2

2023

February

Monthly magazine

Financial Services Agency Newsletter

Access FSA

Provisional Translation

Contents

⇑Access the online version here
https://www.fsa.go.jp/en/newsletter/index.html

Financial Services Agency

Minister Suzuki's Visits to Singapore and Vietnam

Mr. Shunichi Suzuki, the Minister of State for Financial Services, visited Singapore and Vietnam, and met with senior government officials and exchanged views with financial sector experts.

In Singapore, the Minister met withofficials at the National University of Singapore involved in financial education and the development of highly skilled human resources in the financial sector, and held a discussion meeting with Japanese investors and entrepreneurs based in Singapore. The Minister heard a wide range of views on Japan's challenges in establishing its status as an international financial center and on Singapore's initiatives.

1. Visit to the National University of Singapore

The Minister visited the Lee Kuan Yew School of Public Policy, National University of Singapore, and met with Dean Danny Quar at the university.

The Minister heard about Singapore's initiatives in financial education and what the university has been doing to train highly skilled human resources in the financial sector, and exchanged views in order to obtain hints for Japan's initiatives.

Photo: Opinion exchange

2. Discussion Meeting with Investors and Entrepreneurs in Singapore

The Minister visited One & Co, a co-working space which serves as an innovation base for Japanese companies in Singapore, and had a discussion meeting with Japanese investors and entrepreneurs in Singapore.

The Minister gathered a wide range of opinions on challenges and opportunities regarding Japan's initiative to make its market surely attractive to countries all over the world, and had a frank exchange of views with them.

Photo: Discussion meeting

Additionally, the Minister met with Mr. Lawrence Wong, Deputy Prime Minister and Minister for Finance, and also exchanged views withJapanese-affiliated financial institutions in Singapore.

In Vietnam, the Minister met with Mr. Pham Minh Chinh, Prime Minister and Mr. Ho Duc Phoc, Minister of Finance, and exchanged views with Japanese-affiliated companies and financial institutions in Vietnam.

Holding of the Meeting of Directors-General of Local Finance Bureaus

On February 1, 2023, the Financial Services Agency (FSA) held the current program year‘s third meeting with Directors-General of Local Finance Bureaus. State Minister Fujimaru and Parliamentary Vice-Minister Suzuki delivered speeches at the meeting room where the Directors-General of Local Finance Bureaus and senior FSA officials gathered.

<Outline of the speech by State Minister Fujimaru>

We consider that fundamental expansion and perpetuation of the NISA program are groundbreaking measures, and we are committed to making further efforts to steadily implement the reform of the program.

Local Finance Bureaus have been providing visiting lectures cooperatively with schools but are requested to continue efforts to disseminate and promote the use of the NISA program or otherwise promote financial and economic education locally.

We would like to prescribe the need to seek the best interests of customers as an obligation common to a broad range of entities, including financial business operators and corporate pension-related entities, as a legal provision, thereby aiming to ensure that customer-oriented business conduct takes hold, develops and spreads across various sectors.

Photo: Speech by State Minister Fujimaru

<Outline of the speech by Parliamentary Vice-Minister Suzuki>

We would like you to further develop the Project to Create Support System for Business Operators, under which related parties share problems and countermeasures for the purpose of promoting support for business operators in individual regions.

Local Finance Bureaus are expected to fully understand the purport and operational procedures regarding new loan practices not dependent on personal guarantee provided by business owners ahead of the commencement of the application of the amended Comprehensive Guidelines for Supervision in this April, and work cooperatively with the FSA so that public-private initiatives will be facilitated to establish such new loan practices.

The Working Group under the Financial System Council has been deliberating the creation of a new system to enable companies to raise funds from financial institutions with the entirety of their businesses as security. Any opinions presented by regional financial institutions should be shared among all related parties.

Photo: Speech by Parliamentary Vice-Minister Suzuki

At the Meeting of Directors-General of Local Finance Bureaus, in addition to speeches by the State Minister and the Parliamentary Vice-Minister, the FSA Commissioner and senior officials explained current challenges in financial policies and FSA's initiatives. Meeting participants confirmed that the FSA and Local Finance Bureaus will share those challenges and initiatives and continue efforts in an integrated manner.

Photo: Meeting of Directors-General of Local Finance Bureaus

Outline of the FY 2023 Tax System Reform
- Major expansion of and making permanent NISA in particular -

KISHIMOTO Manabu, Director for Strategy Development, Strategy Development Division,
Strategy Development and Management Bureau

On December 16, 2022, the decision on the outline of the ruling parties' tax reform was made, followed by the cabinet decision on the FY2023 tax reform outline on December 23. On the same day, the Financial Services Agency (FSA) published an overview of major items of the FY2023 tax reform outline that are related to the FSA.[*1]

Below, the specifics of the fundamental expansion of the NISA[*2] program for Small Investment Tax-Exempt System and NISA's renewal as a permanent program will be mainly explained.

Background

Under the "new form of capitalism" initiative advocated by the Kishida administration, the shift of assets from savings to investment is being promoted in a bold and drastic manner as one of the key policy measures toward creating a "virtuous cycle of sustainable growth and distribution".

In Japan, there are household financial assets worth around 2,000 trillion yen, more than half of which are held in the form of cash and deposits, while the share of stocks and investment trusts is only around 20%. To expand financial assets held by households, it is necessary to create a virtuous cycle whereby assets held as cash are used for investment and the benefits of sustainable economic growth reach households. Based on this idea, on November 28, 2022, the Council of New Form of Capitalism Realization made the decision to adopt the **Doubling Asset-based Income Plan**. Figure 1 shows an overview of the plan.

Later, discussions on NISA were held at the ruling parties' tax system research commission. According to **the ruling parties' tax reform outline**, decided on December 16, 2022, the shift from savings to investment should be accelerated with a view to implementing the Doubling Asset-based Income Plan and **NISA should be fundamentally expanded and be made as a permanent system** from the viewpoint of developing an environment that enables households, particularly the middle class, to enjoy the fruits of growth through broad participation in the capital market. Subsequently, on December 23, the cabinet decision was made on the FY2023 tax reform outline, including major expansion of and making permanent NISA.

Figure 1

Overview of the Doubling Asset-based Income Plan

*Decision by the Council of New Form of Capitalism Realization on November 28, 2022

Under the **Doubling Asset-based Incomes Plan**, the following five-year goals have been set:

(i) Doubling the number of people with investment experience (increasing the total number of NISA accounts from 17 million to 34 million)

(ii) Doubling investment (increasing the amount of NISA account purchases from 28 trillion yen to 56 trillion yen)

To achieve the goals, the plan calls for implementing the following seven major measures (seven pillars) in an integrated manner.

Pillar 1: Major expansion of and making permanent NISA to shift household financial assets from savings to investment.

Pillar 2: Reform of the iDeCo system, such as raising the eligibility age.

Pillar 3: Create a system to encourage the provision of neutral and reliable advice to consumers.

Pillar 4: Enhancing asset formation for employees.

Pillar 5: Enhancing financial and economic education to spread the importance of stable asset formation.

Pillar 6: Realize of an international financial center open to the world.

Pillar 7: Ensuring customer-oriented business conduct

[*1] Major Items of the FY2023 Tax Reform Outline Related to the FSA: https://www.fsa.go.jp/news/r4/sonota/20221223.html (Available in Japanese)

[*2] The Japanese version of ISA (Individual Saving Account) of the United Kingdom, which is known as NISA (Nippon Individual Savings Account).

Existing NISA system

Regarding investment made through NISA accounts, **investment gains (gains of sales and distributions) are tax-exempt**. NISA accounts may be opened at banks and securities companies. There are three types of NISA—***Tsumitate* (Installment-type) NISA, General NISA, and Junior NISA** for minors. For detailed information, see the reference figure in Page 5.

Details of the major expansion of and making permanent NISA

The tax reform outline includes major expansion of the NISA and making the NISA system permanent system. While the details are indicated in Figure 2, the following measures are included:

- **Renew NISA as a permanent system, unify the various NISA types**, and create **"*Tsumitate* (Installment) investment quota,"** which takes over from *Tsumitate* (Installment-type) NISA, and **"Growth investment quota,"** which takes over from General NISA, both of which **may be used at the same time**.
- **Increase the upper limit on the value of annual investment to 1.2 million yen for *Tsumitate* (Installment) investment quota and to 2.4 million yen for Growth investment quota.**

In total, up to 3.6 million yen per year may be invested through NISA, a higher level than the upper limit of the ISA of the United Kingdom.

The outline also includes the upper limit of 18 million yen will be set on the total value of tax-exempt holding (the upper limit on Growth investment quota, which is part of the overall upper limit, will be set at 12 million yen), and **the period of tax exemption for profits earned from financial products** (the period of tax-exempt holding) **will be indefinite**.

The scope of products eligible for investment under *Tsumitate* (Installment) investment quota is the same as the scope for NISA. However, regarding Growth investment quota, which takes over the function of the existing General NISA, under the latest revision, **(i) stocks to be delisted and stocks under supervision and (ii) investment trusts with a trust period of less than 20 years, monthly dividend type, and certain investment trusts using derivative transactions are excluded** from the scope of eligible products compared with the scope for General NISA (listed stocks, investment trusts, etc.) in light of NISA's purpose, which is to promote stable asset formation. In addition, to prevent financial institutions from engaging in the act of forcibly soliciting customers into the practice of churning using Growth investment quota, the FSA has revised the supervisory guidelines to strengthen the supervision and monitoring of financial institutions.

Under the existing NISA system, adults are eligible for *Tsumitate* (Installment-type) NISA and General NISA and minors are eligible for Junior NISA. The New NISA system will be applicable to **adults (those aged 18 or older)**.

Figure 2

Major expansion of and making permanent NISA

(Applicable from January 2024)

	***Tsumitate* (Installment) investment quota**	Both quotas can be used at the same time	**Growth investment quota**
Annual investment quota	1.2 million yen		2.4 million yen
Period of tax-exempt holding (Note 1)	Change to an indefinite period		Change to an indefinite period
Upper limit on the value of tax-exempt holding (Total quota) (Note 2)	18 million yen *Managed under a book value balance method (the quota can be reused)		12 million yen (part of the total quota)
Account valid period	Change to a permanent period		Change to a permanent period
Products eligible for investment	A prescribed scope of investment trusts suited for long-term, installment and diversified investment (**the same as** the scope of products eligible for **the existing *Tsumitate* NISA**)		Listed stocks, investment trusts, etc. (Note 3) ((i) Stocks to be delisted and stocks under supervision and (ii) investment trusts with a trust period of less than 20 years, monthly dividend type, and certain investment trusts using derivative transactions are **excluded**)
Eligible age	18 years or older		18 years or older
Relationship with the existing NISA	The products in which investment has been made under the existing General NISA and *Tsumitate* (installment-type) NISA before the end of 2023 are outside the framework of the new program and the existing tax exemption rules are applicable. *Rollovers from the existing NISA to the new program are not permissible.		

(Note 1) Following the change in the duration of tax-exempt holding to an indefinite period, appropriate operation of the program will be ensured by periodically checking on the address of users and other items, as in the case of the existing *Tsumitate* (installment-type) NISA.
(Note 2) Regarding the upper limit on the value of tax-exempt holding for each user, information provided by financial institutions using a cloud system will be managed by the National Tax Agency.
(Note 3) To prevent financial institutions from engaging in the act of soliciting customers into the practice of churning using the growth investment quota, the FSA will revise the supervisory guidelines to implement supervision and monitoring based on laws and regulations.
(Note 4) Regarding products in which investment has been made through Junior NISA before the end of 2023, those who made the investment continue to be eligible for tax-exemption until the age of 18 after the expiry of the period of tax-exempt holding if appropriate procedures are implemented. The need to implement those procedures is to be eliminated to improve user convenience.

New NISA system after the major expansion is expected to be determined following the forthcoming tax law deliberations in the Diet and **be put into effect in April 2024**. Under the **tax reform outline, tax exemption is applicable to products in which investment has been made through the existing General NISA and *Tsumitate* (Installment-type) NISA** before the end of 2023 outside **the framework of the new system**. The burden on financial institutions related to computer system development is expected to be reduced because it will be unnecessary to transfer investment assets held under the existing system to the new system.

The Doubling Asset-based Income Plan aims to **double the total number of NISA accounts, from the current 17 million to 34 million, and also double the amount of NISA account purchases, from the current 28 trillion yen to 56 trillion yen, over the next five years**. To achieve these goals, it is important to obtain the people's understanding on the need for asset formation and ensure that they behave based on that understanding. It is also important to establish a system to provide appropriate services that meet the need for asset formation. From that perspective, it is also important not only to **major expand NISA and make it as a permanent system** but also to **enhance financial and economic education and ensure that financial institutions engage in customer-oriented business conduct**.

Other major items related to the FSA

The latest tax reform outline provides for the following measures, for example, as major items related to the FSA in addition to major expansion of and making permanent NISA.

- **Measures necessary for promoting stable asset formation by the people**
- **Extension of tax exemption related to "gensaki" bond transactions (repo transactions) with foreign investment funds**
- **Extension of the suspension of levying of the special corporate tax on the reserves of pension funds, etc.**
- **Revisions related to term-end taxation on crypto assets based on market price valuation**
- **Extension of tax exemption of the gift tax related to lump-sum gift of education funds**
- **Extension of tax exemption of the gift tax related to lump-sum gift of funds for marriage and child bearing**
- **Extension of the preferential tax measures related to investment corporations (infrastructure funds)**

All of the above measures are temporary ones, and going forward, how to make them effective before they expire next time will become more and more important. It is unfortunate that the details of the measures cannot be described due to limited space here. Interested readers can obtain more detailed information from the published reference materials mentioned at the beginning, which are available on the FSA's website.

Reference

Overview of the existing NISA system

	Tsumitate NISA (Installment-type NISA) (started in 2018) ⇔ Optional System	General NISA (started in 2014)	Junior NISA (started in 2016)
Annual investment quota	400,000 yen	1.2 million yen	800,000 yen
Period of tax-exempt holding	20 years	5 years	5 years*1
Upper limit on the value of tax-exempt holding	8 million yen	6 million yen	4 million yen
Account valid period	Until 2042 → Until 2023	Until 2028 → Until 2023	Until 2023
Eligible investment products	Stock investment trusts suited for long-term, installment, diversified investment	Listed stocks, ETFs, REITs, stock investment trusts	Listed stocks, ETFs, REITs, stock investment trusts
Eligible age	20 years or older*2	20 years or older*2	19 years or younger*3
Number of accounts (as of the end of June 2022)	6.39 million accounts	10.65 million accounts	870,000 million accounts
Balance (as of the end of December 2021)	1.7 trillion yen	10.1 trillion yen	0.5 trillion yen

*1 In special cases, tax-exempt holding may be permitted until the account holder turns 18 years old.
*2 18 years or older in and after 2023

Report by the Financial System Council's Working Group on Corporate Disclosure (published in December 2022)

FUKE Hiroshi, Assistant Director, Corporate Accounting and Disclosure Division, Policy and Markets Bureau

The Working Group on Corporate Disclosure under the Financial System Council (Chair: KANDA Hideki, Professor, Gakushuin University Law School) (Disclosure Working Group: hereinafter referred to as the "DWG") conducted deliberations on the revision of the quarterly disclosure system and on sustainability disclosure, and it adopted and published a report[*1] in December 2022. In this article, we will introduce the background and key points.

1. Background

Disclosure of corporate information constitutes the foundation for realizing efficient resource allocation in the capital market through the provision of basic information for investors to make investment decisions. Therefore, it is essential to provide information necessary for making investment decisions accurately, to a sufficient extent, and in a timely and easy-to-understand manner.

Amid the drastic economic and social changes, the importance of nonfinancial information related to medium and long-term corporate value, such as sustainability information, and information disseminated by companies as necessary through various media is growing, and it is therefore important to reform the framework for disclosure of corporate information in light of this situation.

The DWG's report[*2] published in June 2022 worked out measures to enhance disclosure of nonfinancial information, including sustainability information, and measures related to the revision of the quarterly disclosure system. This report indicated the possible option of unifying existing quarterly reports—abolishing the quarterly securities report required under the Financial Instruments and Exchange Act (the first and third quarters) while retaining the quarterly earnings report required by exchanges—and called for continued deliberations on the challenges for realizing the unification, and on the clarification of the role of the Sustainability Standards Board of Japan (SSBJ) and a roadmap for implementation in relation to sustainability disclosure. Thereafter, the DWG held four sessions of deliberation on those matters, starting in October 2022, and the DWG's report published in December of the same year mainly presented the recommendations described below.

2. Revision of the quarterly disclosure system

The DWG's June 2022 report indicated the possible option of unifying two existing quarterly reports, the quarterly securities report required under the Financial Instruments and Exchange Act (the first and third quarters) and the quarterly earnings report required under exchanges' rules, from the viewpoints of cost reduction and improvement of disclosure efficiency. The report observed that it is considered to be appropriate to implement the unification by abolishing the obligation for submitting the quarterly securities report (the first and third quarters) and retaining the obligation for submitting the quarterly earnings report in light of the following points: that unifying the two reports into the quarterly securities report, whose disclosure timing is later, could create the risk that the usefulness and timeliness of information may decline; and that the quarterly earnings report, which is used for active information disclosure to investors, is used widely among investors.

In light of the above, the DWG started discussing specifically how to implement the unification in October 2022 and presented the following recommendations, among others, in December of the same year.

(i) For the moment, the obligation for submitting the quarterly earnings report should be universally applied, and, going forward, deliberations should be continuously conducted on shifting to voluntary disclosure in light of the status of enhancement of timely disclosure, among other factors.

(ii) Regarding the contents of disclosure, items of information for which investors have particularly strong needs should be included in addition to the disclosure items for the quarterly earnings report.

(iii) Audit review should be voluntary, but the obligation for audit review should be applied for a certain period of time when a case of accounting irregularity has occurred.

---

*1 For the "Report of the Working Group on Corporate Disclosure under the Financial System Council," published on December 27, 2022, access the following site: https://www.fsa.go.jp/singi/singi_kinyu/tosin/20221227.html (Available in Japanese)

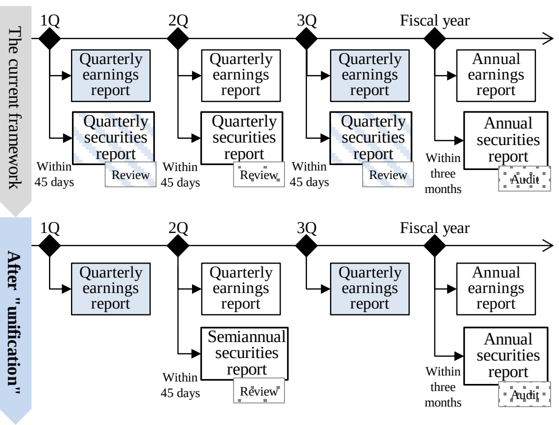
*2 For the "Report of the Working Group on Corporate Disclosure under the Financial System Council," published on June 13, 2022, access the following site: https://www.fsa.go.jp/singi/singi_kinyu/tosin/20220613.html (Available in Japanese)

Outline of the Report of the Working Group on Corporate Disclosure under the Financial System Council (quarterly disclosure) (published in December 2022)

☐ The DWG conducted deliberations on quarterly disclosure and sustainability disclosure, both of which were proposed as items for study in the report published in June 2022. Regarding quarterly disclosure, the DWG adopted the following recommendations:

Quarterly disclosure (Matters requiring legal revisions)

- In light of the growing importance of information disseminated by companies as necessary, timely disclosure required by exchanges should be enhanced. In addition, **in the future**, discussions should be held on **reforming the disclosure framework into one that places emphasis on implementing timely information disclosure** during relevant business periods while ensuring information reliability.
- Regarding the quarterly securities report (the first and third quarters), a specific plan should be worked out to **abolish the obligation for disclosure under the Financial Instruments and Exchange Act** (a matter requiring a legal revision) and **unify quarterly reports into the quarterly earnings report** based on exchanges' rules.
  - **For the moment, the obligation for submitting the quarterly earnings report should be universally applied.** Going forward, **deliberations should be continuously conducted on shifting to voluntary disclosure** in light of the status of enhancement of timely disclosure.
  - Regarding **the contents of disclosure, items of information for which investors have particularly strong needs (e.g., segment information) should be included in addition to the** disclosure items for the quarterly earnings report.
  - **Audit review should be voluntary, but the obligation for audit review should be applied for a certain period of time when a case of accounting irregularity has occurred.**
  - Exchanges should **implement enforcement against false statements in a more appropriate manner**. However, intentional and malicious false statements may be subject to penalty.
  - Regarding the semiannual securities report, listed companies **should be required to present an audit review that is similar in content to the one presented in the existing quarterly securities report for the second quarter,** with **the submission of the report required within 45 days from the account settlement.** An unlisted company should be **allowed to choose the same framework as the one applied to listed companies** (a matter requiring a legal revision).
  - **The periods of public viewing of the semiannual securities report and the extraordinary report (three years and one year, respectively)** under the Financial Instruments and Exchange Act should be **extended to five years** (a matter requiring a legal revision).



(iv) Exchanges should implement enforcement against false statements in a more appropriate manner. However, intentional and malicious false statements may be subject to penalty.

(v) Regarding the semiannual securities report, listed companies should be required to present an audit review that is similar in content to the one presented in the existing quarterly securities report for the second quarter, with the submission of the report required within 45 days from the account settlement. An unlisted company should be allowed to choose the same framework as the one applied to listed companies.

Among other recommendations was that the periods of public viewing of the semiannual securities report and the extraordinary report should be extended to five years, the same as the period for the annual securities report and the statute of limitation of monetary penalties.

3. Clarification of the SSBJ's role in Japan, etc.

The DWG's June 2022 report stated that it was necessary to clarify the role of the domestic standard-setting body for sustainability disclosure and to conduct a further study on a roadmap that contributes to practical preparations by companies and investors.

Therefore, the DWG discussed the abovementioned point with respect to sustainability disclosure, starting in October 2022, and mainly presented the following recommendations in December of the same year.

(i) At a time when, internationally, discussions on setting standards for sustainability disclosure are proceeding at the International Sustainability Standards Board (ISSB) and other organizations, in Japan, it is important to steadily implement substantial sustainability disclosure on a nationwide basis based on private-sector activities while ensuring international consistency. From that viewpoint, it is necessary to conduct a study on domestic disclosure standards, to incorporate disclosure standards into the securities report, discuss a system of assurance and train personnel who support relevant activities.

(ii) Regarding sustainability disclosure standards, in Japan, it is important to hold discussions with a view to developing domestic disclosure standards while keeping a watch on the direction of the development of standards at the ISSB. Going forward, one possible option will be to incorporate universal disclosure standards into the annual securities report, which is a legally mandated disclosure document. In that case, it will be important to incorporate the domestic standard-setting body and disclosure standards developed by the body into the legal framework.

(iii) When incorporating the standard-setting body and disclosure standards related to sustainability information into the Financial Instruments and Exchange Act (FIEA), the fact that Japan's accounting standard-setting body and corporate accounting standards are incorporated into the framework of the FIEA serves as a useful reference case. The SSBJ, which has been established under the Financial Accounting Standards Foundation (FASF), is considered to meet the conditions for being incorporated into the framework of the FIEA. Going forward, it is important to develop necessary relevant laws, and regarding disclosure standards to be developed by the SSBJ, it is important to ensure comparability in terms of sustainability disclosure and provide information useful for investors by designating those standards as Japan's national standards for sustainability disclosure under a specific public notice.

In addition, discussion was held on third-party assurance regarding the contents of sustainability disclosure, and from the viewpoint of enhancing predictability concerning sustainability disclosure on behalf of companies and investors and steadily promoting practical preparations, a roadmap for implementation in Japan was presented.

4. Future activities

It was recommended that going forward, regarding quarterly disclosure, relevant parties should promptly conduct a study on the proposed revision of the FIEA in light of the contents of this report with a view to abolishing the obligation for quarterly disclosure (the first and third quarters) under the FIEA and subsequently take necessary actions to prepare for institutional revisions, such as developing necessary cabinet orders and exchange rules. Regarding sustainability disclosure, it was recommended that relevant parties should incorporate the Japanese disclosure standard-setting body and disclosure standards set by the body into the legal framework.

Outline of the report of the Working Group on Corporate Disclosure of the Financial System Council (sustainability disclosure) (published in December 2022)

□ The DWG conducted deliberations on quarterly disclosure and sustainability disclosure, both of which were proposed as items for study in the June 2022 report. Regarding sustainability disclosure, the DWG adopted the following recommendations.

Sustainability disclosure

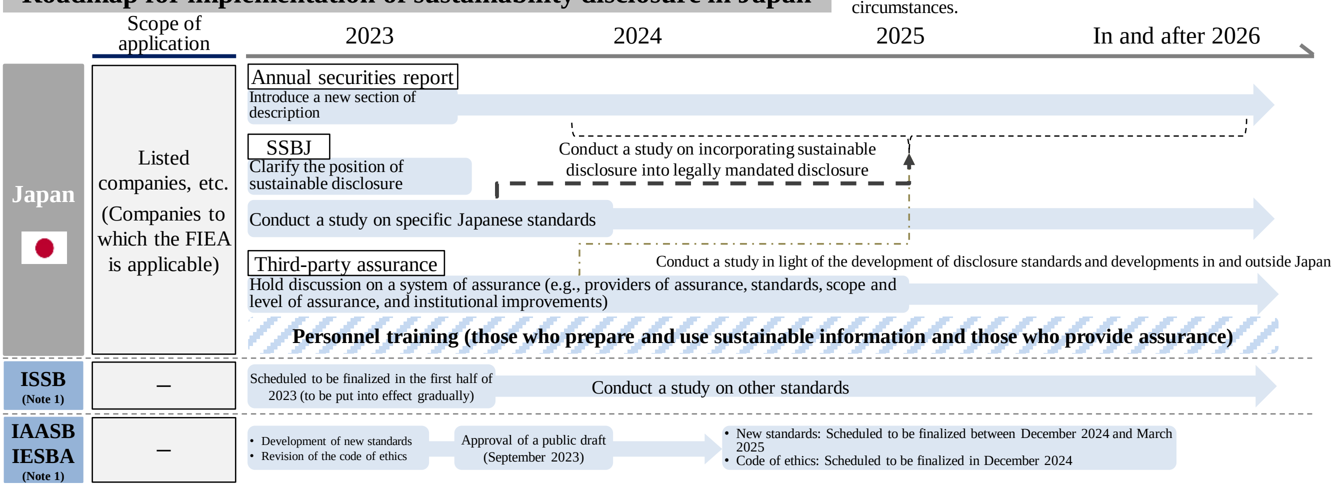
■ The **Sustainability Standards Board of Japan (SSBJ)** and disclosure standards to be developed in the future should be **incorporated into the legal framework** (a matter requiring a cabinet order revision).

■ Discussions should be held on the matters for future study (**sustainability disclosure standards** and third-party **assurance** (*) regarding the contents of disclosure) and a **roadmap** for implementation.

*"Assurance" refers to a statement made by an independent third party as to whether the information provided is accurate in order to enhance information reliability.

Roadmap for implementation of sustainability disclosure in Japan

* May be revised as necessary subject to future changes in the circumstances.



(Note 1) ISSB: International Sustainability Standards Board; IAASB: International Auditing and Assurance Standards Board; IESBA: International Ethics Standards Board for Accountants
(Note 2) The United States is scheduled to start applying Scope 1 and 2 to large-size, early submission companies (companies that meet criteria such as a market capitalization of 700 million dollars or higher) in fiscal 2023 and to subsequently apply them to others gradually in accordance with company size.
Europe is scheduled to start applying the CSDR and the ESRS to companies with a workforce of 500 or more employees in fiscal 2024 and to subsequently apply them to others gradually in accordance with company size. In addition, application to non-EU companies with large net sales within the EU market is scheduled to start in fiscal 2028. Regarding third-party assurance, the United States and Europe are scheduled to first introduce limited assurance and then shift to reasonable assurance gradually in accordance with company size.

Formulation of the "Reform Program regarding Personal Guarantee Provided by Business Owners"

HASHINO Hisashi, Supervisory Coordinator, Research Office,
Planning and Management Division, Supervision Bureau

1. Developments

Nine years have passed since the commencement of the application in February 2014 of the "Guidelines for Personal Guarantee Provided by Business Owners" (hereinafter referred to as the "Guidelines") as self-regulatory rules in the private sector, with the Japanese Bankers Association, etc. serving as the secretariat. The FSA has supported the establishment of lending practices that do not rely on personal guarantee by business owners among private financial institutions (hereinafter referred to as "financial institutions") by such means as publishing the status of their utilization of the Guidelines.[*1]

The "Grand Design and Action Plan for a New Form of Capitalism," which was approved by the Cabinet on June 7, 2022, incorporates the government's intention to "compile measures for establishing loan practices not dependent on personal guarantee provided by business owners by the end of FY2022." The FSA commenced deliberations on relevant measures to further accelerate the establishment of new loan practices and published the "Reform Program regarding Personal Guarantee Provided by Business Owners" on December 23, 2022, jointly with the Ministry of Economy, Trade and Industry and the Ministry of Finance.[*2]

This program also contains measures of other ministries and agencies, such as the creation of a new credit guarantee system for startups under which business owners are not required to provide personal guarantee, but here, only initiatives related to the FSA are introduced.

Reform Program regarding Personal Guarantee Provided by Business Owners (parts related to the FSA)

Loans by private financial institutions – Stricter procedures for requesting guarantee and renewed ways of thinking –

- By **amending the Comprehensive Guidelines for Supervision** and making procedures for requesting guarantee stricter, **aim to restrain private financial institutions from easily providing loans that rely on personal guarantee** and also **increase a sense of satisfaction of companies and guarantors**.
- By requesting private financial institutions to **create and publish their "Policies for Disseminating and Entrenching the Guidelines for Personal Guarantee Provided by Business Owners,"** aim to promote renewal of ways of thinking for establishment new lending practices that do not rely on personal guarantee by business owners.

(1) Strengthening of supervision on financial institutions' procedures for requesting personal guarantee

Major measures

(i) When concluding a personal guarantee contract with a business owner, a financial institution is **required to provide the company and the guarantor with the following explanations specifically and concretely** regarding the necessity, etc. of concluding the guarantee contract and is also **required to record the results of the explanations**. [from April 2023]

- What part is insufficient and requires the conclusion of the guarantee contract
- What improvements may increase the possibility of modification or cancellation of the guarantee contract

(ii) A financial institution is **required to make a report to the FSA regarding the number of cases** where it recorded the results of the explanations as mentioned in (i). [from the performance report for the term ending in September 2023]

(*) **Aim to achieve 100%** when summing up "cases of non-guaranteed loans" and "cases of guaranteed loans where explanations were provided properly and the results were recorded."

(iii) The FSA will **establish a consultation office dedicated to matters concerning personal guarantee provided by business owners** and receive consultations from companies, etc. such as that "financial institutions do not provide relevant explanations properly." [from April 2023]

(iv) The FSA will **conduct special hearings with financial institutions** in accordance with individual circumstances.

(2) Renewal of ways of thinking for establishment new lending practices that do not rely on personal guarantee provided by business owners (Promote publication of policies and thoroughly disseminate initiatives among front-line personnel)

Major measures

(i) **The Minister of State for Financial Services requested** financial institutions **to deliberate, create and publish their "Policies** for Disseminating and Entrenching the Guidelines for Personal Guarantee Provided by Business Owners" **with the involvement of top management**.

(ii) The FSA is holding briefing sessions nationwide targeting financial institutions and companies so that they, including front-line sales personnel of regional financial institutions, fully understand renewed operations due to the amendment of the Comprehensive Guidelines for Supervision and the significance of establishing loan practices not dependent on personal guarantee provided by business owners. [from January 2023]

(iii) The FSA will further expand the content of "Best Practices of Organizational Efforts," which compiles effective efforts being made by financial institutions, and will broadly disseminate it.

(3) Consideration of new loan methods not rely on personal guarantee provided by business owners (security right on business growth (provisional))

Major measures

(i) The FSA has been promoting deliberations for achieving at an early stage a system to enable companies to raise funds from financial institutions with the entirety of their businesses as security so that financial institutions can place focus on companies' business viability when providing loans instead of excessively depending on real-estate security or personal guarantee provided by business owners. [from November 2022]

[*1] Utilization of the "Guidelines for Personal Guarantee Provided by Business Owners": published on December 27, 2022: https://www.fsa.go.jp/news/r4/ginkou/20221227-2.html (Available in Japanese)

[*2] Formulation of the "Reform Program regarding Personal Guarantee Provided by Business Owners": published on December 23, 2022: https://www.fsa.go.jp/news/r4/ginkou/20221223-3/20221223-3.html (Available in Japanese)

2. Background of deliberations at the FSA

(a) Communication gap

According to the questionnaire survey that the FSA conducted with financial institutions,[*3] over 70% of the respondents responded that when they request guarantee for newly providing loans, "they make it a rule to provide borrowers with explanations on the Guidelines." However, according to the survey commissioned by the Small and Medium Enterprise Agency,[*4] to the question targeting business owners who have provided personal guarantee, asking "whether having received explanations concerning the Guidelines from financial institutions," approximately 70% of the respondents responded that "they did not receive explanations." This suggests the communication gap between financial institutions and business owners who are guarantors, and the FSA considered it necessary to eliminate this gap.

(b) Renewal of ways of thinking

Through the hearing survey that the FSA conducted with financial institutions, the FSA confirmed multiple cases where the change of top management's way of thinking regarding personal guarantee provided by business owners led to significant increases in the "rate of loans not dependent on personal guarantee among new loans (the rate of non-guaranteed loans)" in several years. At those financial institutions, top management considers it better to utilize the time originally required for deciding on requesting guarantee and for collecting guarantee rather for the purpose of building better relations with customers, in light of the fact that the money to be collected from guarantors is not much even in the event of bankruptcies and that the absence of personal guarantee provided by business owners does not exert a large influence on the management of the banks. Under such idea of top management, those financial institutions do not request business owners to provide personal guarantee in principle.

Based on these examples, the FSA considered it necessary to promote renewal of ways of thinking in order to further accelerate the establishment of new loan practices not dependent on personal guarantee.

3. Specific Initiatives of the FSA under the "Reform Program regarding Personal Guarantee Provided by Business Owners"

Against the background explained 2., the FSA amended the "Comprehensive Guidelines for Supervision of Small and Medium-Size and Regional Financial Institutions (hereinafter referred to as the "Comprehensive Guidelines for Supervision")"[*5] as a part of the "Reform Program regarding Personal Guarantee Provided by Business Owners." The major content is roughly divided into the following two.

(a) Strengthening of supervision on financial institutions' procedures for requesting personal guarantee

In order to eliminate the communication gap between financial institutions and guarantors, the amended Comprehensive Guidelines for Supervision requires financial institutions to provide more detailed explanations to companies and guarantors when concluding a personal guarantee contract with business owners, regarding the necessity, etc. of concluding the guarantee contract, with respect to such matters as "what part is insufficient and requires the conclusion of the guarantee contract" and "what improvements may increase the possibility of modification or cancellation of the guarantee contract." Additionally, financial institutions are required to record the results of the explanations. Through this requirement, it is expected that private financial institutions will be restrained from easily providing loans that rely on personal guarantee and also that the sense of satisfaction of companies and guarantors will increase even in cases where business owners are requested to provide personal guarantee.

Furthermore, in order to increase effectiveness, under the "Reform Program regarding Personal Guarantee Provided by Business Owners," the FSA is to establish a consultation office dedicated to matters concerning personal guarantee provided by business owners and receive consultations from companies and conduct special hearings in accordance with individual circumstances.

(b) Renewal of ways of thinking for establishing new loan practices not dependent on personal guarantee provided by business owners

As measures for promoting "financial institutions' renewal of ways of thinking," the amended Comprehensive Guidelines for Supervision states that "financial institutions are required to disseminate and entrench the Guidelines for Personal Guarantee Provided by Business Owners as their loan practices

---

*3 Results of the questionnaire survey on financial institutions' initiatives in response to the commencement of the application of special provisions of the "Guidelines for Personal Guarantee Provided by Business Owners" focused on the time of business succession; published on June 3, 2021: https://www.fsa.go.jp/news/r2/ginkou/20210603.html (Available in Japanese)

*4 Source: "Report on the Program to Announce and Disseminate the 'Guidelines for Personal Guarantee Provided by Business Owners' (Program to Provide One-stop Comprehensive Support to SMEs and Micro Enterprises)" (Small and Medium Enterprise Agency; FY2020)

*5 Publication of the results of public comments regarding the partial amendment (draft) of the "Comprehensive Guidelines for Supervision of Small and Medium-Size and Regional Financial Institutions"; published on December 23, 2022: https://www.fsa.go.jp/news/r4/ginkou/20221223-4/20221223-4.html (Available in Japanese) and it is preferable for them to publish their own policies therefor."

In a written request published together with the Reform Program regarding Personal Guarantee Provided by Business Owners,[*6] the Minister of State for Financial Services requested financial institutions to deliberate, create and publish their "Policies for Disseminating and Entrenching the Guidelines for Personal Guarantee Provided by Business Owners" with the involvement of top management. A groundbreaking policy, such as "not requesting business owners to provide personal guarantee in principle," will never be adopted unless top management's attitude changes. From the perspective of promoting dramatic renewal of ways of thinking regarding personal guarantee provided by business owners, the Minister additionally requested financial institutions to have deliberations with the involvement of top management when publishing their relevant policies.

In the written request, financial institutions are also requested to compile their policies "in a concrete and easy-to-understand manner to make the content 'clear and visible' so that the policies can be utilized as a communication tool for building a better relationship of trust with companies, and to disseminate the policies to all workers including the front-line personnel so as to ensure business operations in line with the policies." The FSA expects that financial institutions will formulate further effective policies and that those policies will be fully disseminated and entrenched as individual financial institutions' corporate culture.

4. FSA's Future Initiatives

The FSA understands that there are cases where financial institutions inevitably need to request personal guarantee provided by business owners for some companies upon providing new loans depending on their size and business conditions, and naturally, the amended Comprehensive Guidelines for Supervision does not uniformly put a restriction on financial institutions' request for personal guarantee.

However, a considerable gap is observed in the rates of non-guaranteed loans among several financial institutions whose customer companies' sizes and attributes are almost the same. Financial institutions are requested to fully understand the purport of the latest amendment of the Comprehensive Guidelines for Supervision and the Reform Program regarding Personal Guarantee Provided by Business Owners, and reconsider their policies concerning personal guarantee provided by business owners, thereby accelerating their initiatives for establishing loan practices not dependent on personal guarantee.

The FSA will monitor individual financial institutions' moves through hearings or other means so that the content of the amended Comprehensive Guidelines for Supervision and the Reform Program will be entrenched as their corporate culture.

[Reference] Excerpt of the amendment of the Comprehensive Guidelines for Supervision (a comparative table of old provisions and amended ones); Application to be commenced on April 1, 2023

Provisions after amendment	Current provisions
(D) When concluding a personal guarantee contract with a business owner, etc., whether the financial institution provides the principal debtor and the guarantor with detailed and specific explanations about the following points based on the "Guidelines for Personal Guarantee Provided by Business Owners," and whether the financial institution confirms that explanations based on the following matters were provided to the guarantor and records the results thereof, etc. in writing or by electronic means (See II-10-2).	(D) When concluding a personal guarantee contract with a business owner, etc., whether the financial institution provides the principal debtor and the guarantor with detailed and specific explanations about the following points based on the "Guidelines for Personal Guarantee Provided by Business Owners" (See II-10-2).
a. Specific details as to what part is insufficient and requires the conclusion of the guarantee contract(Note)	a. Necessity of the guarantee contract
b. Specific details as to what improvements may increase the possibility of modification or cancellation of the guarantee contract(Note)	(New)
(Note) In reference to the factors listed in paragraph 4, (2) of the "Guidelines for Personal Guarantee Provided by Business Owners," financial institutions should provide explanations specifically in accordance with the circumstances of individual debtors. On such occasions, it is preferable to present a quantitative perspective regarding debtors' assets and earning power and an objective and concrete perspective regarding other factors to the extent possible.	(New)

Provisions after amendment	Current provisions
Financial institutions are required to disseminate and establish the Guidelines for Personal Guarantee Provided by Business Owners as a prevailing loan practice by conducting proper actions fully based on the purpose and content of the Guidelines and it is preferable for them to publish their own policies therefor.	Financial institutions are required to disseminate and establish the Guidelines for Personal Guarantee Provided by Business Owners as a prevailing loan practice by conducting proper actions fully based on the purpose and content of the Guidelines.

0

[*6] Promotion of initiatives for establishing loan practices not dependent on personal guarantee; published on December 23, 2022: https://www.fsa.go.jp/news/r4/ginkou/20221223-5/20221223-5.html

Beware of Fraudulent Remittances by Phishing!

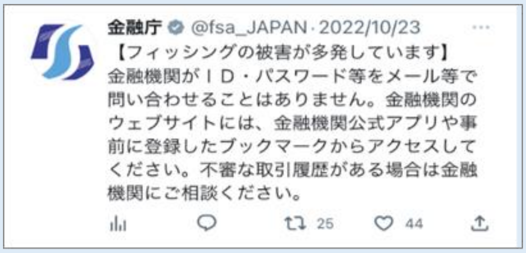
Regarding financial damage, such as fraudulent withdrawals of deposits, etc. by the use of forged cash cards, stolen cash cards, or stolen passbooks, or through internet banking services or payment services linked to bank accounts (joint services), the FSA compiles the situation of the occurrence of damage and compensation by financial institutions based on reports by individual financial institutions and publishes the results regularly.*

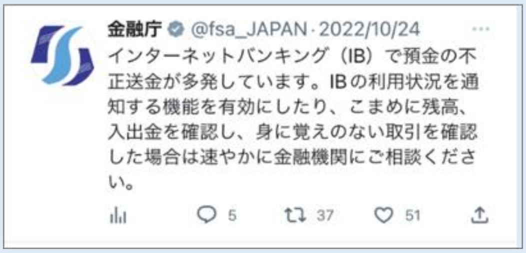
Since late August last year, there have been many cases where internet banking users' IDs and passwords were stolen and their bank deposits were fraudulently remitted probably by phishing using email, short message services (SMS), or other message tools. Accordingly, in collaboration with the National Police Agency, the FSA broadly called for attention on its website and official Twitter page, etc.

Please note the following points so as to avoid becoming a victim.

You may think "I am OK." However, you must always be on your guard.

Messages calling for attention on the FSA's official Twitter page





Points to note so as to avoid becoming a victim of phishing

- **Do not open unexpected SMS.** (Financial institutions will never ask you about your ID or password using SMS.)
- When accessing a financial institution's website, **do not use an URL stated in SMS**. You should bookmark correct URLs in advance and access a financial institution's website from the bookmarked URL, or use the official app provided by the relevant financial institution.
- If you are receiving many phishing emails, you should **strengthen your spam filtering settings**.
- **Use multifactor authentication or another authentication system** recommended by financial institutions.
- If **antivirus software is provided free of charge** on a financial institution's official website, **consider using it**.
- **Upgrade the antivirus software** on your computer **to the latest version**.
- Activate the function to report the status of use of internet banking services and pay attention to whether there have been any suspicious transactions (such as logins, password changes, or remittances). You should check the balance and details of account activities often, and **when you notice any unknown transaction, you should make an inquiry with the financial institution promptly**.

* The FSA publishes information concerning the occurrence of financial damage and compensation by financial institutions every quarter. For the latest situation, see "Situation of financial damage caused by forged cash cards, etc." published on December 20, 2022. https://www.fsa.go.jp/news/r4/ginkou/20221220.html (Available in Japanese)

JFSA's Major Activities in January (January 1 to January 31, 2023)

- Updated list of issuers of gift certificates in repayment procedures based on the 'Payment Services Act' (January 27, 2023)
- Memorandum of Cooperation with the European Central Bank (January 20, 2023)
- Updated : International Financial Center Website (January 16, 2023)
- Stewardship Code : 322 institutional investors have signed up to the Principles for Responsible Institutional Investors as of December 31, 2022 (January 12, 2023)
- Updated statistics of money lending business (January 11, 2203)

・ JFSA's official English Twitter account
https://twitter.com/JFSA_en

We are promoting information dissemination using Twitter!

・ Please send your opinions using the following email address to the Public Relations Office's personnel in charge of Access FSA.

E-mail : fsa_kouhou@fsa.go.jp

Editorial Postscript

Every month, the FSA counts the number of accesses to webpages of its website. Last December, the number of accesses to the FSA website dedicated for NISA was the highest since the commencement of counting in May 2016.

The publication of the Tax Reform Outline, which contains the fundamental expansion and perpetuation of the NISA program, may have acted as the driving force for the increase of the number of accesses and we recognized a high level of attention among people. The NISA program is also explained in detail in a policy commentary corner in this issue. Please take a look at it.

Incidentally, February 13 is NISA Day. The FSA is also positively carrying out PR activities and hopes that NISA Day will serve as an opportunity for many people to take an interest in the NISA program and asset building.

Thank you for reading this month's Access FSA.

MORIYA Takayuki, Director,
Public Relations Office, FSA

(*The opinions expressed in this report are the personal views of the author and do not necessarily reflect the organization with which the author is affiliated.)