

5

2020

MAY

Monthly
magazine

Financial Services Agency Newsletter

Access FSA



Contents

Seminars & Conferences (P1~)

P1 Prime Minister Abe's Meeting with Private Financial Institutions, etc. Regarding Financing Support

Policy Commentary Corner (P3~)

P3 Principles for Responsible Institutional Investors
Second Revision of Japan's Stewardship Code

SHIMANUKI Madoka, Deputy Director, Corporate Accounting and Disclosure Division,
Policy and Markets Bureau

P5 System Development for Crypto-Assets (Virtual Currencies)
(Amendments of Cabinet Order and Cabinet Office Order, etc. accompanying the amendment of the
Payment Services Act, etc. in 2019)

OKAMOTO Kohei, Deputy Director, Financial Markets Division, Policy and Markets Bureau
TAKEUCHI Hironori, Unit Chief, Financial Markets Division, Policy and Markets Bureau

Notice (P7~)

P7 FSA urges vigilance on Crime Taking Advantage of the COVID-19 (Novel Coronavirus) Pandemic!

P8 The FSA's Measures in Relation to the COVID-19 (Novel Coronavirus) Infection

P9 Commissioner Endo Appeared on BS TV TOKYO's Live Program, "Nikkei Morning Plus FT"

JFSA's Major Activities in April (P10)



⇐ Access the online version here

<https://www.fsa.go.jp/en/newsletter/index.html>

Prime Minister Abe's Meeting with Private and Governmental Financial Institutions Regarding Financing Support

On April 8, 2020, Prime Minister Abe held a meeting with private and governmental financial institutions with respect to financing support in light of the growing impact of the COVID-19 (novel coronavirus) outbreak¹. This meeting was also attended by Chief Cabinet Secretary Suga, Minister in charge of Economic Revitalization Nishimura, Minister of Economy, Trade and Industry Kajiyama, and Minister of Finance and State Minister for Financial Services Aso.

【Overview of the Meeting】

[Remarks by Prime Minister Abe at the beginning of the meeting]

- Yesterday (April 7), we issued the declaration of a state of emergency. The Japanese people are earnestly supporting initiatives to prevent the spread of infection, such as reducing people-to-people contact by at least 70%, ideally by 80%. In this situation, it is vital to maintain the functions of financial institutions, which are indispensable for the stability of the national economy.
- Many business operators across Japan are now facing very difficult circumstances. The government is resolved to provide thorough support to ensure business continuity amid the difficulty and protect local jobs at any cost. With this resolve, the government is taking every possible measure.
- Financing is the greatest concern for micro-, small-, and medium-sized business operators. With this in mind, through these emergency economic measures, we will provide strong financing support on an unprecedented scale of up to 45 trillion yen.
- Micro-, small-, and medium-sized business operators across Japan are enduring truly challenging circumstances and working hard with gritted teeth. We must not let their efforts come to nothing. I sincerely ask for the cooperation of all the financial institutions.
- As for the emergency economic measures, we have made interest-free, unsecured loans with principal repayment deferred for a maximum of five years² available at local private financial institutions as well. With regard to changes to lending terms, such as the provision of a grace period for existing debts, I ask that you continue to respond expeditiously and flexibly.
- Furthermore, we have made it possible to refinance recurring debts as interest-free, unsecured loans in governmental financial institutions, and I ask that you please make active use of this and provide full support to your customers. In addition, for mid-sized and large enterprises, I ask that you please advance liquidity support through operations to facilitate crisis response.
- In order to help business operators overcome this difficulty, I ask for your further efforts to implement lending at the fastest speed possible.



《 Source 》 Website of the Prime Minister's Office of Japan (<http://www.kantei.go.jp/>)

〔 Prime Minister Abe speaking at the meeting 〕

¹ For relevant information, including video, access the following URL.

Website of the Prime Minister's Office of Japan: https://www.kantei.go.jp/jp/98_abe/actions/202004/08kanmin_kaidan.html

² The supplementary budget for fiscal 2020 was enacted on April 30. As a result, starting on May 1, it has become possible to receive effectively interest-free, unsecured loans with principal repayment deferred for a maximum of five years with a reduced or no guarantee fee at private financial institutions, too, through prefectural loan programs.

[Major remarks by participants from private financial institutions]

- We are placing the top priority on conscientiously responding to requests for consultation regarding business management affairs from customers affected by the novel coronavirus outbreak and on taking prompt, appropriate and flexible actions. We will do our utmost to continue to ensure smooth fund flows while making use of the framework of effectively interest-free, unsecured loans.
- We are making every possible effort to implement various support measures, including financing support, to the people in local communities with a strong resolve to support local economies. We will make further efforts to support them through various management support activities. Regarding private financial institutions' interest-free loan programs, we will closely cooperate with local governments and credit guarantee corporations to enable prompt and smooth provision of funds to local business operators.



« Source » Website of Prime Minister's Office of Japan (<http://www.kantei.go.jp/>)

Prime Minister Abe (left) holding a meeting with public and private financial institutions (right)

[Remarks by Minister of Finance and State Minister for Financial Services Aso]

- As the government is taking actions on an unprecedented scale, I would like to ask financial institutions to make further efforts, as I have frequently asked you to do.
- When the Lehman Shock and the 1997 currency crisis occurred, financial institutions faced difficulty. This time, while financial institutions' business management is generally sound, we are witnessing an unprecedented situation of flows of goods and people coming to a halt. Therefore, now, I would like to ask financial institutions to understand this point and provide assistance.



« Source » Website of Prime Minister's Office of Japan (<http://www.kantei.go.jp/>)

Minister Aso speaking at the meeting

[Remarks by Prime Minister Abe at the closing of the meeting]

- We can say that our country is facing the greatest crisis since the end of the war. In this situation, I would like to overcome this crisis, with the support of the public.
- Financial institutions are continuing to operate as part of the social and economic infrastructure amid the crisis management efforts, and I would like to express my heartfelt appreciation to the employees of financial institutions who are working hard at the forefront of this effort.
- At present, governmental financial institutions, among others, are providing cooperation in the provision of interest-free, unsecured loans, for example. From now on, it will be the turn of regional banks, Shinkin banks, and credit cooperatives to do their part. To sustain local economies, I would like to ask your strong support and flexible actions.
- We have received an overwhelming deluge of requests for early credit screenings and for the provision of cash flow from people who say that they will be unable to continue their business without support.
- Of course, I am aware of the difficult situation of counter services, but I would like you to understand that your cooperation is indispensable for overcoming this challenge and to provide cooperation.

Principles for Responsible Institutional Investors Second Revision of Japan's Stewardship Code

SHIMANUKI Madoka, Deputy Director, Corporate Accounting and Disclosure Division, Policy and Markets Bureau

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

On March 24, 2020, the FSA released the second revision of the Principles for Responsible Institutional Investors, generally referred to as "Japan's Stewardship Code."

With the corporate governance reform having been recognized as part of the growth strategy since the inauguration of the second Abe Cabinet, Japan's Stewardship Code (hereinafter referred to as the "Code") was formulated in 2014 as the principles of action to be followed by institutional investors with the aim of enhancing the medium- to long-term investment return, while improving and fostering the investee companies' corporate value and sustainable growth. Before the second revision, the Code had required institutional investors investing in listed shares to take the following actions:

1. Formulate a policy on how they fulfill their stewardship responsibilities, and publicly disclose it.
2. Manage conflicts of interest.
3. Appropriately monitor the conditions of investee companies, including their governance and strategy.
4. Work to solve problems faced by investee companies through constructive engagement (dialogue).
5. Disclose a policy on voting and voting records.
6. Periodically report their activities to their clients and beneficiaries.
7. Develop skills and resources needed to have appropriate engagements and make proper judgments.

If institutional investors choose not to comply with the Code, they must explain a sufficient reason ("comply or explain" approach). By March 2020, 280 institutional investors had signified their commitment to the Code.

The Code, coupled with the Corporate Governance Code which provides for the principles of action to be followed by companies, has functioned to improve corporate value and sustainable growth of companies. While changes have gradually been observed in the governance of Japanese companies as a result of the formulation and revision of these two Codes, there is criticism that they take actions only mechanically.

The second revision of the Code aims to deepen the corporate governance reform, shifting the focus from "form" to "substance." Taking into consideration the opinion statement published in April 2019 by the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code,¹ the Council of Experts on Japan's Stewardship Code held discussions on the second revision, and finally published the second revised version of the Code, following the public consultation procedure.² Below is a brief outline of the second revision (please also refer to Figures 1 and 2).³

Figure 1: Points of the Second Revision of the Stewardship Code (2020)

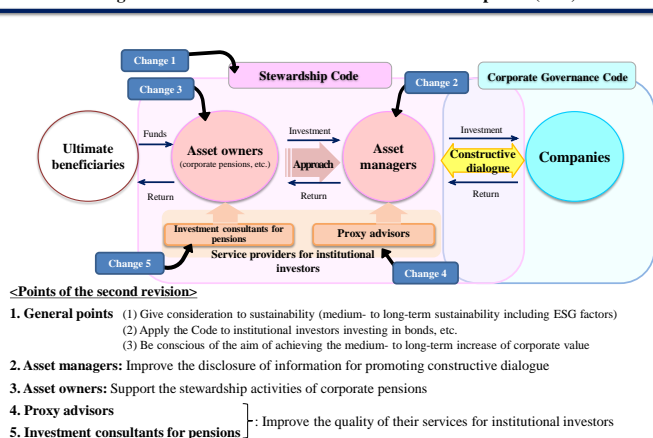


Figure 2: Points of the Second Revision of the Stewardship Code (2020)

	Points
1. General points	<ul style="list-style-type: none"> (1) Give consideration to sustainability (medium- to long-term sustainability including ESG factors) (2) Apply the Code to institutional investors investing in assets other than listed shares, such as bonds, if they are able to carry out stewardship activities in compliance with the purpose of the Code (3) Be conscious of whether stewardship activities have been carried out for the purpose of achieving the medium- to long-term increase in corporate value and sustainable growth of companies
2. Asset managers	<ul style="list-style-type: none"> - Disclose their voting rationale with respect to either a "for" or "against" vote on proposals which are considered important from the standpoint of constructive dialogue with the investee companies, including those perceived to have conflicts of interest or those which need explanation in light of the investors' voting policy. - Disclose the results of their stewardship activities including dialogue with companies and self-evaluations thereof, while being conscious of whether these have been intended to achieve the medium- to long-term increase of corporate value and the sustainable growth of companies.
3. Asset owners	- Carry out stewardship activities in line with their size and capabilities.
4. Proxy advisors	To secure accuracy and transparency of their advice: <ul style="list-style-type: none"> - Develop human and operational resources (including setting up a business establishment in Japan); - Assure transparency in their voting recommendation process; and - Actively exchange views with companies.
5. Investment consultants for pensions	- Manage conflicts of interest.

1. Consideration to sustainability

With the rapidly growing concern over issues on sustainability including ESG observed recently around the world, it has been pointed out that sustainability issues have an increasing impact on companies' risks and profit opportunities and that institutional investors should give consideration to sustainability in their investment activities.

Accordingly, the second revision of the Code requires institutional investors to have constructive engagements with companies while giving consideration to sustainability. The increase in the awareness of sustainability that leads to the purpose of the Code, i.e., the medium- to long-term increase in corporate value, is expected to have a positive effect not only on corporate value but also on the environment and society.

1. "Recommended Directions for Further Promotion of Corporate Governance Reform" (published on April 24, 2019)

2. Public consultation was sought during the period from December 20, 2019, to January 31, 2020, and suggestions were received from 44 individuals/entities to the Japanese draft and 23 individuals/entities to the English translation.

3. For the text of the second revised version of the Stewardship Code, please visit the FSA website, "Finalization of Japan's Stewardship Code (Second revised version)" at the following URL: <https://www.fsa.go.jp/en/refer/councils/stewardship/20200324.html>

2. Application of the Code to investors in bonds, etc.

Before the second revision, the Code had basically assumed investment in Japanese listed shares. However, it was suggested that it might be possible to require investors investing in other assets, such as bonds, to carry out activities that could lead to a medium- to long-term increase in corporate value of investee companies.

At the same time, there were also opinions that stewardship activities would be most effective when they were carried out by investors in shares, and that there would be a limit on carrying out stewardship activities while investing in assets other than shares due to the possibility of conflicts of interest between shareholders and bondholders.

Taking these suggestions into account, the second revision clearly stipulates that the Code may also apply to investors in other asset classes, such as bonds, as far as it contributes to fulfilling stewardship responsibilities.

3. Improvement of disclosure of information by asset managers

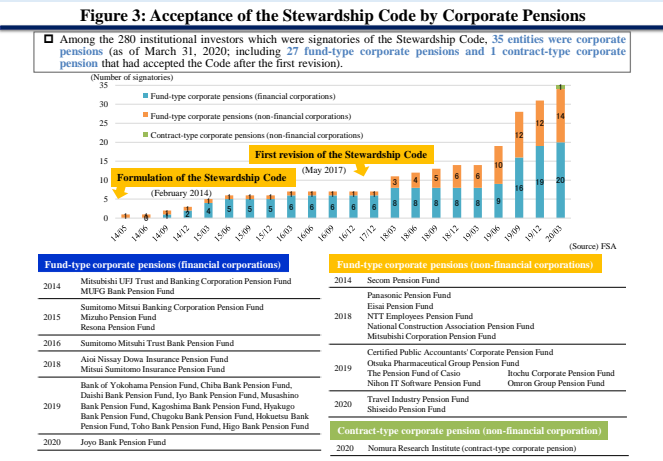
The second revision contains the two major changes designed to improve disclosure of information by asset managers.

The first change is to require asset managers to disclose the voting rationale with respect to their "for" or "against" vote. Previous versions of the Code had applied the comply or explain approach to the disclosure of the voting records on individual agenda items. With a view to further enhancing asset managers' accountability, the second revised version includes the reasons for their "for" or "against" votes on some kinds of proposals in the scope of subjects covered by the comply or explain approach. Specifically, asset managers are now required to disclose the reason why they voted "for" or "against" on proposals which are considered important from the standpoint of constructive dialogue with the investee companies, including those perceived to have conflicts of interest or those which need explanation in light of the investors' voting policy.

The second change is to require asset managers to disclose the results of their stewardship activities in combination with the results of their self-evaluations thereof, as an initiative to improve the quality of their stewardship activities. Disclosing the results of the activities only mechanically or focusing only on such activities that can easily bring results is not a desirable manner of disclosure. Rather, asset managers should carry out activities while being conscious of the purpose of the Code, i.e., achieving the medium- or long-term increase in corporate value.

4. Support for stewardship activities carried out by asset owners such as corporate pensions

Asset owners such as corporate pensions are entities playing a role in investment at the position closest to the ultimate beneficiaries in the investment chain (flow of investment funds) running from their clients and beneficiaries to the investee companies. The functions of the entire investment chain are expected to be enhanced if asset owners carry out stewardship activities (e.g., monitoring the stewardship activities carried out by asset managers) in order to secure the interests of ultimate beneficiaries. However, to date, only a limited number of corporate pensions have accepted the Code (see Figure 3). As a reason for the slow growth in the number of corporate pensions accepting the Code, it was pointed out that the significance of the Code or the details of activities required had not been fully understood among corporate pensions run by a small group of people. From this viewpoint, the second revised version clarifies the details of stewardship activities in order to support asset owners, such as corporate pensions, in carrying out the activities.



5. Improvement of the quality of services for institutional investors

The second revised version defines entities which provide services to contribute to institutional investors' effective execution of stewardship activities as "service providers for institutional investors." For example, proxy advisors and investment consultants for pensions are considered to fall within the definition of service providers for institutional investors. In order to achieve the purpose of the Code, it is important to improve the quality of their services.

Accordingly, the second revised version requires service providers for institutional investors to develop structures for conflicts of interest management, and in particular, requires proxy advisors to actively exchange views with companies in order to assure accuracy and transparency of their recommendations.

6. Conclusion

Institutional investors which are currently signatories of the Code are requested to update their published terms of compliance in accordance with the second revision of the Code and notify the FSA of the update by the end of September 2020 at the latest. However, from the perspective of making their stewardship activities more effective, they are expected to voluntarily respond to the revision of the Code and update their terms of compliance before the deadline.

Although both institutional investors and companies are currently facing difficulties in having future forecasts and identifying risks, we hope that this situation, with the second revision of the Code, will encourage them to consider what they should do to execute effective stewardship activities and achieve effective corporate governance in a true sense, and will increase corporate value and promote sustainable growth through dialogue between institutional investors and companies, leading to enhancement in medium- to long-term investment return.

System Development for Crypto-Assets (Virtual Currencies)

(Amendments of Cabinet Order and Cabinet Office Order, etc. accompanying the amendment of the Payment Services Act, etc. in 2019)

OKAMOTO Kohei, Deputy Director, Financial Markets Division, Policy and Markets Bureau
TAKEUCHI Hironori, Unit Chief, Financial Markets Division, Policy and Markets Bureau

(*The opinions expressed in this piece are the personal views of the authors and do not necessarily reflect the views of the organizations with which they are affiliated.)

On April 3, 2020, the FSA promulgated amendments of Cabinet Order and Cabinet Office Order, etc. accompanying the amendment of the Payment Services Act, etc., which was enacted on May 31, 2019. These amendments cover a wide range of matters, but we here introduce the background to and major points of the amendments in relation to institutional responses to various issues concerning crypto-assets. (The defined term was changed from "virtual currencies" to "crypto-assets" through the amendments; therefore, we use the term "crypto-assets" here.)

1. Background

Crypto-assets generally refer to assets that can be electronically transferred on the internet and are used as payment and settlement means although there is no obligation on the creditor to accept the payment in crypto-assets unlike the payment in legal tender. The future of block-chain technologies, which are used for recording the transfer of crypto-assets, are mainly evaluated positively, while the evaluation of crypto-assets has yet to be determined, with opinions varying about their future prospects.

Amid the expanding use of crypto-assets, the government of Japan amended and enforced the Payment Services Act, etc. in April 2017, in response to requests from the international community as a part of countermeasures against money laundering and terrorist financing and in light of the bankruptcy of the largest domestic exchange service provider. Through the amendments, crypto-assets were legally defined based on their characteristics as payment and settlement means, a registration system was introduced for service providers exchanging crypto-assets with legal currencies, and rules for user protection under the registration system and the identity verification obligation were established.

However, even after such system development, there were multiple cases of outflow of customers' crypto-assets managed by service providers due to unauthorized access from the outside, and the FSA's on-site inspections revealed defectiveness in the internal control environment at several service providers. Furthermore, prices of crypto-assets fluctuated violently and some pointed out that crypto-assets had become the object of speculation. New types of transactions, such as crypto-asset CFDs and ICOs using crypto-assets, have also emerged.

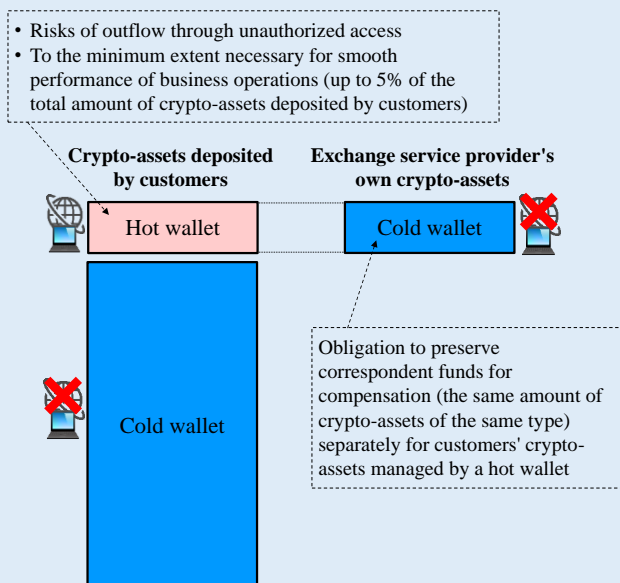
Against such a background, a council consisting of intellectuals discussed institutional responses to various issues concerning crypto-asset exchange services, and the system was further developed based on their recommendations.

2. Major amendments

(1) Development of system for crypto-asset exchange service providers

Crypto-asset exchange service providers came to be required to manage crypto-assets deposited by customers in an off-line environment (so-called cold wallet), in principle. Management using a hot wallet is permitted to the minimum extent necessary for smooth performance of business operations, and service providers are obliged to preserve the same amount of crypto-assets of the same type separately for customers' crypto-assets managed by a hot wallet.

Services of managing crypto-assets on behalf of others (i.e. custody services) came to be included broadly in the category of crypto-asset exchange services, even in cases other than where management is conducted in the course of an exchange of crypto-assets. Accordingly, service providers who manage customers' crypto-assets in a manner that they can transfer those crypto-assets independently, such as holding private keys with which they can transfer customers' crypto-assets without their involvement, will be required to get registered basically.



Additionally, a mechanism is to be developed to require exchange service providers to check the existence of problems from the perspective of anti-money laundering and counter-terrorist financing measures, in collaboration with self-regulatory organizations, upon dealing in new types of crypto-assets, and regulations on price manipulation and other illegal acts will also be introduced.

(2) Measures for CFDs using crypto-assets

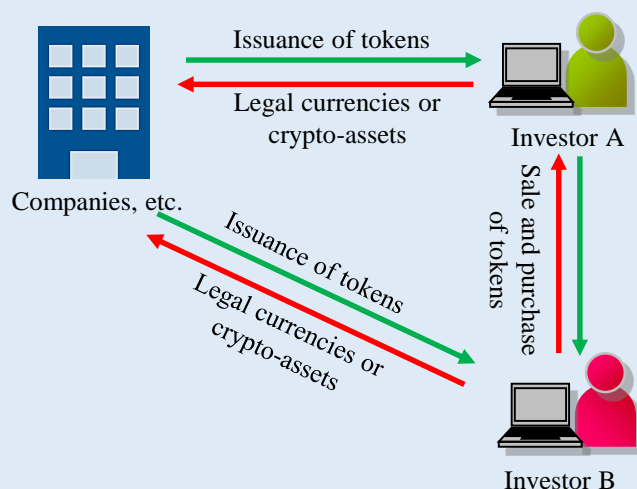
As CFDs, which account for nearly 80% of transactions of crypto-assets in Japan, enable people to conduct transactions by further applying leverage on crypto-assets, whose price fluctuations are violent to begin with, some have pointed out that they only solicit speculation and it is difficult to find their positive social significance at present. However, CFDs using crypto-assets were not covered under financial regulations. Through the amendments, they were newly included in the coverage of regulations under the Financial Instruments and Exchange Act, and businesses conducting relevant transactions in the course of trade came to be required to get registered as financial instruments business operators. Then, from the perspective of ensuring user protection and appropriate transactions, regulations on sale and solicitation, etc. were developed for businesses conducting CFDs using crypto-assets in the same manner as for those conducting Forex and those conducting spot transactions of crypto-assets.

(3) Measures for ICOs using crypto-assets

Acts of companies, etc. to issue tokens electronically using block-chain technology and procure legal currencies or crypto-assets from the general public are generally called initial coin offerings (ICOs). ICOs have potential in terms of cost and distribution, etc. apart from conventional financing methods. On the contrary, fraudulent cases based on sloppy plans have been found mainly in pioneering foreign countries, and insufficiencies in user protection have been pointed out.

Therefore, it was clearly provided that when procuring funds by issuing tokens with the right to receive dividends to investors (this is also called "security token offerings" [STOs]), even in cases

where investors pay crypto-assets as compensation, the relevant tokens fall under securities under the Financial Instruments and Exchange Act (hereinafter referred to as the "Act" in this section) and are subject to regulations. Then, how to apply regulations under the Act to security tokens was compiled as follows, and provisions on explanations to be provided at the time of solicitation and on methods of managing tokens were established.



- (i) With regard to shares, corporate bonds or other securities that are considered to have high liquidity as prescribed in Article 2, paragraph (1) of the Act (so-called "Type I Securities"), those tokenized remain to be Type I Securities, and regulations as be Type I Securities are to be applied.
- (ii) With regard to interests in collective investment schemes or other securities that are considered to have relatively low liquidity as prescribed in Article 2, paragraph (2) of the Act (so-called "Type II-Securities") (excluding (iii) below), those tokenized are defined as security tokens as there is the possibility that the liquidity may increase through tokenization, and regulations as Type I Securities are to be applied.
- (iii) For tokenized Type II Securities that are considered to have relatively low liquidity as their holders are limited, regulations as Type II Securities remain to be applied while giving due consideration to balance between user protection and innovation.

* For be Type I Securities, requirements for imposing a duty of disclosure on issuers and regulations on businesses engaging in transactions are stricter than for Type II Securities.

3. Future prospects

Through the latest amendments, which aim to ensure user protection and clarify applicable rules, it is expected that transactions of crypto-assets will be made more fair and appropriate and this will eventually contribute to innovation. Amended laws and regulations and related supervisory guidelines and policies were put into effect as of May 1, 2020. The FSA will endeavor to facilitate their appropriate enforcement.

FSA urges vigilance on Crime Taking Advantage of the COVID-19 (Novel Coronavirus) Pandemic!

It has been seen that calls, SMS, SNS and websites that may lead to crime such as fraud or illegal loans in relation to the COVID-19 infection and the [Special Cash Payments](#) are used by criminals.

Under such circumstances, [Mr. Aso, Minister for Financial Services](#), issued a notice on April 7 to call for attention to fraud and illegal loans, etc. taking advantage of the COVID-19 pandemic, and the FSA also posted a notice to call for attention, in cooperation with relevant ministries and agencies, on its website ([FSA urges vigilance on Crime Taking Advantage of the COVID-19 Pandemic!](#)).

Here are some specific cases of crime related to the COVID-19 pandemic and counter measures to avoid being involved in such crime. Please be aware, as techniques of offenders taking advantage of anxiety are becoming more and more sophisticated and vicious.

Specific Cases

A case of phone scams leading a person to make remittance from an ATM

A criminal disguised as a national or local government official makes a phone call to an individual, saying "I will file an application for special fixed-sum cash benefits on your behalf," "It was decided to grant you a subsidy as measures against COVID-19," "We will send you masks," or the like, thereby soliciting a person to make remittance from an ATM.

A case of phishing website and stealing personal information, such as bank account details or credit card number

An offender sends an email or SMS saying that procedures must be taken to receive the transfer of Special Cash Payment or that masks will be sent free of charge or masks can be purchased or the like, thereby leading a person to a phishing website and stealing personal information, such as bank account details or credit card number.

As for the Special Cash Payments, the municipalities and the Ministry of Internal Affairs and Communications will NEVER do any of the below:

- ✓ Ask you to use an ATM
- ✓ Request service charges related to the benefit payment
- ✓ Send you emails, and ask you to perform an application by clicking on a URL

A case of providing illegal loans through SNSs or other media, in such forms as interpersonal loans or purchase of wages

A business that is not registered under the Money Lending Business Act solicits persons suffering from the impact of COVID-19 through an SNS or website and provides illegal loans at excessive rates of interest in such forms as interpersonal loans or purchase of wages.

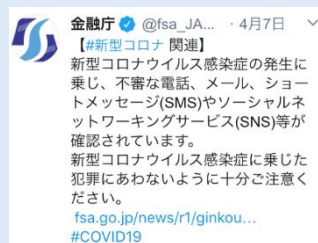
A case of pretending to mediate loans provided by government financial institutions

An offender pretends to mediate loans as measures against COVID-19 provided by government financial institutions or private financial institutions and demands expensive fees.

To avoid being involved in crime, etc.

Be fully aware of unknown calls and emails, etc. so as not to become involved in crime, etc., and strictly manage personal information such as bank accounts and code numbers. Never hand over your passbooks or cash cards to others. If you have any suspicion, please provide information or seek consultation with the police (nearest police station or the dedicated line available nationwide [#9110]) or the FSA's Financial Services User Consultation Room (0570-016811 [or 03-5251-6811 from IP phones]) (available only in Japanese).

< FSA on Twitter >



(↑Actual posts)

Financial Services Agency @fsa_JAPAN April 7
[Re. #COVID-19]

It has been seen that telephone calls, emails, SMS, SNS, etc. are used as a means of communication by criminals taking advantage of the outbreak of COVID-19.

Be aware so as not to become involved in crime taking advantage of the COVID-19 pandemic.

fsa.go.jp/news/r1/ginkou...
#COVID19

(↑English translation)

The FSA's Measures in Relation to the COVID-19 (Novel Coronavirus) Infection

The FSA's major measures in relation to the COVID-19 infection are as follows.

■ Requests to financial institutions for cash flow support for companies

The FSA has issued requests to financial institutions to proactively provide cash flow support for companies and individuals.

[Major requests issued in April]

○ "Cash Flow Support for Companies in Consideration of the Novel Coronavirus Disease (COVID-19) Emergency Economic Measures (Request)" (April 7)

- "System to Enable Companies to Obtain Substantially Interest-Free and Unsecured Loans from Private Financial Institutions by the Use of Local Governments' Loan Programs"
- Do not treat all cases automatically and formalistically, where companies fall foul of financial covenants.
- Regarding home loans and loans for individuals, make prompt and flexible responses in changing loan conditions while fully taking into account individual customers' needs, based on past requests from the FSA.

○ "Notice regarding the handling of negotiable instruments and checks, etc. in consideration of the impact of the COVID-19 (novel coronavirus) infection" (April 16)

- With regard to negotiable instruments and checks for which payments are impossible due to the impact of the COVID-19 infection, consideration should be given to the publication of such cases in the Report of Dishonored Instruments and issuance of an order of suspension of transactions.

○ "Cash Flow Support for Companies in Consideration of the Novel Coronavirus Disease (COVID-19) Emergency Economic Package (Request)" (April 27)

- Exhaustively offer cash flow support by providing funds under the substantially interest-free and unsecured loan system promptly and properly.
- On that occasion, promote one-stop procedures to integrate and accelerate various procedures for providing loans.
- Depending on the circumstances of individual companies in urgent need of funds, positively provide bridge loans.
- Open branches as necessary and develop a system to respond to consultations from companies also during the Golden Week holidays from May 2 to 6.

■ Publication of concrete measures taken by financial institutions (publicized on March 27 and updated on April 20)

The FSA has requested financial institutions to make utmost efforts in response to the COVID-19 infection, in accordance with the situations of respective companies, such as the alteration of loan conditions and provision of new loans, and has confirmed the implementation status through special hearings or other means, while assigning top priority to promoting cash flow support for companies in conducting inspection and supervision. Out of confirmed concrete measures, the FSA compiles and publicizes those that are helpful for other financial institutions, as needed.

■ Status of modification of loan conditions by financial institutions (April 30)

The FSA has publicized the status of financial institutions' efforts, such as the modification of loan conditions (performance from March 10 to the end of March, 2020), on its website.

■ Regarding accounting and audit work

In order to secure enough time for companies and audit firms to complete accounting and audit work, it was decided to amend the Cabinet Office Order to extend the submission deadline for annual securities and other reports uniformly up to the end of September, without the need for each company to file an application individually.

On April 3, the Networking Group on the Corporate Disclosure, Financial Reporting and Audit of Listed Companies in Consideration of the Impact of the COVID-19 (Novel Coronavirus) Infection was established with the aim of ensuring that related parties share awareness and required measures concerning companies' accounting and audit work at the end of their business year. The Networking Group publicized the statement to request flexible and appropriate handling of corporate year-end closing of accounts, auditing and shareholders meetings on April 15. The FSA also publicizes related entities' efforts concerning account closing, auditing, and shareholders meetings by introducing links on its website.

See the FSA's website for the details of its measures.

Information on COVID-19 (Novel Coronavirus):

<https://www.fsa.go.jp/ordinary/coronavirus202001/press.html> (Japanese)

<https://www.fsa.go.jp/en/ordinary/coronavirus202001/press.html> (English)

Commissioner Endo Appeared on BS TV TOKYO's Live Program, "Nikkei Morning Plus FT"

On April 27 (Monday), Commissioner Endo appeared on BS TV TOKYO's live economic news program, "Nikkei Morning Plus FT." A summary of the talks on the program follows.

● **Regarding the FSA's initiatives against the impact of the spread of the COVID-19 infection**

Q: How will the FSA assist with financial institutions' efforts for cash flow support for companies?

- On March 6, Mr. Aso, Minister for Financial Services, issued a request to private financial institutions to ascertain the current situation meticulously through visiting companies or other means, and to make prompt and flexible responses, such as the deferment of repayments and provision of new loans.
- Good measures actually taken by private financial institutions include the deferment of principal payments for three months without examination upon receiving a consultation about the alteration of loan conditions and the exemption of all penalty charges and fees at the time of modification of loan conditions.

Q: What measures will be taken with regard to the Emergency Economic Package?

- We introduced a system to enable companies to obtain from private financial institutions unsecured loans with substantially no-interest for the initial three years and the deferment of principal payments for up to five years, with the upper limit of 30 million yen.
- Private financial institutions offer one-stop services to undertake procedures by proxy, thereby providing funds to companies promptly.

Q: Is the FSA considering any exceptional treatment for companies' accounting and audit work?

- We established the Networking Group on the Corporate Disclosure, Financial Reporting and Audit of Listed Companies in Consideration of the Impact of the COVID-19 (Novel Coronavirus) Infection, and decided to extend the deadlines for submission of securities reports and other reports uniformly to the end of September.
- On April 15, the Networking Group publicized the statement to request flexible and appropriate handling of shareholders meetings.

● **Regarding regional banks**

Q: How does the FSA recognize the current business environment surrounding regional banks and what measures are to be taken for their management reforms?

- Regional banks mostly have a sufficient capital base but their profits from the provision of loans and other various services are decreasing under the severe business environment surrounding them.
- It is necessary to create sustainable business models for regional banks, and the government has submitted the Act on Special Measures for the Anti-Monopoly Act to the Diet. The Act will exceptionally admit business integration of regional banks even though the shares of their loans provided in respective regions are high. Additionally, regulations on the scope of banks' business were eased and banks are now able to conduct the leasing business of real estate they own or make full investments in trading companies, etc. in respective regions.

Q: What stance does the FSA take toward the reorganization of regional banks?

- It is extremely important for each financial institution to seek value improvement for customer companies under its own business strategies.



From left: Ms. Yagi Hitomi (Main caster), Commissioner Endo, and Mr. Uesugi Motonao (NIKKEI commentator)

- The FSA presented the eight core issues for management reforms in order to have dialogue on an equal footing with financial institutions' top management, outside directors, and branch managers and other staff members.

● **Regarding individuals' asset building**

Q: Amid market instability due to the COVID-19 infection, what are important in individuals' asset building and financial literacy?

- Individual investors may lose a positive attitude towards investment under the current circumstances.
- It is important to refrain from making decisions in haste and to think carefully from a long-term perspective, in other words, to maintain the approach of long-term, installment, and diversified investment.

Q: How does the FSA recognize the current situation where the growth of household financial assets is slower in Japan than in other countries?

- During the last twenty years, the growth of household financial assets has been slower in Japan compared with overseas. This is considered to be mainly caused by the fact that cash and deposits account for a large portion of financial assets of Japanese households even under a low interest rate environment.
- Considering that it is becoming increasingly important to develop an environment to enable people to build their assets without worries, through this year's revision, the period of the Tsumitate NISA (Dollar Cost Averaging NISA) was extended by five years and general NISA was reviewed to encourage long-term, installment, and diversified investment. The FSA will carry out PR activities to disseminate the new system, promote financial education, and offer utmost support for households' asset building.

Q: How will the FSA promote the sophistication of asset management, which is set up as a policy goal?

- The asset management business is significant in the investment chain and it should fulfill its role to give back profits to household economy.
- The presence of the asset management business is marginal in Japan. Based on the awareness that domestic large asset management companies might have prioritized the composition of financial instruments that are easy to sell rather than seeking performance, the FSA will support their efforts through dialogue and analysis.

JFSA's Major Activities in April

(April 1 to April 30, 2020)



- [Appointment of the Director of the Financial Research Center \(April 1, 2020\)](#)
- [BG2C put off further to be rescheduled after Covid-19 subsides \(April 3, 2020\)](#)
- [Preparation for permanent cessation of LIBOR](#)
- [Statement by Minister for Financial Services, on maintaining the function of the financial system and financial markets under the declaration of a state of emergency responding to the spread of COVID-19](#)
- [Twelfth Meeting of the "Council for Cooperation on Financial Stability" \(April 8, 2020\)](#)
- [Presentations at the GLOPAC Fellowship Program from Visiting Fellows \(April 9, 2020\)](#)
- [Corporate Year-End Closing of Accounts, Auditing and Shareholders meeting in Response to the Increasing Impact of COVID-19 \(Novel Coronavirus\) \(April 15, 2020\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(April 16, 2020\)](#)
- [Statement by Minister for Financial Services, on maintaining the function of the financial system and financial markets under the declaration of a state of emergency responding to the spread of COVID-19 \(April 17, 2020\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(April 17, 2020\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(April 23, 2020\)](#)

- FSA Weekly Review
<https://www.fsa.go.jp/en/newsletter/index.html>



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



We are promoting
information
dissemination using
Twitter!

Editorial Postscript

Thank you very much for reading the May issue of "ACCESS FSA."

The FSA will continue efforts to address the impact of the novel coronavirus outbreak. JFSA's Major Activities in April above shows a list of measures in relation to the COVID-19 infection.

For everyday work, the Public Relations Office has introduced a shift system by splitting staff members up and encourages teleworking wherever possible. All staff members will make further efforts to balance the prevention of the spread of infection with our original duties of policy making and PR activities.

"Second Revision of Japan's Stewardship Code" and "System Development for Crypto-Assets" explained in the Policy Commentary Corners are topics that were frequently inspected on the FSA's website or attracted attention on the FSA's official Twitter page.

We will continue to appropriately address these policies in addition to those relating to the COVID-19 infection to achieve better financial administration.

WADA Yoshitaka, Director, Public Relations Office, FSA
Edited and published by: Public Relations Office, FSA