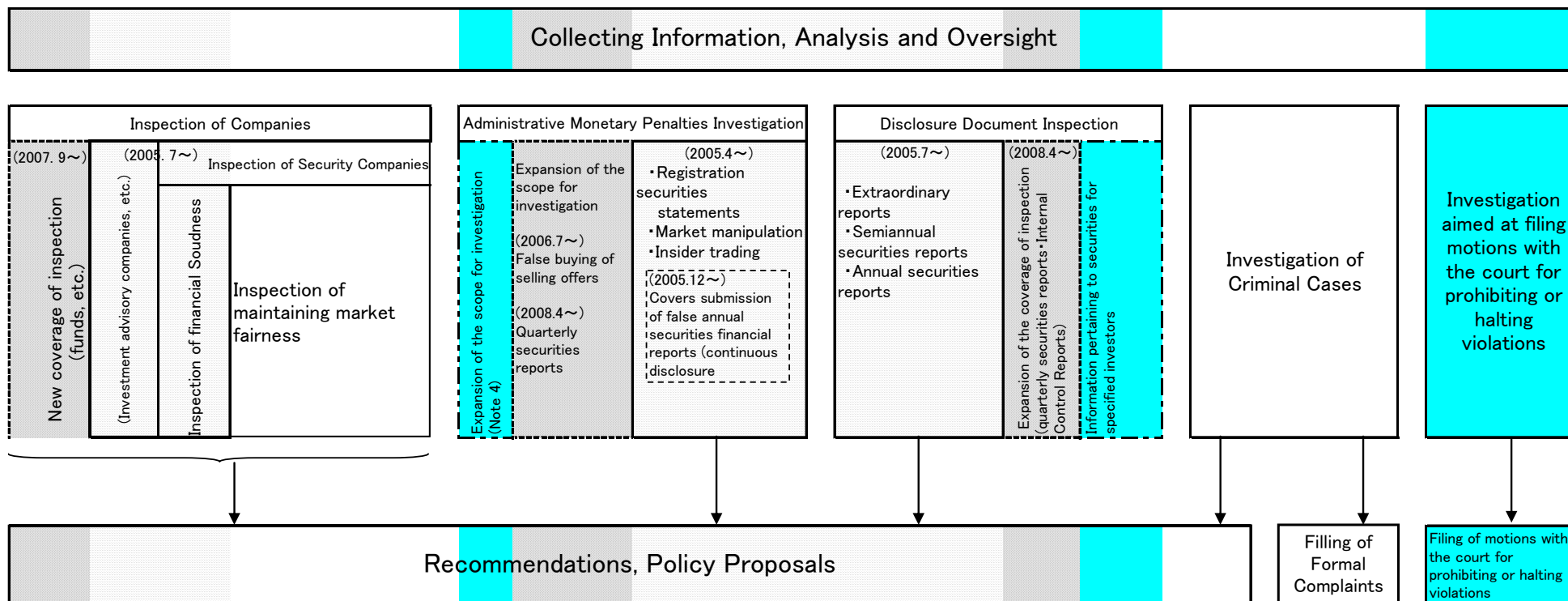
- "The number of companies where problems were pointed out" represents the number of companies with which SESC identified problems in its confidential notices on the result of inspections.

## Conceptual Chart for Supervision of Securities Transactions



Note: Recommendations can be filed with the Prime Minister or the FSA Commissioner. Policy proposals can be filed with the Prime Minister, the FSA Commissioner or the Minister of Finance (Articles 20 and 21 of the Establishment Law).





Note1: The grey colored items were newly subjected to inspections and investigations under the FIEA.

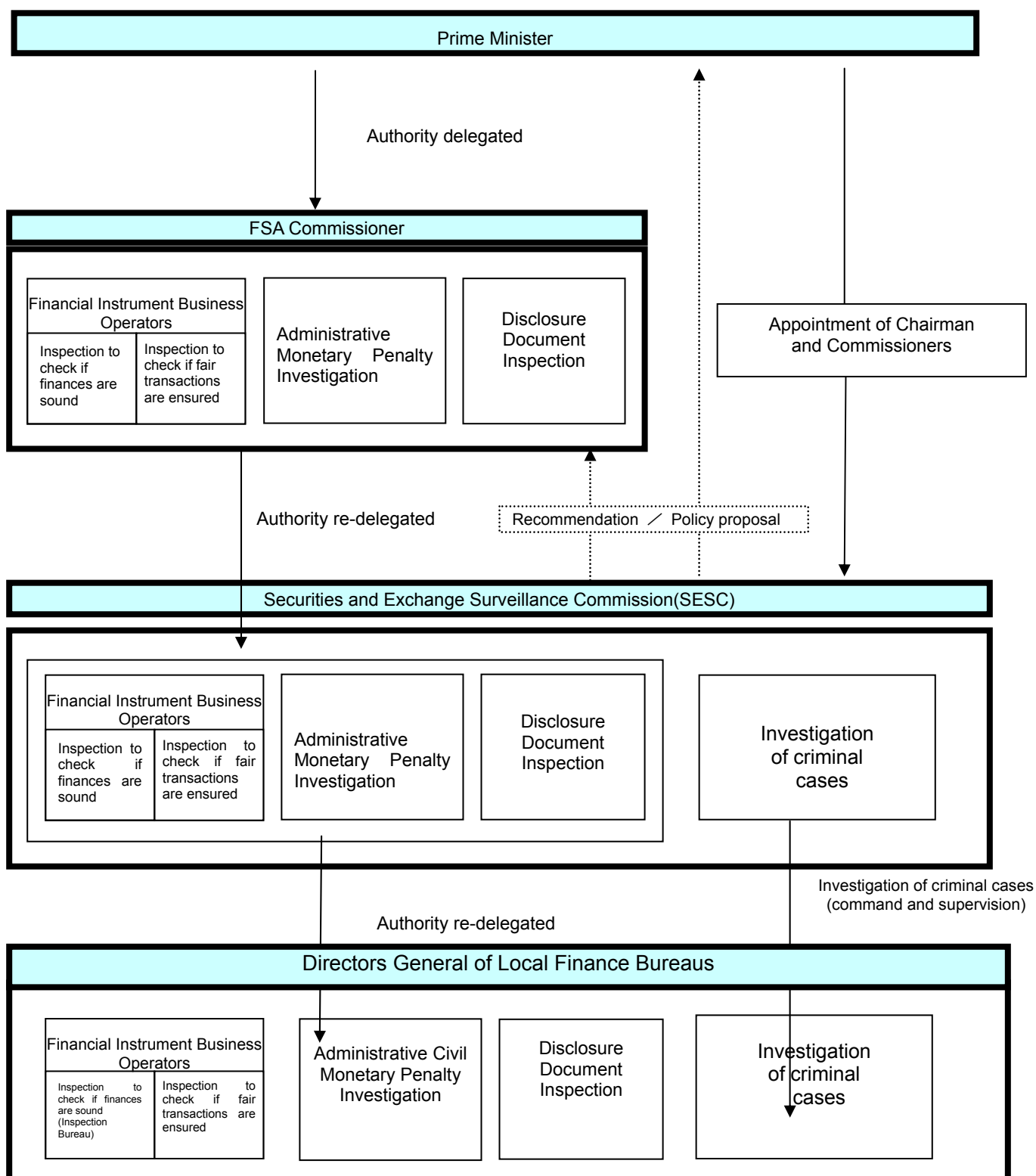
Note2: Inspections of quarterly securities reports, internal control reports and confirmation letters will apply from business years starting on and after April 1, 2008.

Note3: The blue colored items were newly subjected to inspections and investigations under the law for partially amending the FIEA.

Note4: The expanded scope for investigation covers the following:

- No submission or fake statements of tender offer notifications or large-shareholding reports
- Within market manipulation: fictitious buying, selling of stocks and exchange of stocks based on collusive arrangements and illegal stabilization operation trade
- No submission of continuous disclosure documents or those for issuance of securities
- Fake statements in information pertaining to securities for specified investors

# Conceptual Chart of Relationship among the Prime Minister, FSA Commissioner, SESC, and Directors General of Local Finance Bureaus



(Note1) For the authority that the SESC delegates to Director General of Local Finance Bureau or the Director of its branch office, the SESC directs and supervises Director General of Local Finance Bureau or the Director of its branch office. (Securities and Exchange law: Article 194-6 (7))

(Note2) For an investigation of a criminal offence, the SESC directs and supervises the Director General of a Local Finance Bureau or the Director of its branch office. The SESC may, deeming it necessary for investigating a criminal offence, direct and supervise firsthand an official of a Local Finance Bureaus or the Director of its branch office. (Securities and Exchange law: Article 224(4) and (5))

(Note3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instrument business operators designated in the following public notices

- The public notice to designate a financial instruments business operator, etc. under paragraph 5, Article 44 of the order for Enforcement of the Financial Instruments and Exchange Law and paragraph 2, Article 136 of the Order for Enforcement of Act on Investment Trust and Investment Corporation
- The public notice to designate a financial instruments business operator, etc. under paragraph 6, Article 24 of the order for Enforcement of Act on the Prevention of Transfer of Crime proceeds

## **Report on Activities of the Certified Public Accountants and Auditing Oversight Board (Business Year 2007)**

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) publishes the annual report on its business year activities at the end of each business year and published its report for Business Year 2007 (from July 2007 to June 2008) on August 28, 2008. The report is outlined as follows:

### **● Reviews of the “quality control review” and inspections**

Business Year 2007 is the first year of the second term (Business Years 2007-2009) of the CPAAOB. Based on achievements in the first term (Business Years 2004-2006), the CPAAOB is working to establish improvements at audit firms related to issues on quality control that had been identified at each audit firm.

Specifically, quality control reviews of the Japanese Institute of Certified Public Accountants for 2006 and 2007 were reviewed, with inspections conducted on 11 audit firms. This has resulted in recommendations to the Commissioner of the Financial Services Agency to take disciplinary actions and other measures against 5 audit firms.

In order to promote firms' efforts to improve their audit quality through their own initiatives, a list from among those identified in past inspection results of audit firms which can be regarded as useful for audit firms to improve their quality control system were compiled as a "List of examples of issues on audit quality control identified through inspections" and published in February 2008. It has been presented and explained at briefings held at local CPA associations across Japan.

### **● CPA Examinations**

Examinations were conducted for 2007 (multiple choice test & essay test) and for 2008 (multiple choice test).

In addition, the CPA examination study group was set up under CPAAOB to examine into making improvements in implementation of the CPA examinations. CPAAOB published the findings in "Improvements in the CPA Examinations" in October 2007.

Improvement measures are being implemented, including the shortening dates of the multiple choice tests from two days to one, as well as widening the subjects for the essay test using the provided booklets on laws and standards from two to five subjects, in the 2008 CPA examinations.

※ Also, the multiple choice test is scheduled to be conducted twice a year of the 2009 CPA examination.

### **● Cooperation with relevant organizations in other countries**

The International Forum of Independent Audit Regulators (IFIAR) was established in March 2007 for the purpose of information exchange, etc. among audit regulators in various countries. The second meeting was held in Toronto, Canada in September 2007, and the third meeting held in Oslo, Norway in April 2008. The CPAAOB was represented by its chairman and one of commissioners, who contributed actively to the Forum.

### [Minister in his own words]

This section provides information regarding the hot topics of the moment, selected from questions and answers given at the Minister's press conferences, etc.

If you wish to find out more, we invite you to visit the "[Press Conferences](#)" section of the FSA website.

Q : I would like to ask you about the current state of the global financial markets. While some people expect that stability will be restored to the markets following the U.S. government's announcement of a scheme to use public funds, the short-term money market remains in a state of turmoil. Firstly, how do you view the current state? Secondly, with what stance — you said earlier that the damage done to Japan's financial system is not so heavy — are you going to attend a G-7 meeting scheduled for next month?

A: First, I am not saying that the impact of the subprime mortgage problem, which has been continuing for one year, on Japan's financial system and real economy is small. I am saying that Japan has learned lessons from its past crisis and received limited damage this time compared with the United States and Europe, so we need to carefully watch future developments. Also, I understand that Japan is providing short-term funds, and it is very important that countries around the world cooperate with one another in this regard. At the Prime Minister's Office, there was talk about what French President Sarkozy has suggested. Regardless of whether we should immediately go so far as was suggested by him, it is very important that G-7 members, developed countries and other nations that have a certain level of financial scale or influence cooperate with one another, and it is necessary for them to make a very agile response.

【Extract from the press conference following the first cabinet meeting on September 25, 2008】

Q : In a speech before the U.N. General Assembly, Prime Minister Aso said that Japan wants to contribute its experiences and knowledge to debates over the international financial system. What do you think needs to be improved regarding the system and what will be the key points of the debates?

- A. As has been pointed out, Japan experienced more than 10 years of severe financial and economic hardship after the bursting of its economic bubble 20 years ago. I understand that Japan overcame its financial crisis through its own experiences of this painful period. In one sense, what was done in Japan may serve as a precedent for a solution to the situations of the United States and other suffering countries. Therefore, if Japan offers its experiences as a reference for others, it may contribute to a quick solution. Furthermore, in this crisis in particular, it is very important that the G-7 members and other countries around the world closely cooperate with one another. The Prime Minister is now in New York, and the U.S. government and Congress are apparently working together on bold measures, so the most important thing for Japan and other individual countries to do now, is to assertively do what they can on their own and actively cooperate in doing what they can do together.

【Extract from the press conference on September 26, 2008】

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