# Overview of "Review of Regulations on Banks which Contribute to Stability of the Financial System, etc."

**Report by "Working Group on Framework of Regulations on Banks which Contribute to Stability of the Financial System, etc." of Sectional Committee on Financial System of Financial System Council (January 25, 2013)**

## 《Response to Global Trends》

### Establishment of orderly resolution regime for financial institutions

During the global financial crisis triggered by the failure of Lehman Brothers, etc., it was revealed that there is a potential risk that distress and failure of systemically important financial institutions may spread across financial markets and cause a serious impact on the real economy. In response to this, a framework for new effective resolution regimes for financial institutions has been discussed internationally and the agreement was reached on this issue at the G20 Summit.

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Reflecting the global trends, it is necessary to establish a framework for orderly resolution regime of financial institutions (described below), in order to address risks that may spread across financial markets.

- ○ Scope : Financial institutions including deposit-taking financial institutions, insurance companies, financial instruments business operators, financial holding companies
- ○ Procedures for initiating the orderly resolution mechanism of financial institutions : The Prime Minister confirms the need to implement the orderly resolution mechanism of financial institutions, following the deliberations by the Financial Crisis Response Council.
- ○ Measures : Measures such as the provision of liquidity and financial assistance taken under the oversight by the Deposit Insurance Corporation, where it is considered necessary to prevent the severe market turmoil.
- ○ Funding : Provide government guarantee for the Deposit Insurance Corporation's financing. Should losses be incurred, the expenses shall be in principle borne ex post by the financial industry. The government may provide financial assistance in exceptional cases.

### Review of regulations governing foreign bank branches

While foreign bank branches are permitted to provide the same services as local subsidiaries and domestic banks, they are not subject to the regulations for ensuring their financial soundness, including the regulations related to the stated capital fund.

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Clarify licensing standards for foreign bank branches, and require them to reserve assets in an amount equivalent to the minimum capital requirement for domestic banks.

### Review of large exposure rules

From the perspective of ensuring diversification of risks associated with bank assets large exposure rules set an upper limit on the total amount of credit exposures to a single counterparty or a group of connected counterparties. There are some differences between current Japanese regulations and the international standards ("The Basel Core Principles"); and the IMF FSAP (Financial Sector Assessment Program) asks strengthening of the rules.

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Reform the scope and the upper limit of credit exposures, and the scope of a group of connected clients to ensure consistency with the international standards.

## 《Further Strengthen the Functions of Japanese Financial Institutions》

### Review of restriction on holding of voting rights by a bank, etc.

It is provided that a bank, etc. and its subsidiaries shall not hold in total more than 5% of voting rights in a domestic business company held by all of the shareholders, etc.

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To strengthen financial functions of banks, etc., while basically maintaining the current regulatory framework, in cases where contributions to the corporate restructuring or revitalization of regions can be expected, allow banks, etc. to flexibly provide capital.

### Review, etc. of regulations concerning agency and intermediary operations conducted on behalf of foreign banks

Domestic banks are not allowed to provide services on behalf of foreign banks that are not their parent or sister companies.

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Allow domestic banks and cooperative financial institutions to provide the foreign bank agency services only when they are conducted overseas, regardless of whether there are capital relationships, under approval by the authority.

* In addition, review the regulation on the scope of a bank's subsidiary company concerning overseas M&As.