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⇐ Access the online version here

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



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"Regional Banking Summit (Re:ing/SUM)" and "Nikkei Regional Revitalization Forum"

The FSA and Nikkei Inc. jointly held the "Regional Banking Summit (RE:ing/SUM)" and the "Nikkei Regional Revitalization Forum."



〔 Photo: Minister Aso delivering an opening speech 〕

◆ Outline of the Event

The Regional Banking Summit (Re:ing/SUM) was held on June 16, 2020, for online live distribution from Tokyo based on the Comprehensive Economic Measures to Create a Future with Security and Growth (Cabinet decision on December 5, 2019). At this event, a great variety of stakeholders held discussions on how to develop a sustainable business model for regional financial institutions in order to achieve regional economic revitalization and resolve regional economic challenges.

Amid the spreading impact of the novel coronavirus (COVID-19) pandemic, the true worth of regional financial institutions supporting business operators is being tested in terms of how they will develop a sustainable business model so that they can support regional companies and industries over the medium to long term and bring added value to regional economies, not to mention support financing in the short term. As the situation was such that it was difficult to hold a large-scale gathering, we decided to hold this event without the involvement of face-to-face interactions for online live distribution.

In the morning, Minister Aso's opening speech and three keynote speeches were delivered.

In the opening speech, Minister Aso referred to the government's implementation of support measures, such as financing support, including the provision of effective interest-free and collateral-free loans in response to the

growing impact of the COVID-19 pandemic and requested public- and private-sector financial institutions to make every possible effort to support business operators.

Minister Aso also suggested the possibility of finding business opportunities in meeting the needs suited to a "new lifestyle" and expressed high expectations for the event, saying that it was significant to hold forward-looking discussions on a business model for financial institutions.

◆ Keynote speeches

➤ "Agriculture-style Regional Finance"

Ono Hiroyuki, professor, Management of Technology, Graduate School of Science and Engineering, Yamagata University

Professor Ono has devoted efforts to the training of financial institution employees to acquire the capability to evaluate companies' future business feasibility while advocating "agriculture-style finance," which refers to the concept of co-creation of customer value by regional financial institutions and customers over the long term. For that purpose, he established a platform for cooperation between industry, academia and finance.

Professor Ono argued that regional financial institutions are in a social position to not only supply funds but also to appropriately provide information and knowledge required by companies, and proposed that regional financial institutions should open up the future by shifting emphasis in the evaluation standard from KPIs (key performance indicators), such as loan volume and share, to the degree of contribution to an increase in added value for customers and by becoming local community supporters that create value together with customers.

This idea may serve as a guidance for regional financial institutions, which are required to support companies dealing with the impact of the COVID-19 pandemic and aiming to achieve further growth in terms of not only finance but also business reform.

➤ "Regional Finance in a Post-COVID-19 Era"

Masuda Toshiyuki, Chairman, Kyoto Shinkin Bank

Chairman Masuda stated that he has managed his shinkin bank based on his belief that "financial institutions'

* For the details of the program, access the following site:

"Regional Banking Summit (RE:ing/SUM)" and "Nikkei Regional Revitalization Forum"

<https://channel.nikkei.co.jp/reingsum/> (Available in Japanese)

own profits can be secured as a result of strengthening their relationships with business clients and partners."

He proposed that officials from all regional financial institutions should get together and provide ideas as to how to revive severely damaged regional economies and that regional financial institutions should work together to support the Japanese economy.

In particular, his proposal for increasing value for business clients and partners after narrowing down the list of clients and partners with whom deeper relationships should be developed through measures such as providing management personnel may be one arrived at precisely because of his experience exercising leadership over many years with an unwavering resolve to support regional business operators and industries.

➤ **"Creation of a Future through Activities in Non-financial Fields"**

Yoshimura Takeshi, president, Yamaguchi Financial Group

President Yoshimura of Yamaguchi Financial Group explained his thoughts on the creation of a future through activities in non-financial fields and his financial group's specific strategies.

He stated his financial group's goal of "resolving social challenges with an outstanding sense of ownership by going beyond the framework of finance and by involving local communities" based on his belief that at a time when regional economies are in a crisis situation, challenge-resolving businesses can develop into growth industries for regions facing many social challenges.

In order to renovate the existing business model and achieve that goal, he stressed the need to go so far as to reform the culture of banking. Redefining his financial group as a company that enhances value for local communities, President Yoshimura presented an example for exploring a new business model while being conscious of the need to go beyond the framework of conventional banking.

In the afternoon, panel discussions were held on the following six themes.

◆ **Panel discussions**

- New Challenges for Community Development
- Tackling Succession Issues for SMEs
- Former Regional Bankers Talk About New Possibilities
- Possibilities of Banking Extending beyond the Existing Framework
- Legal Systems for Collateral and Business Rehabilitation that Support Sustainable SME Management
- Our Regional Revitalization Efforts



Photo: Panel discussion
"Tackling Succession Issues for SMEs"

The number of people who made prior application for online viewing came to around 3,000. People with various backgrounds and from various places across Japan who are interested in regional finance watched the event, resulting in a widespread sharing of the perception of challenges related to regional finance.

The FSA hopes that the discussions at this summit will act as a catalyst for the launch in various places of initiatives for regional economies and regional finance to create shared value in the new Reiwa era. Regarding activities to stimulate discussions like this summit, the FSA will continue to consider holding additional summits, including in regional cities, in light of the future state of the COVID-19 pandemic and reactions to the online live distribution of the summit.

Nikkei Inc., whose newspaper carried an article about the event, and video footage of the event is scheduled to be distributed online from the archives.



Photo: FSA Commissioner Endo making a closing speech

Regional Revitalization Seminar Commemorating Establishment of the Financial Committee of the Japan Association of Regional Development and Vitalization

"Regional Financial Administration and Future of Local Communities"

The Japan Association of Regional Development and Vitalization was founded in 2008 to support regional revitalization from an academic standpoint. As the Financial Committee* was recently established as one of the new research committees, an online seminar was held, inviting Commissioner Endo.

◆ Overview of the Lecture

1. Response to the spread of COVID-19 infection

The FSA has requested financial institutions to make utmost efforts in response to the COVID-19 pandemic, in accordance with the actual situations of respective companies, such as the modification of loan conditions and provision of new loans. It has confirmed the status of financial institutions' measures, while assigning top priority to promoting cash flow support for companies in conducting inspection and supervision. Out of the financial institutions' measures, the FSA compiles and publicizes those that may be helpful for other financial institutions, as needed. In addition, from May 1, the FSA expanded the system of effectively interest-free and unsecured loans to include private financial institutions by the use of local governments' loan programs, from the perspective of further facilitating cash flow support for companies.

Regional financial institutions are being put to the test on how they can support companies by demonstrating the assessment abilities they have cultivated to date.

2. Reform of financial administration

For the first few years from establishment, the FSA played a role in strict asset assessment, etc. in responding to the bad-loan problem. However, this also had a side-effect of causing banks to excessively focus on the formality aspect of whether the borrower has collaterals, rather than the borrower's business details, in extending loans. Therefore, there is a demand to review the objectives for regional financial institutions so as to include "demonstration of the financial intermediary function" in addition to "achievement of stability in the financial system," and to change the FSA's approach from "checking of the minimum standards" to "dialogue for pursuing best practices" in order to ensure achievement of such objectives.

3. Priority measures of financial administration

The steps that are considered to be particularly important in this administrative year are to establish a firm management philosophy and to formulate a strategy for its realization. This is derived from a problem-awareness that there may be deviation between the management and front-line workers in current regional financial institutions.

Specifically, we assume that, although branch offices' sales staff are the ones who are most capable of identifying frontline issues, they may have no time to discuss and explore solutions for customers' issues together with the customers, due to the sales quota set by the management.

We believe that an ideal organization is one where workers, while understanding the management philosophy, share with the management the matters they have noticed in their interactions with customers and propose improvements, creating a bottom-up flow. This would resultingly lead to "ensuring the soundness of financial institutions into the future" and "sufficient demonstration of the financial intermediary function."

The "dialogue," which is mentioned as a new administrative method, is considered to create a chain reaction. We consider that if the FSA reforms itself into an organization that can have dialogues with regional financial institutions, instead of giving them one-way instructions, it will cause regional financial institutions to transform into organizations that can have dialogues with customers (a shift from a "chain of instructions" to a "chain of dialogue").

4. Financial administration and the future of local communities

Lastly, I will introduce some case examples of initiatives toward regional revitalization. (Due to space limitations, this section only mentions the Tsuruoka Science Park as a notable case example.)

In 2001, Tsuruoka City in Yamagata Prefecture invited the Institute for Advanced Biosciences, Keio University, to establish its facilities there. A number of venture companies that attract the world's attention have grown from this research center and have created new jobs. However, as it is easier said than done, the actual path to such success was not easy. As it takes a long time for a venture company to grow, the key is how the person responsible for the company can commit him or herself without giving up on long-term goals. Under such circumstances, financial institutions also played their role, with the Yamagata Bank, the Shonai Bank, Tsuruoka Shinkin Bank, and Japan Finance Corporation offering joint financing of a total of 2.2 billion yen.

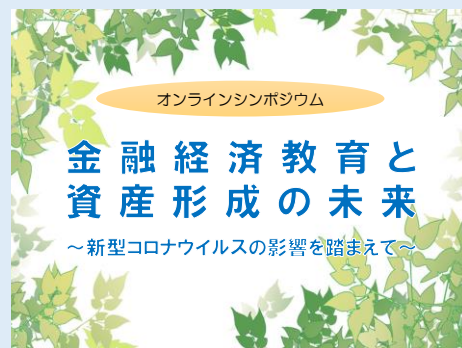


Screen image of the online seminar

* The Financial Committee was established for the purpose of contributing to regional revitalization by providing a forum for discussion on "regional revitalization and finance," as well as sharing case examples and collaborating in joint research and practical activities. Through its activities, the committee will create a network of people who have the ambition to invigorate local communities through finance.

Online Symposium entitled "The Future of Financial and Economic Education and Personal Asset Building – Taking into Account the Impact of Coronavirus Disease 2019 (COVID-19)"

On June 20, 2020, the FSA held an online symposium entitled "The Future of Financial and Economic Education and of Personal Asset Building –Taking into Account the Impact of Coronavirus Disease 2019 (COVID-19)." The Symposium was distributed online using the Zoom app and attracted a number of viewers nationwide.



◆ Outline of the Symposium

Discussions were held on four different themes, including the keynote talks between Mr. Wakatabe Masazumi, Deputy Governor of the Bank of Japan, and FSA Commissioner Endo (moderator: Mr. Yasuda Yosuke, associate professor at Osaka University).

In the keynote talks, regarding the significance of financial and economic education, Deputy Governor Wakatabe said that financial literacy is indispensable for all people in the same manner as the three Rs, and those who have received financial education generally have higher financial literacy, while presenting the results of a survey on financial literacy. Commissioner Endo mentioned the importance that each participant in the investment chain fulfills their roles as required to ensure stable personal asset building, and further stated that household economy is the starting point as well as the final beneficiary and that financial and economic education targeting all people is a very basic policy.

Then, Deputy Governor Wakatabe introduced the initiatives by the Central Council for Financial Services Information and explained the situation where there is still room for improvement in Japanese financial literacy compared to other foreign countries. Commissioner Endo introduced the FSA's initiatives and said that it is important to make efforts to enhance financial literacy in cooperation among related parties, while verifying the effects thereof.

Lastly, in consideration of the current circumstances where face-to-face activities are restricted due to COVID-19 infection, Deputy Governor Wakatabe and Commissioner Endo both presented future challenges such as the need to devise joyful learning means and consider better utilization of the internet for holding classes and transmitting information.

In a talk session by investment bloggers, they answered questions from online participants under the theme of long-term, installment-type, diverse investment at the time of low market prices, and also talked about their own experiences. In two sessions of panel discussions, university professors and intellectuals engaging in financial and economic education had discussions under the themes of (i) the future of retail business and preparations required for users and (ii) the implementation and challenges of financial and economic education. Participants broadly discussed and considered the future of financial and economic education and personal asset building.

This was the first large-scale event on financial and economic education held online, but it successfully attracted participants from broader areas, in addition to those from the Tokyo metropolitan area. Taking into account the results of this symposium, the FSA will devise better means for transmitting information on financial literacy. The details of the symposium will be later publicized on the FSA's website.



(Above) Bank of Japan Deputy Governor Wakatabe
(Below) FSA Commissioner Endo



Amendment of the Act on Special Measures for Strengthening Financial Functions

OKADA Hiroshi, Director for Banking, Payment and Insurance Regulations, 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 Friday, June 19, 2020, the Act to Amend the Act on Special Measures for Strengthening Financial Functions was promulgated to respond to the impact of COVID-19 infection and measures to prevent the spread thereof (hereinafter "COVID-19 infection").

1. Background

The Act on Special Measures for Strengthening Financial Functions came into effect in August 2004 to establish a framework for strengthening the financial intermediary function of financial institutions through government capital injection.

On Wednesday, May 27, the FSA released a statement by the Minister of State for Financial Services that necessary amendment would be made to the Act on Special Measures for Strengthening Financial Functions in order to deal with the impact of the recent COVID-19 infection [Reference 1].

2. Key points of amendment [Reference 2]

(1) Extension of the deadline for requesting government capital injection

The deadline for requesting government capital injection has been extended from March 2022 to March 2026 considering the impact of COVID-19 infection, in order to secure approximately the next five years for making the request.

(2) Special measures concerning COVID-19 infection, etc.

In order to facilitate access to government capital injection, the following special measures have been established for financial institutions that face the need to enhance their capital adequacy due to the impact of COVID-19 infection, such as considerable deterioration resulting from COVID-19 infection in the financial conditions of those to which they have granted credits.

(i) Special measures on the matters to be stated in the management enhancement plan

The following matters are not required to be stated in the management enhancement plan:

- The management improvement targets to be achieved at the end of the period of the management enhancement plan such as the improvement levels of profitability and business efficiency
- Matters on establishment of a responsible management system, including review of the previous management system

In amendments of Cabinet Office Orders to be made in response to this law amendment, the financial institutions subject to the special measures are not to be uniformly required to state numerical targets on grant of credit to small and medium-sized enterprises (SMEs), etc., while they are to be required to state measures for contributing to revitalization of the local economy.

(ii) Special measures on the requirements for capital injection

Special measures are also provided regarding the requirements for capital injection to correspond to (i) above. In amendments of Cabinet Orders to be made in response to this law amendment, when the government provides capital injection to financial institutions subject to the special measures, it is to confirm that the financial institutions are expected to be able to secure the source of funds to repay the public funds, while it is not to specify a uniform repayment deadline (normally within about 15 years).

(iii) Diversification of capital injection options, etc.

While capital injection to banks is provided through preferred shares in principle, financial institutions subject to special measures may choose not only preferred shares, but also common shares, subordinated bonds, and subordinated loans as the means of capital injection.

In addition, for financial institutions subject to special measures, the costs to be borne by financial institutions in receiving capital injection are planned to be made lower than the normally required level.

3. Future developments

The amendment Act is to come into effect within two months after promulgation. The FSA will promptly develop related Cabinet Orders and Cabinet Office Orders.

Report by the Study Group on the Economic Value-based Solvency Framework

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(*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 June 26, 2020, a report by the Study Group on the Economic Value-based Solvency Framework was published^{*1}. Described below is the background to and the main points of the report, which covers a variety of matters.

1. Solvency Margin Regulation regarding Insurance Companies

Insurance companies underwrite economic losses (risks) that may arise in the event of unforeseen incidents, including illness, accidents, and fires, thereby providing preparedness for those incidents. Insurance companies are required to have sufficient payment ability (solvency) in preparation for cases in which those risks materialize on a scale larger than normally foreseen, including the kinds of severe natural disasters and economic depressions that are expected only once in dozens of years.

The solvency margin regulation, which is intended to ensure that insurance companies have sufficient payment ability, has played an important role in the administration of the insurance industry and the insurance market since its introduction through the revision of the Insurance Business Act in April 1996. However, it has been pointed out that the solvency margin regulation may be failing to encourage insurance companies to proactively enhance governance and risk management as it does not sufficiently reflect medium- and long-term risks for the companies at a time when risks surrounding insurance companies are drastically changing, as exemplified by the aging population with a low birthrate, changes in and diversification of consumers' needs, the prolonging of ultra-low interest rates, increasing volatility of domestic and foreign economies and markets, and increasing severity of natural disasters.

2. Economic Value-Based Evaluation of Solvency

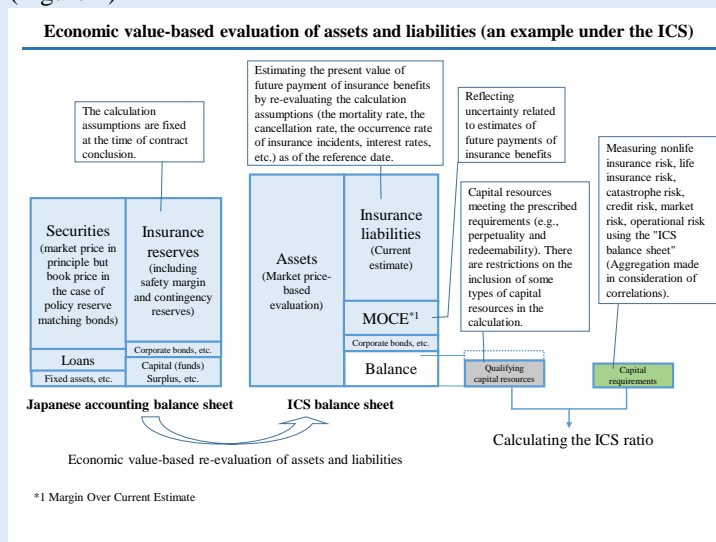
As a way to address this challenge, discussions have been held on economic value-based evaluation of assets and liabilities. Under an "economic value-based evaluation," all assets are evaluated based on the market price (fair value), and for the purpose of the evaluation of insurance liabilities, the assumptions for the calculation of interest rates and the occurrence rate of insurance incidents will be updated to reflect the most recent situation (see Figure 1).^{*2} Economic value-based evaluation has the merit of identifying the status of insurance companies' assets and liabilities in a way that better reflects the actual economic environment. Therefore, (Figure 1)

some Japanese insurance companies have already adopted the economic value-based approach for internal control and voluntary disclosure.^{*3} The development of the Insurance Capital Standard, which incorporates the economic value-based approach, is also underway at the International Association of Insurance Supervisors (IAIS), which is comprised of national insurance supervisory authorities.

3. Main Points of the Report

At a time when risks surrounding insurance companies are changing and diversifying, it is important to develop regulatory and competition environments well suited to this situation. From that viewpoint, the Study Group held discussions, from various angles, on how to conduct prudence policy concerning insurance companies, mainly in terms of the economic value-based solvency regulation.

Economic value-based solvency regulation is expected to be effective in (i) ensuring the protection of insurance policyholders from the medium- to long-term perspective, (ii) encouraging insurance companies to proactively enhance risk management, and (iii) imposing discipline through information disclosure to outside stakeholders. Moreover, to achieve those objectives, it is also important to aim for not only solvency regulation as narrowly defined (quantitative regulation) but



^{*1} Publication of "Report by the Study Group on the Economic Value-based Solvency Framework on June 26, 2020": <https://www.fsa.go.jp/news/r1/sonota/20200626.html> (Available in Japanese)

^{*2} While economic value-based evaluation is close in concept to mark-to-market valuation, the Study Group held discussions on the premise of evaluating insurance liabilities through a "market-consistent method" because those liabilities, which are comprised of various insurance policies, are not traded in the market. On the other hand, evaluation of insurance liabilities under the current accounting standard and under the solvency margin regulation in Japan are based on the approach of fixing the assumptions at the time of contract conclusion (lock-in).

^{*3} Reference materials prepared by the secretariat for the first meeting of the Study Group on the Economic Value-based Solvency Framework

also multifaceted prudential policy that takes into consideration insurance companies' internal control. The Study Group examined the basic elements and direction of such prudential policy in line with the "three-pillar" approach (see Figure 2).

Pillar 1 corresponds to prudential regulation as narrowly defined. The abovementioned ICS has been designed as a standard for (i) evaluating insurance companies' assets and liabilities on an economic value basis, (ii) measuring the risk amount (capital requirements) in terms of losses (changes in an economic value) that arise under a stress environment, and (iii) evaluating the adequacy of qualifying capital resources (capital recognized to have loss-absorbing capacity) compared with the capital requirement.

Moreover, there are various points of discussion under Pillar 1. For example, one possible option for more appropriately reflecting individual companies' risks is allowing the calculation of the solvency ratio based on insurance companies' internal models (rather than a model designated by the authorities and common to all companies) under certain conditions.

In addition, in light of the complexity of the calculation of the economic solvency ratio, it is necessary to conduct a more in-depth study on ways of exercising governance (e.g., independent validation) that ensure the validity of the value of the ratio. Also to be considered is implementing timely supervisory measures that take advantage of the enhanced risk sensitivity of the economic solvency ratio compared with the existing regulation but enforcing the measures flexibly as necessary (e.g., when an extraordinary shock has struck the entire market).

Under **Pillar 2**, while insurance companies' internal control forms the basis of evaluation, their risk management is verified through their dialogue with the supervisory authorities. While Pillar 1 is clear and effective in that it is based on uniform quantitative standards, it is true that Pillar 1 has some limitations as a tool to precisely identify individual insurance companies' risk profiles and promote proactive governance and risk management. Regarding insurance companies' internal control, it is important not only to meet regulatory requirements but also to enhance enterprise risk management (ERM) that takes into consideration the balance between risk, return and capital while capturing risks that are not sufficiently covered by Pillar 1.

The FSA believes that it is necessary to promote enhancement of internal control through in-depth dialogue with insurance companies while conducting forward-looking supervision incorporating the economic value-based approach.

Pillar 3 is intended to encourage dialogue between insurance companies and outside stakeholders (e.g., investors) based on information disclosure by insurance companies, thereby imposing appropriate discipline over the companies. Economic value-based indicators include many pieces of information useful for outside stakeholders from the viewpoint of evaluating insurance companies' soundness and enterprise value. Going forward, a study should be conducted on the scheme of information disclosure under a new regulatory framework in reference to insurance companies' existing information disclosure practices and other countries' disclosure systems.

4. Future Study

The Study Group proposed that preparations should be made with a view to introducing a new framework in 2025 and that the study should be steadily deepened step by step, with the outline of the framework provisionally determined around 2022 and finalized around the spring of 2024.

In light of the proposals presented in the report, the FSA intends to steadily proceed with the study in order to make sure that the new framework will be truly effective while conducting domestic field tests and providing information on the status and direction of the study through dialogue with a wide range of stakeholders.

5. Conclusion

There is no absolutely right method of evaluating insurance companies' regulatory solvency. The best that can be hoped for is a theoretically plausible method arrived at through actuarial science and financial engineering. The Study Group held various discussions on what the design of the new framework should be like not only from the viewpoint of encouraging insurance companies to enhance risk management but also from other viewpoints, including the impact on the provision of products to consumers and insurance companies' management behavior. Please view the reference materials prepared for the Study Group's meetings and the minutes of the meetings, which are also available on the FSA's website.

Outline of the report by the Study Group on the Economic Value-based Solvency Framework

<Background and significance>

- Conducted a study on prudential policy, mainly in terms of economic value-based (based on market-consistent evaluation of assets and liabilities) solvency margin regulation, in order to develop regulatory and competition environments suited to changes in the economic environment and risks surrounding insurance companies.
- Expecting that the introduction of this regulation will (i) enable the FSA to identify the medium- and long-term soundness of insurance companies in a forward-looking manner, (ii) encourage insurance companies to enhance risk management (ERM) that takes into consideration the balance between risk, return and capital, and (iii) impose management discipline from the outside through disclosure of relevant information.
- Also held discussions on factors uniquely necessary for a domestic framework (which is applicable to small and medium-size insurance companies as well) while taking into consideration the discussions on the Insurance Capital Standard (ICS) at the International Association of Insurance Supervisors (IAIS).

<Main points and direction of discussion>

- Examined how to conduct multifaceted prudential policy which is not confined to solvency margin regulation as narrowly defined but which also takes into consideration insurance companies' internal control in line with the three-pillar approach.

Pillar 1 (Solvency regulation)

- Develop a standard model by using a common basic structure with the ICS but by making adjustments specific to domestic regulation as necessary
- Consider gradually expanding the scope of internal models while giving precedence to natural catastrophe risk.
- Conduct a study on independent validation by internal and external experts in order to ensure the validity and reliability of the values of the regulatory ESR.
- Enforce supervisory measures (early corrective action) based on the ESR in a timely and flexible manner with due consideration given to the background factors.

Pillar 2 (Internal control and supervisory validation)

- Pursue more forward-looking supervision by enhancing economic value-based monitoring data.
- Encourage insurance companies to enhance risk management not focusing merely on Pillar 1 (ERM).

Pillar 3 (Information disclosure)

- Impose increased discipline through enhancement of disclosure of financial and risk information while paying attention to a practical workload.
- Consider specific disclosure items (e.g., sensitivity and factors of changes) in reference to existing voluntary disclosure practices and other countries' disclosure systems.

<Future study>

- Make preparations with a view to introducing a new framework in 2025. During the period of preparation, the study will be steadily deepened step by step, with the outline of the framework provisionally determined around 2022 and finalized around the spring of 2024.

*4 Under the ICS, the risk amount should be measured on the premise of a holding period of one year and a confidence level of 99.5% (a frequency of once every 200 years).

"Progress Report on Advancing Asset Investment Industry 2020"

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(*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 June 19, the FSA published the Progress Report on Advancing Asset Investment Industry, with public comments to be accepted until July 20. Described below are the main points of the report.

1. Background to the Publication of the Report

In order to enhance national wealth through securing sustainable growth of corporations and the national economy as well as promoting long-term personal asset building, it is vital to build up a virtuous circle in which each participant of the investment chain plays the required role and thereby render the fruit of enhanced corporate value and profit to households. The role of asset management companies is crucial among others.

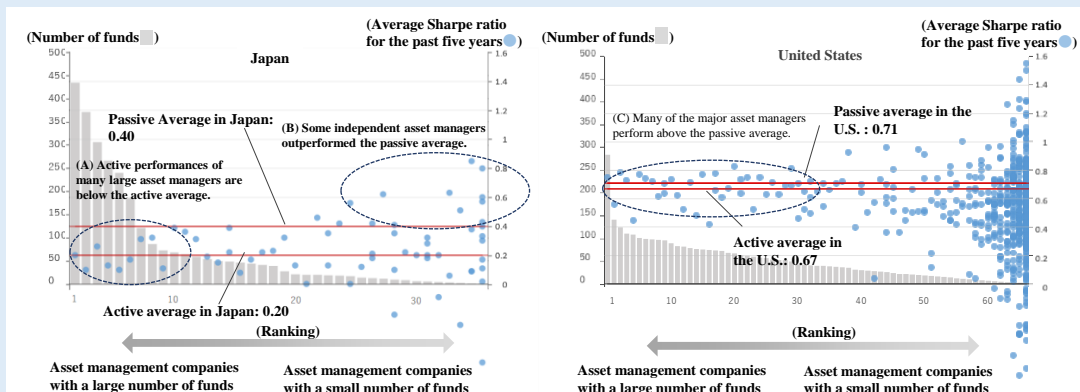
Based on this recognition, the FSA has been engaging in dialogue with major domestic asset management companies, which have played pivotal role in the management of most household financial assets in Japan, and their groups' parent companies. The aim of this dialogues was to encourage the asset managers' incentives to give highest priority to their customers and promote the sophistication of the asset investment industry. The FSA also had interviews with foreign asset management companies and has take into consideration their activities which are supposed to contribute to the enhancement of the investment capability. The report summarized challenges identified through the interviews and dialogue and showed future actions in light of the current state of the asset investment industry so that asset managers and their parent companies undertake further progress in individual companies' specific activities,.

2. Current State of the Asset Investment Industry

In recent years, the asset under management of asset management companies offering low-fee passive funds has been increasing, mainly in the United States. On the other hand, asset management companies that have focused on active investment are required to deal with the declining fee income. There has been a spate of consolidation among asset management companies to pursue economics of scale. In an increasingly competitive international environment, domestic asset management companies are facing stiff competition.

The average performance of Japan's active publicly offered investment trusts is not commensurate with trust fees and other costs. As a result, the asset management business sector has not gained enough support from customers, resulting in the sluggish growth in the net assets of the publicly offered investment trust market. For instance, as of the end of 2019, active funds underperformed passive funds in terms of five-year Sharpe ratio (an investment performance indicator). The average performance of major domestic asset management companies that manages a large number of funds underperformed compared with their U.S. counterparts (A and C in the figure below). However, it is noteworthy that some independent domestic asset management companies that manages a small number of funds outperformed the passive average (B in the figure below).

Figure: Numbers and Performance of Active Funds managed by Japanese and U.S. Asset Management Companies
(arranged from left to right in descending order of the number of funds)



(Note) Funds covered by the above data are publicly offered domestic investment trusts in the case of Japan and mutual funds in the case of the United States (the figures for both Japanese and U.S. funds are those as of the end of 2019 and exclude ETFs). Each fund's Sharpe ratio for the past five years was weight-averaged by the outstanding balance.
(Source) Quick and Morningstar

The FSA recognizes several causes that makes the average performance in Japan tend to be low. While the number of funds launched in Japan is high, there are not enough efforts to thoroughly ensure appropriate business process management and administration of funds from the viewpoint of putting customers' interests first. As a result, there has been little progress in redemption and consolidation of unprofitable funds and funds whose performance has remained sluggish over the medium to long term. There have been also excessive small-sized investment trusts that do not contribute to investors' interests. In addition, as to why the outstanding balance of some funds with good performance remains small, it has been pointed out that the business practice of exclusive distributorship could be contributed, which limits the asset managers' distribution of newly-developed products for a certain period of time after launch, resulting in a lack of sufficient fund inflows necessary for efficient investment.

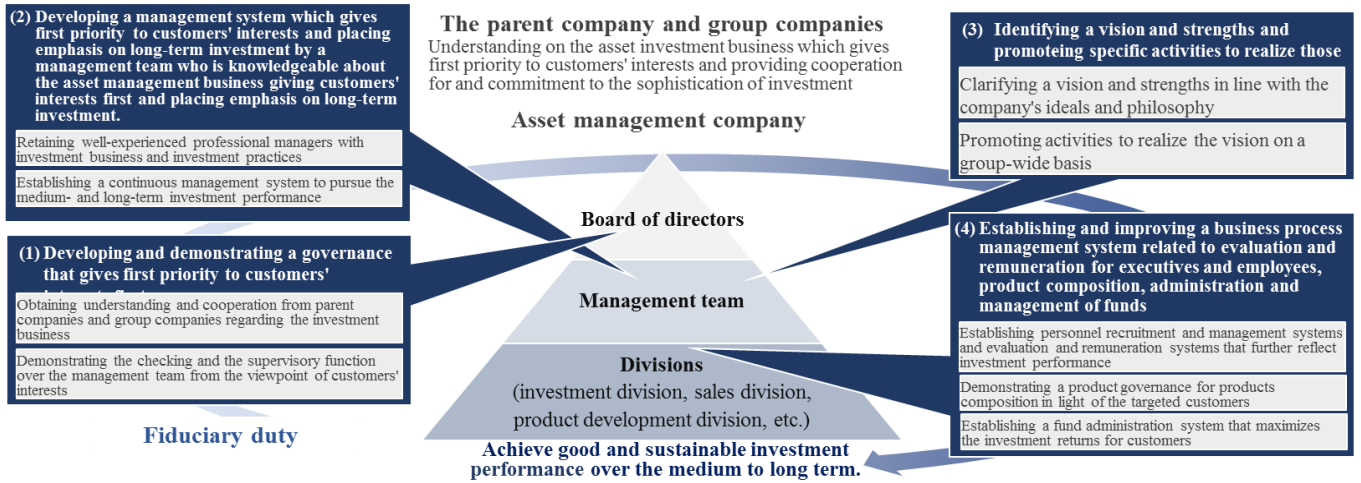
3. Main Challenges

There must be the following challenges if Japanese asset management companies are to establish a revenue base by delivering good and sustainable performance over the medium to long term and by winning the trust and adherence of customers. Although major asset management companies are making some improvement efforts, it is expected that they further implement concrete activities.

- (1) Governance: Demonstrating the checking function over business and fund management from the viewpoint of customers' interests. Obtaining understanding and cooperation of parent companies and group companies regarding the investment business.
- (2) Management system: Developing a management system that gives first priority to customers' interests ~~first~~ and places importance on the viewpoint of long-term investment
- (3) Vision and strengths: Clarifying a vision and strengths and realizing those
- (4) System of business process management: Developing a system of business process management from the viewpoints of giving first priority to customers' interests ~~first~~ and placing importance on investment
(Evaluation and remuneration systems for executives and employees, administration and management of funds, etc.)

4. Future Actions

The FSA will continuously engage in dialogue with domestic asset management companies and parent companies of their groups, including management teams, so that each company can further implement activities related to the challenges described in (1) to (4) above with originality and ingenuity. Asset management companies should implement activities to thoroughly ensure appropriate fund administration, including (i) strengthening the investment capability, (ii) focusing on products which can deliver good and sustainable performance over the medium to long term, rather than increasing the number of products without enough strategic considerations, and (iii) actively promoting redemption or consolidation of unprofitable funds and small-cap investment trusts whose investment performance has deteriorated over the medium to long term.



The FSA will also engage in dialogue with distinctive independent asset management companies who realize good performance about factors behind their performance and sustainability.

Besides, the FSA will conduct surveys, analysis, and publish concerning the status of private placement investment funds for institutional investors and discretionary investments, promote the visualization of publicly offered investment trusts, and measures for new entry.

Q&A on the Disclosure of Narrative Information Regarding the Impact of COVID-19 Infection

– Key Points for Better Disclosure for Investors –

Agari Satoshi, Deputy Director, Corporate Accounting and Disclosure Division, Policy and Markets Bureau
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(*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.)

1. Introduction

The FSA issued a notice stating that companies are strongly expected to make efforts for specific and enhanced information disclosure regarding the impact of COVID-19 infection both as financial information and as non-financial information in securities reports ("Notice Regarding the Disclosure of Corporate Information Concerning the Impact of COVID-19 Infection" publicized on May 21, 2020). Additionally, the FSA publicized the "Q&A on the Disclosure of Narrative Information Regarding the Impact of COVID-19 Infection – Key Points for Better Disclosure for Investors –" (hereinafter referred to as the "Q&A"), which compiles key points for better information disclosure as expected by investors (on May 29, 2020).

The Q&A was prepared in line with a principle-base guidance, "Principles Regarding the Disclosure of Narrative Information" (publicized on March 19, 2019), with the aim of encouraging companies to make efforts to enhance their information disclosure regarding the impact of COVID-19 infection, which should be more than just a formal response to the rules. The Q&A is not intended to add new disclosure items.

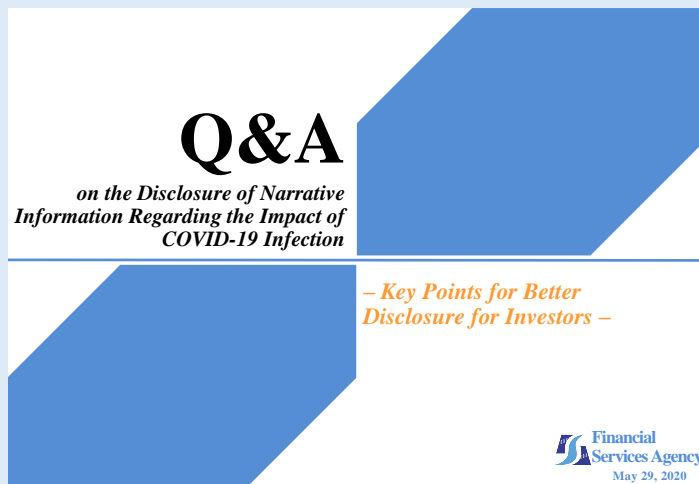
2. Development leading to the publication

The spread of COVID-19 infection is broadly affecting the economic activities of a number of listed companies. Under such an uncertain business environment, the sufficient disclosure of corporate information from the viewpoint of the management is important for investors' investment decisions. Additionally, such information disclosure also contributes to enhancing and maintaining sustainable corporate value through constructive dialogues between investors and companies. Furthermore, efforts from such perspective to enhance the disclosure of corporate information in relation to the current infection that is spreading globally will contribute to improving the reliability of the Japanese capital markets.

Ahead of the publication of the Q&A, the FSA issued the Notice Regarding the Disclosure of Corporate Information Concerning the Impact of COVID-19 Infection on May 21. Thereafter, there were opinions expecting an additional announcement from the FSA that will support companies' efforts for enhancing information disclosure regarding the impact of infection, such as key points for better information disclosure as expected by investors. Therefore, the FSA compiled key points for preferable disclosure of information concerning the impact of COVID-19 infection as narrative information in securities reports, based on the opinions of investors and analysts participating in the working group for the compilation titled "Best Practices for the Disclosure of Narrative Information" (finally updated on December 20, 2019), and publicized them in the form of Q&A.

3. Details of the publication

The Q&A presents key points as follows for preferable disclosure of information concerning the impact of COVID-19 infection in accordance with the matters to be disclosed as amended by the Cabinet Office Order Partially Amending the Cabinet Office Order on Disclosure of Corporate Affairs, etc., which was put into effect on January 31, 2019.



In the section of "Business policies and environment as well as issues to be addressed, etc.," the impact of COVID-19 on respective companies' business environments should be described specifically for each business and segment, in light of their own weaknesses and challenges, as well as opportunity and risks, which were newly recognized by the management. When reviewing business policies or KPIs in consideration of the current status of business environments, specific points reviewed and backgrounds and reasons for any changes should be described in detail. Even if it has been judged unnecessary to revise business strategy, etc., companies are expected to specifically describe the recognition of the management, such as the developments of discussions leading to such judgment, in consideration of the fact that people are requested to change their lifestyles due to the spread of COVID-19 infection.

In the section of "Business risks," companies are expected to specifically describe the impact of COVID-19 infection regarding possibilities of any significant influence on their future business performances, including the impact on workers' working styles and supply chains or on other business activities, as acknowledged from the perspective of the management, as well as countermeasures therefor, while incorporating quantitative information to the extent possible.

As quantitative information, the amounts of the possible impact on operating results may be described as rough estimates or may be indicated in certain ranges of amounts, but it is important to also describe the assumptions and scenarios for calculating such amounts of the impact. When it is impossible to reasonably estimate the amounts of the impact as of the time of submitting securities reports, companies are recommended to describe to that effect in securities reports and disclose the amounts, when a reasonable estimation becomes possible, in quarterly securities reports or extraordinary reports or on a timely basis.

For the section of "Analysis by the management of financial conditions, operating results and cash flow status (MD&A)," key points are presented separately for descriptions of the analysis of operating results, analysis of cash flow status, and accounting estimates.

As the analysis of operating results, companies are expected to specifically describe where (which business segments or regional segments, or which of the processes of procurement of materials and components in the supply chain, production, distribution, sale, etc.) and how the impact of COVID-19 infection has appeared and whether the management takes the relevant impact as being temporary or as having a possibility to be prolonged due to changes in people's lifestyles. As the analysis of cash flow status, it is important to specifically describe the management's consideration and actions for securing funds necessary for stably continuing business, as well as the management's view regarding allocation of funds for growth investments, cash reserves and shareholder returns in light of the impact of COVID-19 infection. Regarding accounting estimates, the Summary of the Discussions publicized by the Accounting Standards Board of Japan, "Incorporating the Effects of the Novel Coronavirus Pandemic when Making Accounting Estimates under Japanese GAAP" (publicized on April 10 and supplemented on May 11, 2020) and the approach for disclosing accounting estimates in the section of "MD&A" are introduced.

Furthermore, key points for better information disclosure regarding the impact of COVID-19 infection are also presented for the status of activities of company auditors, etc., executive compensation, and cross-shareholdings.

4. Conclusion

Enhancement of disclosure of corporate information concerning the impact of COVID-19 infection will enable investors to make appropriate investment decisions, contribute to enhancing and maintaining sustainable corporate value through constructive dialogues between investors and companies, and further contribute to improving the reliability of the Japanese capital markets.

The FSA strongly hopes that companies will disclose information sufficiently on the impact of COVID-19 infection while referring to the Q&A.

Contents	
<ul style="list-style-type: none"> ○ Amid the spread of COVID-19 infection, the FSA compiled the concept of disclosure of information regarding the impact of the infection as part of narrative information in securities reports and publicized the key points for better disclosure for investors in the form of a Q&A. ○ In line with the "Principles Regarding the Disclosure of Narrative Information" (publicized on March 19, 2019), this Q&A was compiled with the aim of encouraging companies to make efforts to enhance their information disclosure regarding the impact of COVID-19 infection, which should be more than just a formal response to the rules, and is not intended to add new disclosure items. 	
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The FSA and the Tohoku Local Finance Bureau Jointly Held the "Seminar for Utilization of Side-Job/Multiple-Job Workers," etc. Online!

The FSA and the Tohoku Local Finance Bureau held the "Seminar for Utilization of Side-Job/Multiple-Job Workers" online, targeting financial institutions in Fukushima Prefecture.

Since the "Regional Finance Meeting in Fukushima" held in November last year, like-minded individuals from the central government, local governments, financial institutions, and universities, etc. have regularly held the "Fukushima Dialogue" in Fukushima Prefecture, as a forum to have discussions for solving regional issues beyond their respective positions. One of the issues discussed was the "lack of human resources" in the region.

In May this year, Fukushima Prefecture started the "Program for Creation and Promotion of Parallel Career Workers(*)" for supporting utilization of side-job/multiple-job workers in the Tokyo metropolitan area, from the viewpoint of increasing the "related population" (those who are not settlers or visitors, but who frequent the region and are involved with the local people). However, an issue brought to the "Fukushima Dialogue" was that receiving companies could not be cultivated as planned due to the impact of COVID-19 infection. Therefore, the FSA proposed to the prefecture that there may be room for financial institutions to collaborate as they have connections with companies, and planned this seminar.

(*) Program whereby the prefecture subsidizes the fees for business operators to place ads on human resource matching sites, and provides accompanying support through their hiring process.

At this seminar, the operating company of a side-job/multiple-job worker matching platform, which is a partner company of this program, and a life insurance worker who conducts activity in the region as a side-job worker explained matters including the market trends of side-job/multiple-job workers and case examples of their utilization as well as their motivations.

Participant financial institutions voiced that they "realized the effectiveness of utilizing side-job/multiple-job workers for solving clients' business management issues" and that "sharing of experience and knowledge is necessary for financial institutions to engage in utilization of such workers."

Finance Director Kitagawa of the Local Financial Department, Tohoku Local Finance Bureau, addressed the participants as follows: "Fukushima Prefecture has a developed environment for utilizing side-job/multiple-job workers, as subsidies for agent fees and accompanying support are provided under the Program for Creation and Promotion of Parallel Career Workers. We expect financial institutions to deepen their understanding of the meaning of utilizing side-job workers and to work toward solving business operators' issues."

In addition, given that this seminar was organized as a result of dialogue among like-minded individuals, 70% of the participants stayed online even after the seminar to exchange opinions and further deepen their understanding.

The "Fukushima Dialogue" plans to continue to hold in-depth discussions on matters such as the role to be played by financial institutions toward utilizing side-job/multiple-job workers in further detail, while also using the online communications.

<Seminar outline>

- Date: Thursday, June 18, 2020
- Hosts: FSA, Tohoku Local Finance Bureau
- Co-hosts: Fukushima Prefecture, Fukushima Prefecture Strategic Base for Professional Human Resources, Regional Finance Meeting
- Participants: 13 financial institutions (regional banks, credit associations, and credit cooperatives) located in Fukushima Prefecture, Fukushima Dialogue members
- Venue: Online



[Screen image of the online seminar]

■ Regional Finance Meeting 2.0 Online Study Session on Utilization of Side-Job/Multiple-Job Workers was held!

The Regional Solutions Support Office receives many requests for advice on human resources, particularly on seminars on side-business workers, from local governments and financial institutions.

In response, the office holds seminars for learning basic knowledge about side-job/multiple-job workers and case examples of related initiatives from the respective standpoints. At the first seminar held in the evening of June 26, a crosstalk session was held on the theme of utilization of side-job workers, inviting Director General Otsu of the Kyusyu Local Finance Bureau, which held the Kumamoto Revitalization Forum where about 500 people participated, and Representative Ishikawa of Work Design Lab, a general incorporated association that forms local communities of side-job workers, as guests. The office plans to hold second and third seminars in the future, inviting practitioners from financial institutions and local governments that utilize side-job/multiple-job workers.



[Otsu Toshiya, Director General of the Kyusyu Local Finance Bureau]

"Regional Finance Meeting 2.0" Held Online on Sunday, June 28! About 300 Like-Minded Individuals Joined In from across Japan!

Since the Regional Finance Meeting in Fukushima, held for the first time outside Tokyo, in November last year, we had received calls to hold meetings in Gunma, Tokyo, Kyoto, and Shodojima Island, and have been making preparations together with local groups of like-minded individuals. However, we regrettably had to postpone the meetings due to the spread of COVID-19 infection. At the same time, the support team received an increasing number of requests for advice from various regions from April onward. In particular, many of them were requests for advice on "human" matters, such as seeking introduction of officials in charge of commerce and industry from the central government or from local governments that face the same problems. As a result, there were active moves to utilize the networks between members of the "Regional Finance Meeting" or between the secretariats that were preparing for organization of the meetings. Therefore, in order to have these networks used more actively, we planned to hold the Regional Finance Meeting online. The online meeting was attended by about 300 participants, which is about the same scale as the conventional meetings.

Under the theme **"Now is the time to act! Using networks of those who share the same mind,"** a crosstalk session was held among FSA Commissioner Endo, Editor Hashimoto from Kyodo News, and Managing Director Hagiwara from GC Story, while Director Kusaka of the Regional Solutions Support Office, FSA, served as the moderator. Opinions were exchanged on topics including reform of the FSA, decisive factors that divide between networks that expand and those that do not, and encouragement of individual activities where financial institution employees and government employees leap out of their affiliations, and hold discussions for regional revitalization with like-minded individuals from different sectors regardless of their positions as if it were a school's club activity.

Also, 10 Regional Finance Meeting Coordinators (six Local Finance Bureau employees and four members from financial institutions, etc.), who are eager to expand local networks and hold the Regional Finance Meeting, were introduced to the participants, and the coordinators expressed their determinations. Then, Vice-Minister of Finance Okamoto of the Minister of Finance, who participated on a voluntary basis, sent enthusiastic words of encouragement to the participants. After that, seven initiatives of collaboration among the public, private, and financial sectors were introduced. The participants divided into groups under the presenters of their desired initiatives, and held a group session where they had in-depth discussions.

We will continue to hold the "Regional Finance Meeting" in collaboration with the coordinators of the respective regions, while respecting the intentions of each region, and support the start-up of dialogue activities in various regions.

If you are interested, please visit the **Regional Finance Meeting Facebook!**



ちゆきん会
ONLINE Webinar

6.28

2020 SUN
14:00-

zoom オンライン会議システム「Zoom」にて開催します

合こそ行動！ 白熱！クロストーク
共感に集う有志ネットワークとともに。


金融庁 長官
遠藤俊英


共同通信社 編集委員
橋本卓典


GCストーリー 常務取締役
萩原典子


モデレーター
地域課題解決支援室長
日下智晴

組織外、地域内外の人とつながってどんな意味があるのか？
行動するには、まずどうする？どう仲間を見つけるの？とモヤモヤしてい
る方にオススメです!!



Crosstalk session
(From the left) Commissioner Endo,
Ms. Hagiwara, and Mr. Hashimoto

Regional Finance Meeting
Facebook



FSA Employees Think Together With You Out in the Field—Regional Solutions Support Team

The Regional Solutions Support Team established under the FSA's Policy Open Lab framework has jointly planned and implemented initiatives to formulate frameworks for solving regional issues as well as collaboration projects together with financial institutions, local governments, and private companies. These schemes emerged from creative discussions (dialogue) held by using networks between ambitious government employees and financial institutions and creating an environment where individuals can have frank discussions with each other regardless of their positions while securing psychological safety. At present, dialogues are held in 15 regions from Hokkaido to Kumamoto. Let's work together to solve the problems you face! Please see the link below for the team's past activities.

URL: <https://www.fsa.go.jp/policy/chiikikadaikaiketsushien-team/chiiki-kadai-top.html> (Available in Japanese)

JFSA's Major Activities in June

(June 1 to June 30, 2020)



- [Letters to the CEOs of Major Financial Institutions regarding LIBOR Transition \(June 1, 2020\)](#)
- [Stewardship Code : 281 institutional investors have signed up to the Principles for Responsible Institutional Investors as of May 29, 2020 \(June 3, 2020\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(June 4, 2020\)](#)
- [G20: Efforts on Governance Issues in Decentralized Financial Systems "BGIN" - new global network \(June 5, 2020\)](#)
- [Overview of the Japanese regional banks' financial results for the fiscal year ended March 31, 2020 \(June 5, 2020\)](#)
- [Overview of major banks' financial results as of March 31, 2020 \(June 5, 2020\)](#)
- [Preparation for permanent cessation of LIBOR \(June 9, 2020\)](#)
- [Overview of financial results of major insurance companies as of March 31, 2020 \(June 23, 2020\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(June 23, 2020\)](#)
- [Announcement of the new dates of BG2C, FIN/SUM BB \(June 25, 2020\)](#)
- [Bank of Japan Review: Developments in Overseas Credit Investment and Lending by Japanese Financial Institutions \(June 26, 2020\)](#)

- 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 July issue of "ACCESS FSA."

As you have already recognized, means for information transmission and PR activities have been changing drastically due to the impact of COVID-19 infection.

Lectures by executives and sessions concerning "Re:ing Sum" and the "future of personal asset building", which were introduced in the July issue, were all held online. Online events lack a sense of presence compared with face-to-face ones, but have the advantage of being able to attract participants from across the nation, not limited to those in the Tokyo metropolitan area. We would like to pursue new forms of information transmission by making the most of the advantage of online events.

The Policy Commentary Corner took up diverse topics such as the Act on Special Measures for Strengthening Financial Functions, solvency regulation, asset management business, and disclosure of corporate information.

We hope you will enjoy reading the July issue.

WADA Yoshitaka, Director, Public Relations Office, FSA

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