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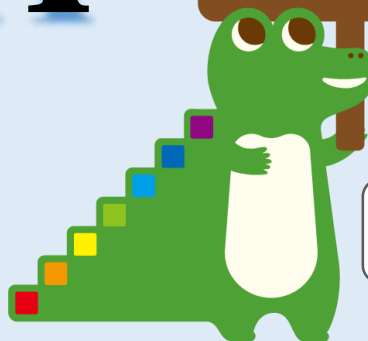
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Inaugural Interview with State Minister for Financial Services KIKAWADA Hitoshi

We interviewed Mr. KIKAWADA Hitoshi, who took office as State Minister for Financial Services when the KISHIDA Fumio Cabinet was inaugurated on November 10. In this interview, Mr. KIKAWADA talked about his resolutions and thoughts on financial sector policy.

Outline of the interview

- ◆ To make Japan's financial markets attractive to the world
- ◆ To play a pivotal role in new capitalism through participation in discussion to develop international standards while advancing the position of Japan's financial sector
- ◆ Japan should become a genuine maritime state

Profile of KIKAWADA Hitoshi, State Minister for Financial Services

Born on October 13, 1970, State Minister KIKAWADA studied marine and environmental issues. He was elected as a member of the House of Representatives in 2012 and served as the Parliamentary Vice-Minister for Foreign Affairs from October 2015. His focus has been on ocean policy ever since he was a student. Jogging is one of his hobbies. "Gratitude and cooperation" are his words to live by.

— Please tell us about your resolutions as State Minister for Financial Services.

There is a wide range of issues financial sector policy should address at home and abroad. In particular, I want to make Japan's financial markets open and attractive to the world, leveraging my experience as the Parliamentary Vice Minister for Foreign Affairs.

Amid increase in geopolitical risks and issues of human rights in Hong Kong, Japan has strength in its stable democracy and rule of law. I am eager to make Japan an attractive international financial center. To this end, I will work together with staffs of the Financial Services Agency.

Global warming is increasingly recognized as a grave international problem. With Japan pledging to become carbon neutral by 2050, businesses must change the way

they are and so are further increasing ESG investment. From this point of view, in the field of accounting, calls for expanding and upgrading the disclosure of non-financial information are growing, and the disclosure practice has to be reliable. I think we must ensure that Japanese companies address this issue in an appropriate way.

To promptly recognize this kind of trend and participate in international rulemaking, we are stepping up efforts to invite the International Sustainability Standards Board's (ISSB) office for the Asia-Oceania region to Tokyo. Hosting the office in Tokyo through solid campaigning activities and participating in international rulemaking, we will then advance the agenda of Japan's financial sector. The KISHIDA Cabinet is set to advocate a new capitalism and I would play a pivotal role in it.

— *What are impressive among the policies you have tackled so far?*

Since I was a student, I have kept grappling with ocean policy as a company employee and lawmaker. The experience prompted me to become a lawmaker.

Of ocean-related programs that are about to flourish, the mining development of rare earth elements (REE) around the Minami-Tori-Shima Island deserves close attention. Earnest efforts to develop ocean mining of REE there are underway within the framework of the Cabinet Office's Cross-ministerial Strategic Innovation Promotion Program.

REE are raw materials for extremely innovative technologies, such as light-emitting diodes and batteries for electric vehicle motors, and they are absolutely necessary substances. At present, however, there is an established mechanism that requires China in their supply chains. REE, if collected from the ocean bed in Japan and produced domestically, will become available on the market without going through a specific country like China.

As a feature of REE in Japan, they contain no radioactivity. Though they will be collected from 6,000 meters of depth in the ocean, they will have price advantages without the cost of radioactive decontamination, offering solid opportunity of practical and commercial applications. We have carried out such programs and will continue focusing on them.

— *What motivated you to become a National Diet lawmaker?*

I was a researcher of marine and environmental issues. At that time, the Sea of Japan was the field of my study. I was working under the U.N. Environmental Program's regional sea program, participated in by Japan, China, South Korea and Russia, to preserve the environment of the Sea of Japan. Although we were dealing with environmental issues, we faced questions such as territorial problems and the name of the sea because borders between Japan and other countries are in the sea.

In addition to environmental issues, there lie various other problems.

When I was a researcher, Japan had neither the Basic Act on Ocean Policy nor the Basic Plan on Ocean Policy, and it did not have any ministry or agency in charge. I could hardly see Japan implementing a consistent ocean policy. I was enjoying my research work but feeling my limits as a researcher in the context of this country's future. I continued the work, hoping that a politician with interest in ocean policy would come forward. At the same time, I thought I should play that role, instead of waiting for someone else to do so, because we only live once. There were no politicians in my family or among my acquaintances. You could say it was reckless, but I joined the Matsushita Institute of Government and Management to start my life as a politician.



〔 Photo: During the interview 〕

— *What do you pursue as a politician?*

Japan is said to be a "maritime state," but it has yet to truly become the one. I think it is still an "island state." Japan should become a "genuine maritime state."

In my definition, a "genuine maritime state" works out a strategy, based on its own will, to primarily use and develop ocean resources, allocate benefits from them to its people and increase its welfare. Japan still needs a will and strategy for the ocean. It seems that Japan passively and involuntarily relates to the ocean merely because it is physically surrounded by seas.

I want to become a lawmaker who can work out solid policies for the Japanese people by making full use of the ocean.

The ocean covers 70% of the surface of the earth. Countries that have taken hold of the ocean have become the centers of the world, as in the case of Britain and the United States. To flourish as a maritime state means to become the center of the world. This does not necessarily mean to pursue hegemony. But if Japan calls itself a maritime state, I think it can achieve a great leap forward by promoting necessary measures firmly based on its will and strategy.



Photo: During the interview

I studied at the Matsushita Institute of Government and Management. The last of its Five Pledges is "to have a deep-felt spirit of gratitude and cooperation." It means that a harmony of people and better results can be achieved by constantly having a spirit of gratitude and cooperation.

Prince Shotoku said, "Cherish harmony among people." Finance Minister SUZUKI Shunichi* cherishes the expression as his motto. To maintain harmony, it is necessary to constantly have a spirit of gratitude and willingness to cooperate in a variety of circumstances. Deep-felt spirit of gratitude and cooperation lead to harmony and a lot of things can be achieved. This is a very Japanese pledge. Having a spirit of gratitude and a spirit of cooperation results in harmony. "Gratitude and cooperation" may be reworded as "a state of mind needed to reach harmony." When someone asks me to write some words, I write "gratitude and cooperation" on a card and hand it to him or her.

With a spirit of gratitude, I will work on measures and policies jointly with Minister SUZUKI and other people involved in financial sector policy.

— *How do you unwind on your days off?*

My only whole days off are during the Bon holiday break and year-end vacation. To survive my hard work life and refresh myself, I jog and do muscle training. I simply run on the riverbank in my hometown cities of Koshigaya and Soka.

As I cannot usually spend much time with my family, I help my children study and exercise when I am not working.

— *Finally, what are your words to live by?*

"Gratitude and cooperation" are words I live by—not merely gratitude, but gratitude and cooperation.

(Interviewer SAITO Takafumi,
Director of the Public Relations Office)

* See Minister Suzuki's interview in the December 2021 edition of Access FSA at:
<https://www.fsa.go.jp/en/newsletter/accessfsa2021/219.pdf>

Meeting to Facilitate Finance for Small and Midsize Businesses, etc.: at Minister SUZUKI's Request

On November 24, 2021, the FSA held a meeting with Finance Minister SUZUKI Shunichi and other government officials in charge and representatives of public and private financial institutions and other concerns to exchange opinions on how to facilitate finance for small and midsize business enterprises and so forth on the grounds that there still companies struggling with severe liquidity crunches amid the COVID-19 crisis (hereinafter COVID) and that needs for raising operating and other funds would increase before the calendar and fiscal year-ends.

At the start of the meeting, Minister SUZUKI thanked the representatives of public and private financial institutions and other concerns for their support for business enterprises under the prolonged influence of COVID and asked them to take all possible measures to support those still mired in management difficulties such as revenue falls.



Photo: The meeting in progress

In anticipation of anxieties resulting from the continuation of COVID, rising resource prices and other factors, representatives of public and private financial institutions and other concerns voiced the intention to address post- and with-COVID conditions through careful and meticulous efforts, including not only fundraising support but also the utilization of hybrid subordinated loans recognizable as capital in cooperation with governmental financial institutions and official programs to support principal operations, such as business restructuring subsidies.



Photo: Minister SUZUKI speaks at the meeting

Based on the influence of COVID, ongoing changes in the management environment and a year-end increase in demand for funds, furthermore, the FSA asked financial institutions and other concerns in writing, dated on the same day, to continue thorough and meticulous support tailored to business enterprises' needs, such as actively recognizing their conditions and responding to their requests for fundraising advice in a meticulous manner, and to proactively step up programs to support their principal operations. Making the written request public on the day, the FSA attempted to have everyone informed of it.

Participant organizations of financial institutions in the meeting:

Japanese Bankers Association, Regional Banks Association of Japan, The Second Association of Regional Banks, National Association of Shinkin Banks, National Central Society of Credit Cooperatives, Trust Companies Association of Japan, National Association of Labour Banks, The Norinchukin Bank, Japan Finance Corporation, Japan Federation of Credit Guarantee Corporations, The Okinawa Development Finance Corporation, The Shoko Chukin Bank Ltd., Development Bank of Japan Inc., Japan Housing Finance Agency

IFRS Council of Japan Meeting **: at State Minister KIKAWADA's Request**

The IFRS Council of Japan,^{*1} for which the FSA serves as co-secretariat, held a meeting on December 8, 2021, to discuss issues, such as recent trends in the sustainability disclosure. At the start of the meeting, State Minister for Financial Services KIKAWADA Hitoshi called for cooperation in Japan's approach to the International Sustainability Standards Board (ISSB) established by the IFRS Foundation, which formulates International Financial Reporting Standards (IFRS).

1. Background

The IFRS Foundation began in 2020 to consider establishing the ISSB as the principal body to develop global disclosure standards for climate change and other sustainability-related matters and officially announced the establishment of the ISSB on November 3, 2021. In the announcement, it is stated that further discussion will continue with proposals for offices to finalise the ISSB's footprint in the Asia-Oceania region.

As the IFRS Foundation's work to develop sustainability disclosure standards are welcomed by the Group of Seven (G7) and Group of 20 (G20) major economies, the standards to be developed by the ISSB are considered highly likely to become international standards.

Amid these developments, Japan sent a letter^{*2} to Erkki Liikanen, the Chair of the IFRS Foundation Trustees on August 31, 2021, under the name of the IFRS Council of Japan, proposing to make financial contributions to the ISSB and use the existing IFRS Foundation Asia-Oceania Liaison Office in Tokyo develop sustainability disclosure standards.

As Japanese government to encourage more strongly to establish one of the ISSB's global footprints in the Asia-

Oceania region in Tokyo, Minister of State for Financial Services SUZUKI Shunichi sent a letter^{*3} to Erkki Liikanen, the Chair of the IFRS Foundation Trustees on November 26, 2021. In addition, the supplementary budget of fiscal year 2021, approved by the Diet on December 20, 2021, included an appropriation of approximately 110 million yen for the government's direct financial contribution to the IFRS Foundation.

2. Address by State Minister for Financial Services KIKAWADA

For the development of global sustainability disclosure standards, Japan's international activities for encouraging to establish one of the ISSB's global footprints in the Asia-Oceania region in Tokyo have become urgently necessary, as have combined public-private efforts to make necessary domestic preparations. State Minister KIKAWADA thus called further cooperation among major Japanese participant organizations in the IFRS Council of Japan to work



Photo: Participants in the council (face masks were removed only during the photo session)

^{*1}: A conference body established for the purpose of gathering and exchanging the opinions of Japanese market participants related to International Financial Reporting Standards (IFRS) and comprising nine organizations—the Japan Business Federation (Keidanren), the Japanese Institute of Certified Public Accountants (JICPA), Japan Exchange Group/Tokyo Exchange Inc. (JPX/TSE), the Securities Analysts Association of Japan (SAAJ), the Accounting Standards Board of Japan (ASBJ), the Financial Accounting Standards Federation (FASF), the Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry (METI) and the Ministry of Justice (MOJ). The FASF and the FSA serve as the secretariat for the council.

^{*2}: For "Letter to the Chair of the Board of Trustees of the IFRS Foundation regarding financial contribution to the International Sustainability Standards Board (ISSB)" released on September 6, 2021, see: <https://www.fsa.go.jp/en/news/2021/20210906/20210906.html>

^{*3}: For "Letter from the IFRS Council of Japan to the Chair of the Board of Trustees of the IFRS Foundation" released on December 27, 2021, see: <https://www.fsa.go.jp/en/news/2021/20211227/20211227.html>

We appreciate your cooperation in fighting money laundering and terrorist financing.

信用金庫とお取引をいただいているお客さまへ 「お客さまの情報」の定期的な確認について ご理解とご協力をお願いいたします

—マネー・ローンダリング及びテロ資金供与対策にご協力ください—

近年、国際社会においてマネー・ローンダリング及びテロ資金供与対策の重要性が高まっております。また、国内においても預金口座を悪用した特殊詐欺などの金融犯罪が発生しています。

各金融機関では、これらの犯罪行為を防止し、お客さまが安心・安全にお取引できるよう、犯罪収益移転防止法および、金融庁「マネー・ローンダリング及びテロ資金供与対策に関するガイドライン」に基づいて様々な対策を進めています。

この対策の一環として、信用金庫を含む各金融機関では、お客さまの現在の情報を定期的に確認する取組み(※)について、それぞれ所定の方法により順次行っております。

(※)既にお取引をいただいているお客さまに対し、お取引の内容や状況等に応じて、お客さまに関する情報やお取引の目的などを定期的に確認させていただく取組みです。

このようにお客さまお一人おひとりの情報を定期的に確認させていただくことは、犯罪組織やテロ組織が善良なお客さまに紛れて気づかれないうちに金融機関を利用したり、お客さまになりすまして預金口座を不正利用したりすることを防止し、金融機関をご利用いただく皆さま方の安全・安心にも繋がる取組みとして行っております。

お客さまにおかれましては、こうした取組みにご理解いただき、信用金庫からの「お客さまの情報」に関する定期的な確認の依頼に対して、ご協力くださいますようお願い申し上げます。

最近には色々な方法でお客さまの情報を取得しようとする詐欺の手口が発生していますので、もしも不審な点がある場合には、お取引のある信用金庫の本支店にご照会いただきますよう、よろしくお願い申し上げます。

Webinar on “Japan’s International Financial Center Initiatives” Hosted by the Consulate General of Japan in New York

TANAKA Takuma, Deputy Director,
OBANA Yumi, Section Chief, Strategy Development Division

The Japanese government is encouraging market entries by overseas asset managers to expand Japan's roles as an international financial center. FSA's Strategy Development Division, responsible for a government-wide policy package, known as “International Financial Center Initiatives,” is stepping up promotional activities overseas in cooperation with embassies and consulate offices abroad as well as related businesses organizations.

The following is a report on a webinar hosted by the Japanese Consulate General in New York on December 6, 2021, and participated in by two FSA officials: NAKAGAWA Saiko, Director for Asset Management Business and TANAKA Takuma, Deputy Director of the Strategy Development Division.

1. Background

As Japan expands its roles as an international financial center, this will contribute to:

- Creating jobs and industries in Japan;
- Reinforcing its economic power; and,
- Strengthening the Asian and global financial systems against risks such as pandemic and disasters through the geographical dispersion of multiple operational bases.

The attractiveness that Japan offers to the rest of the world includes:

- A huge real economy and stock market
- Household financial assets worth as much as 2,000 trillion yen; and,
- Stable public security and favorable living conditions.

From the above-mentioned perspectives, various policy reforms as part of the International Financial Center Initiatives are underway to create business-friendly environments for domestic and foreign asset managers. Specifically, the initiatives have encompassed:

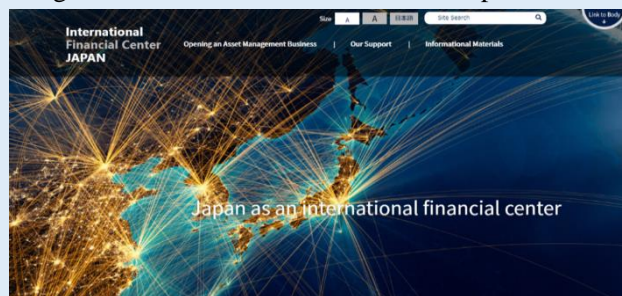
- Fundamental review of the taxation system for corporate, personal and inheritance tax purposes;
- Simplification of entry procedures for overseas asset

managers under the Financial Instruments and Exchange Act;

- Relaxation of requirements to obtain the visa status; and,
- Creation of the “Financial Market Entry Office” offering one-stop all-in-English administrative services.

The Strategy Development Division is promoting public relations activities to raise the awareness of the initiatives in order to pave the way for opening new operational bases in Japan. As a first step, the division set up a website dedicated to the initiatives in March 2021 (Image 1).

Image 1: International Financial Center Japan website



← Jump to the International Financial Center Japan website from here.

Visitors to the website can access a wide range of information about the initiatives, interviews with asset managers that have recently entered the Japanese market, and a list of providers of professional services needed to start new businesses and reside in Japan, such as lawyers, administrative scriveners, judicial scriveners, real estate companies and hospitals.

The division is also stepping up the dissemination of information by hosting webinars in English. Since last July, FSA officials spoke at 10 seminars, including the latest one, to give accounts for the initiatives to a total of more than 2,500 people. In addition, it holds many small-group roundtable sessions for potential new entrants to Japan.

* For the International Financial Center Japan, see: <https://www.fsa.go.jp/internationalfinancialcenter/en/>

2. Report on the Event

In cooperation with the FSA, the Consulate General of Japan in New York hosted the first webinar on International Financial Center in March 2021. Since then, the FSA has received a large number of requests from North American asset managers wishing to know about updates on the initiatives because of advances in them and a number of new entries by asset managers despite the COVID crisis.

Some 70 people participated in the event from not only the United States and Canada but also many other places, including Britain, Hong Kong and Singapore. As their backgrounds, asset managers roughly accounted for half of the participants, while more than 20% were from banks and securities companies.

To avoid one-way communication from the FSA, the event was arranged so as to become an interactive webinar. For example, it used a simple questionnaire survey via the Zoom app as well as a Q&A session from participants following the FSA's presentation.

The questionnaire survey was designed to recognize the awareness of advantages and challenges about opening businesses in Japan, finding that fundraising and investment opportunities were seen by many respondents as their possible reasons for entry into Japan. While financial regulations and the Japanese language were mentioned as barriers by many respondents, reference to taxation was surprisingly rare, contrary to what is widely believed in Japan. As an encouraging finding of the survey, 75% of the respondents answered yes to the question of whether they are considering entering into Japan.

The subsequent presentation by the FSA referred to the latest developments on taxation, visa policy, regulatory requirements for new easy entry procedures for overseas asset managers effectuated in November last year and

actual cases of registration in English at the Financial Market Entry Office (Image 2).

Following the presentation, many questions were raised by participants, such as

- The FSA's seriousness about the International Financial Center Initiatives
- Taxation on investment in Japan from abroad
- Border control measures in the face of new COVID variants
- Challenges arising from the recruitment of bilingual compliance officers

3. Feedback on the Event

Following the event, another survey was conducted, asking questions such as whether the participants were satisfied with the webinar, how much they could understand issues discussed and whether they were willing to attend similar webinars in the future. Overall, the responses were positive: More than 90% of them said they were "very satisfied" or "satisfied" and "understood very well" or "understood" issues taken up. Among reasons for positive responses, the webinar "covered a gamut of practical topics," "proved understandable fully and in detail" and "deserved appreciation for an explanation of the newly created easy entry procedures."

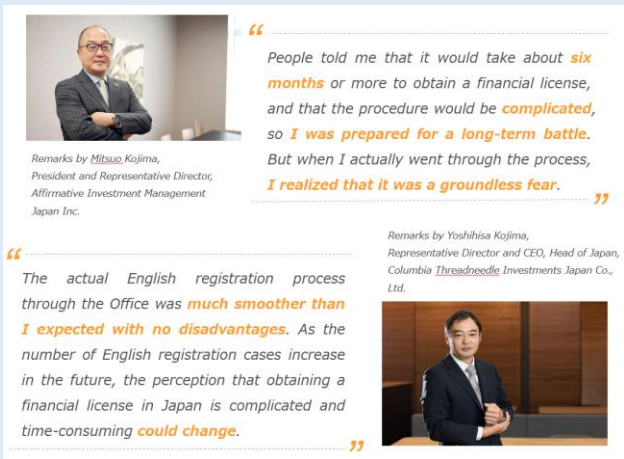
There also were many favorable feedback comments such as "I want to know more about incentives and support for market entry," "It is important to disseminate information overseas on the initiatives on a regular basis" and "I want to listen to more seminars covering a wide range of topics like this one."

4. Conclusion

We will seek to establish Japan's functions as an international financial center by ceaselessly continuing improvement efforts, based on the feedback from public- and private-sector parties concerned at home and abroad. We will also seek to upgrade efforts for information dissemination.

In closing, we thank officials at the Japanese Consulate General in New York for their efforts to prepare and manage the event as well as government and financial industry officials at home and abroad for their cooperation in publicizing the event.

Image 2: Examples of registration in English



Implementation of the Finalized Basel III in Japan

HIRATA Shuntaro, Section Chief, Prudential Standards Office, Risk Analysis Division,
Strategy Development and Management Bureau

* This article was prepared with cooperation from the Deputy Directors of the Prudential Standards Office (UEHARA Hiroto, KAMBARA Takayuki, KOZAWA Yoshiyuki, SHIMURA Noriko, SUGITANI Taichi, SONODA Akira, TATSUMI Tomohito, TOMINAGA Yoshitaro, NAKAMURA Daisuke, NISHIDA Shohei, and YOSHIZAWA Koji).

Introduction

To prepare for the implementation of the finalized Basel III,^{*1} the FSA conducted a series of public comment procedures regarding the proposed partial revision of the notice concerning the bank capital regulation, among other matters, by the end of 2021. This article provides its background, key points and implementation schedule of the proposed revision.

Background to the Revision

Following the global financial crisis, revisions on the capital adequacy requirements of internationally active banks were discussed internationally. and in December 2017, a final package of regulatory reforms (the finalized Basel III) was agreed.

The finalized Basel III intends to maintain the financial intermediary functions that support sustainable economic growth and to ensure capital treatments commensurate with risks. In order to reduce excessive variability in measuring risk-weighted assets (RWAs), the finalized Basel III incorporates such measures as the introduction of an output floor and the revision on the risk measurement methodologies (credit risk, CVA^{*2} risk, market risk, and operational risk).

To implement the finalized Basel III, the FSA conducted a public comment procedure^{*3} regarding the proposed revision of the relevant notices that reflect the contents of the agreement.

Key points of the proposed revision

(i) Output Floor

The finalized package of Basel III has introduced an output floor. Under this new scheme, the RWAs of financial institutions using internal models must be

calculated as the higher of (i) the RWAs generated by internal models and (ii) 72.5% of the RWAs calculated using the standardized approaches. It should be noted that the multiplier that is applied to banks adopting the current internal ratings-based approach has a transitional arrangement, i.e. starting from 50% to be 72.5% over a five-year period (Figure 1).

(ii) Credit risk

While overall structure of the current framework, being comprised of the standardized approach (SA) and the internal ratings-based approach (IRB), remains unchanged, each of the two approaches will be partially revised.

The main points of the revision of the SA are:

(1) Implementation of due diligence analysis - with respect to the evaluation of the RW assigned to corporates based on external ratings, it is required that the RW be adjusted if the due diligence analysis reflects higher risk characteristics than that implied by the external rating bucket of the exposure. ; and

(2) Changes in the risk weight (RW) levels and asset classes. - the following changes in the level of risk weights will be made, i.e., (i) raising RW to equity exposures^{*4} and (ii) lowering of the RW of unrated exposures to corporate small and medium-sized entities (SMEs). In addition, the revision of asset classes will be made, including the creation of specialized lending exposure as subcategory of the corporate exposure class and the real estate exposure class consisting of five subclasses.

(Figure 1) Transitional arrangement for the output floor

	End of March 2023	End of March 2024	End of March 2025	End of March 2026	End of March 2027	End of March 2028
Banks adopting the current internal ratings-based approach	50%	55%	60%	65%	70%	72.5%

^{*1} The public comment procedures regarding the proposed revision of the relevant notice were performed during the following periods:

- Operational risk: From March 31 to April 30, 2021
- Credit risk, CVA risk, and market risk: From September 28 to October 29, 2021
- Leverage ratio regulation: From October 29 to November 29, 2021

For detailed information on each of the procedures (available in Japanese), access the following URLs:

Operational risk: <https://www.fsa.go.jp/news/r2/ginkou/20210331-3.html>

Credit risk, CVA risk, and market risk: <https://www.fsa.go.jp/news/r3/ginkou/20210928-2.html>

Leverage ratio regulation: <https://www.fsa.go.jp/news/r3/ginkou/20211029-2.html>

^{*2} Credit valuation adjustment

^{*3} The public comment procedure performed in September 2021 also covered the proposed partial revision of a notice related to eligible credit assessment institutions (ECAIs).

Among the measures to be implemented with respect to the IRB are removing the IRB approach for equity exposures, ensuring the application of the IRB approach to an each asset class in a reliable manner, and limiting the scope of application of the advanced internal ratings-based approach.

(iii) CVA risk

The proposed revised CVA risk framework consists of SA-CVA and BA-CVA approaches in order to reflect the scale and characteristics of financial institutions' exposures to derivative transactions. The scope of instruments that can be eligible hedges will expand, and the framework aims to improve consistency with accounting CVA and to enhance risk sensitivity. Consequently, the current Advanced Approach and the current Standardized Approach will be abolished. In addition, financial institutions whose derivatives exposures are immaterial may opt not to calculate its CVA capital requirements using the SA-CVA or BA-CVA and may instead choose an alternative treatment.

(iv) Market risk

The new approaches for market risk capital requirements will include revised existing approaches.

The existing standardized approach will be designated as a simplified standardized approach under the proposed revision.

The new standardized approach will comprise the sensitivities-based method, the default risk capital requirement, and the residual risk add-on.

Under the internal models approach, the existing measurement method will be replaced with a method comprising the capital requirements based on internal expected shortfall models, stress scenario capital requirements, and default risk capital requirements.

(v) Operational risk

The standardized approach for operational risk will replace all existing approaches. Under the new standardized approach, the operational risk capital requirements will be calculated by multiplying the Business Indicator Component (BIC) and the Internal Loss Multiplier (ILM), as the BIC will be calculated by multiplying the Business Indicator (BI) by a set of marginal coefficients.

(vi) Leverage ratio

To maintain the proportional relationship between the risk-based capital and leverage ratio requirements, global systemically-important banks (G-SIBs) will be subject to a leverage ratio buffer requirement. In addition, the definition of the leverage ratio exposure measure will be revised.

Implementation timeline

The aforementioned consultative document published in September 2021 stated that the proposed revision planned to be applied to internationally active financial institutions and domestic financial institutions that use internal models*⁵ at the end of March 2023*⁶

Application to domestic financial institutions that do not use internal models can be postponed for up to two years, with the deadline for the start of application set at the end of March 2025.*⁷

Future activity

The FSA will continue holding sufficient dialogue with relevant parties to prepare for the finalized Basel III implementation.

*⁴ Under the proposed revision, the RW of equity exposures will be raised from the current 100%. As a result of gradually raising the risk weight level over a five-year period in accordance with the international agreement and moving back the start of implementation by two years in the case of domestic financial institutions that do not use internal models as mentioned above, the raising of the risk weight will actually start at the end of March 2026 in the case of most regional financial institutions. For example, the RW of 250% will be applied to listed equity exposures starting at the end of March 2030 (Figure 2).

(Figure 2) Transitional arrangements for the RW for equity exposures

	End of March 2023	End of March 2024	End of March 2025	End of March 2026	End of March 2027	End of March 2028	End of March 2029	End of March 2030
Internationally active financial institutions, etc.	100%	130%	160%	190%	220%	250%	250%	250%
Other domestic financial institutions	100%	100%	100%	130%	160%	190%	220%	250%

*⁵ "Internationally active financial institutions" refers to financial institutions that have overseas branches. The "internal model" refers to the internal ratings-based approach (credit risk) or the internal model approach (market risk), etc. used for risk measurement.

*⁶ The implementation date for internationally active financial institutions is currently under review, considering implementation status in other major jurisdictions.

*⁷ Under the public comment procedure launched in September 2021, the FSA presented a proposal to postpone application to domestic financial institutions that do not use internal models by one year, thereby making it possible to start application at the end of March 2024. Later, a measure to ensure lending capacity of banks to contribute to funding support for companies through flexible application of capital regulations was included in the Economic Measures to Overcome New Coronavirus Infections and to Carve Out a New Era. As part of that measure, the timing of application to domestic financial institutions that do not use internal models is planned to be postponed for an additional one year, till the end of March 2025, in order to ensure full-fledged equity support for the purpose of the fight against COVID-19 and regional revitalization.

Revised Report of “Study Group on Lending and Business Turnaround Practices to Support Corporate Borrowers’ Business Enhancement” (provisional English title)

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1. Introduction

The FSA has engaged in various policies to make it easier for financial institutions to respond to business managers' diverse visions of business growth and meet their needs by exercising financial functions from the viewpoint of contributing to the sustainable growth of companies and the economy. Recently, it has become an urgent issue to develop a diverse environment for getting credit that does not depend on real estate collateral and personal guarantee, particularly in order to promote small and medium-size enterprises' (SMEs') business turnaround and business succession with an eye toward a post-COVID-19 world and in order to secure fund supply to venture companies.

Study Group on Lending and Business Turnaround Practices to Support Corporate Borrowers’ Business Enhancement, which is comprised of academicians and practitioners, has held discussions on the possibility of introducing a collateral system, “Enterprise Charge for Business Enhancement (provisional title),” which enables a creditor to establish security interests over all assets, including goodwill and other intangible assets, as a new option for developing diverse lending practices. A report of this Study Group was published in December 2020.*

Thereafter, based on the results of exchanges of opinions with practitioners and other stakeholders as well as the discussion of the study group held in October 2021, the revised report of the Study Group was published in November. This article describes the main points of the revised report

2. Merits of the Enterprise Charge for Business Enhancement and Points to Note

The revised report describes the merits of using the Enterprise Charge for Business Enhancement and practical points to note, and requests heard from business operators, venture capital companies, and financial institutions.

The first merit is that using the Enterprise Charge for Business Enhancement makes it easier for companies with few tangible assets and companies in the process of turnaround to borrow necessary funds based on the future business potential regardless of their current financial conditions.

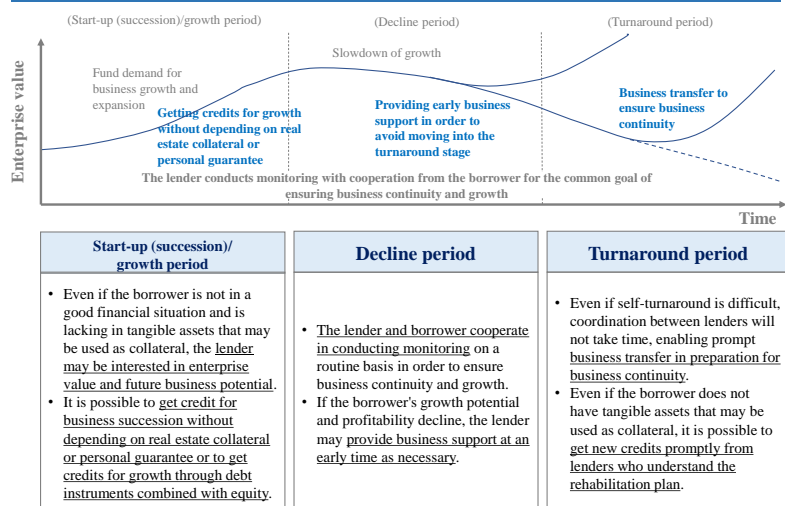
The second merit, which was cited mainly by venture capital companies, is that loans using the Enterprise Charge for Business Enhancement helps to manage equity dilution compared with attaining funds through capital investment.

The third merit is that the Enterprise Charge for Business Enhancement makes it possible to raise funds without overly depending on guarantee by managers because it may act as a new type of discipline on managers. The fourth merit is that using the Enterprise Charge for Business Enhancement clarifies which financial institution is the main bank, thereby facilitating more prompt business improvement and turnaround support.

Regarding the points to note, one of the points is that given the underlying premise of “providing appropriate support through the monitoring of businesses” when utilizing this new collateral system, business operators and financial institutions should adequately share the understanding of the future business potential and business plans, taking into account factors such as business operators' management strategies, business models, and the characteristics of industries.

Another point to note is that it may be inappropriate to make it universally mandatory for financial institutions to utilize this collateral scheme because using the Enterprise Charge for Business Enhancement may not be suitable in some cases depending on business operators' management strategies and financial institutions' business models.

Toward realizing a collateral scheme to diversify the means of getting credits by SMEs, etc. (1)



* See ACCESS FSA No. 210 (<https://www.fsa.go.jp/en/newsletter/accessfsa2021/210.pdf>).

3. Images of practical usage

The revised report provides specific images of how the new scheme may be utilized in each of the "growth," "succession," and "turnaround" stages based on assumed example cases collected from practitioners.

For example, regarding usage in the growth stage, an assumed example case of use by the company adopting the SaaS (software as a service) business model is described. Companies adopting the SaaS model are expected to continue generating stable cash flow into the future even if they are currently recording losses due to personnel and advertising costs provided that their customer base is expected to expand and the cancellation rate is expected to be low. In this case, using tools that make it possible to appropriately take into consideration future business potential instead of depending only on financial information increases possible options for raising growth funds.

There are also cases in which the use of the Enterprise Charge for Business Enhancement makes it possible to provide loans for business succession without requiring a successor's personal guarantee so that the closure of a valuable business due to the absence of a willing successor can be avoided, or in which the use of the Enterprise Charge for Business Enhancement enables one or a few financial institutions that have found the business potential of a company to promptly provide additional loans.

In the discussion of the Study Group, there were voices that introduction of such assumed example cases leads to a better understanding of specifically how the new scheme may be utilized, and that such assumed example cases should be shared industry-wide so that an understanding of the industry as a whole would deepen.

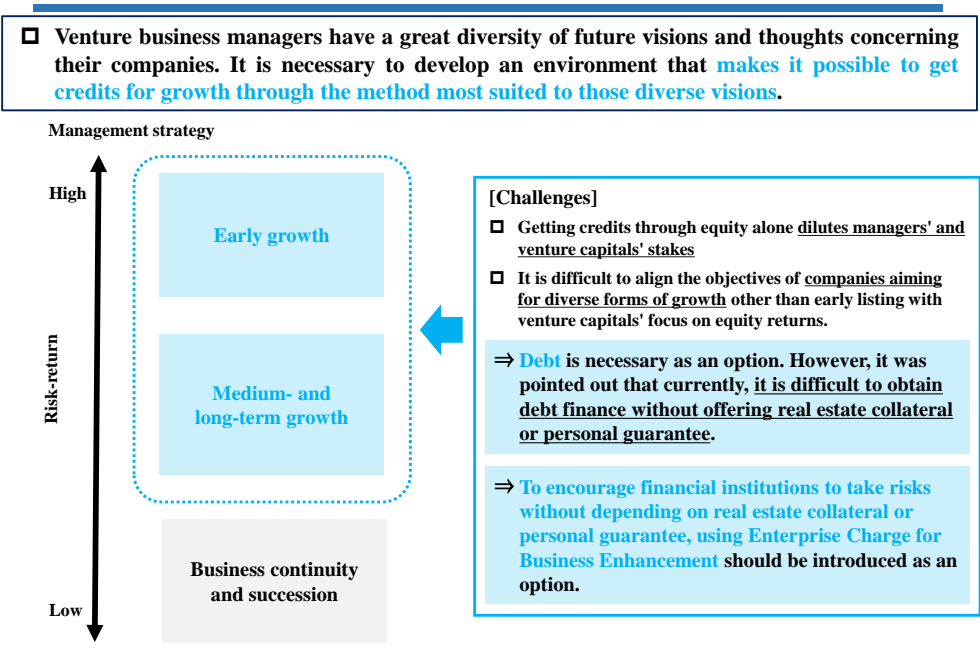
4. Future study

The FSA will continue to discuss on the specific design of the new collateral system, Enterprise Charge for Business Enhancement, while continuing to listen to opinions from practitioners. The revised report summarizes the viewpoints and opinions collected with respect to each point of discussion regarding the design of collateral scheme that would contribute to business continuity and growth.

Regarding such a collateral scheme, the "Follow-up on the Growth Strategy," which was authorized by the cabinet in June 2021, stated as follows: "In order to develop an environment that enables even venture companies and other business operators that do not possess tangible assets such as real estate of getting credits without depending on managers' guarantee, and financial institutions to devote efforts to supporting companies' management improvements and supporting their business continuity and development, the government will discuss on a new collateral system that enables to establish security interests over all assets, including intangible assets, such as goodwill and intellectual property, in reference to foreign systems and practices while paying attention to how to ensure convenience and the protection of other creditors." In April 2021, discussion started at the Collateral Law Subcommittee of the Legislative Council, which is responsible for discussing the revision of the laws related to collateral, and progress is being made step by step toward specifics discussions. Last month, discussion was held on a collateral system that enables to establish security interests over all assets.

The FSA will continue to make active contributions to discussion on how to realize a new collateral scheme, which is an important element for realizing diverse lending practices that contribute to the sustainable growth of companies and the economy.

Toward realizing a collateral scheme that diversifies the means of getting credits by SMEs, etc. (2)



Message to the Market

—Petition for Issuance of a Court Injunction Order against Acts of Violation of the Financial Instruments and Exchange Act—

The Securities and Exchange Surveillance Commission ("SESC") posts explanations on recommendations that it has issued on its website as an article titled "Message to the Market."

The "Message to the Market" posted on December 24, 2021, is summarized below.

<https://www.fsa.go.jp/sesc/message/20211224-1.html> (available in Japanese)



Petition for the issuance of a prohibition and suspension order by the court against acts in violation of the Financial Instruments and Exchange Act (FIEA) committed by SKY PREMIUM INTERNATIONAL PTE. LTD. and its officer

On September 17, 2021, the SESC filed a petition with the Tokyo District Court to issue an order against SKY PREMIUM INTERNATIONAL PTE LTD.(hereinafter referred to as the "Company") and Mizushima Shinobu, its Chief Sales Officer (CSO), who is responsible for managing sales activities in Japan (hereinafter, the Company and Mizushima Shinobu are collectively referred to as the "Company, etc.") to prohibit and suspend acts in violation of the FIEA (offering intermediary services for the conclusion of discretionary investment contracts on a regular basis without registration) .

[Outline and characteristics of the case]

Without obtaining registration as prescribed in Article 29 of the FIEA, the Company, etc. held investment seminars or otherwise had its approximately 500 agents solicit general investors in Japan to acquire Lion Premium (a foreign investment instrument falling under the category of investment management based on a discretionary investment contract), which is available only for its members.

After successful solicitations, the Company, etc. provided advice and instructions on how to fill in an application form, thereby offering intermediary services for the conclusion of discretionary investment contracts for Lion Premium between customers and Think Smart Trading (the company that allegedly makes investment decisions and gives instructions on orders for Lion Premium; whether the company has a juridical personality, whether the company really exists, and the actual status of the company are unknown).

[Outline of Lion Premium]

Lion Premium is described as an instrument whereby foreign exchange margin trading (FX trading) is conducted

by GQ CAPITAL INC. (described as a foreign exchange margin trader established in Belize in 2015; hereinafter referred to as "GQ Inc.") based on investment instructions issued by Think Smart Trading. It has been explained that funds invested by customers are separately managed in an account opened under the name of GQ Inc. at the Czechoslovakia Trade Bank (hereinafter referred to as the "CSOB").

However, according to the results of an investigation conducted by the SESC with the cooperation of multiple foreign authorities, with regard to the management of investment funds entrusted by customers, the following facts that are inconsistent with the explanation given to customers were revealed: there is no account under the name of GQ Inc. at the CSOB, no funds have recently been transferred to an account of GQ Inc. from fund transfer agents, and it cannot be confirmed that GQ Inc. is conducting FX trading.

The Company, etc. (including the Company's predecessor, NSC PLANNING K.K.) have offered intermediary services for the conclusion of discretionary investment contracts for long periods, including solicitation for acquisition of SAMURAI SYSTEM and Lion, the predecessors of Lion Premium).

According to explanations provided by the Company, etc., they have had approximately 22,000 general investors (members) conclude contracts for Lion Premium (including its predecessors) (the number of members who hold investment balances at present is unknown), and the total amount of investments so far made by general investors based on these contracts is approximately 120 billion yen (the Company, etc. claim that they have so far refunded approximately 50 billion yen to investors, but the outstanding amount of assets in custody is unknown).

Engaging in acts like the above ones on a regular basis requires registration under the FIEA (registration as investment advisory and agency business). However, the Company, etc. engaged in those acts without registration.

On December 8, 2021, the Tokyo District Court issued an order of prohibition and suspension against the Company, etc. for engaging in those acts of violation.

The SESC, in cooperation with relevant organizations, will continue to firmly deal with unregistered business operators. Investors should take care not to engage in transactions with unregistered business operators.

[To customers of Sky Premium (Lion Premium)]

- The Tokyo District Court recognized that, as stated by the SESC in its petition, the Company, etc. had engaged in a financial instrument business (intermediation) without registration with regard to Lion Premium and issued an order of prohibition and suspension for their engagement in the business (December 8, 2021). Engaging in financial instrument business without registration is illegal.
- According to the results of an investigation conducted by the SESC with the cooperation of multiple foreign authorities, with regard to investment funds entrusted by customers, the following facts that are inconsistent with the explanation given to customers were revealed: there is no account under the name of GQ Inc. at the CSOB, and no funds have recently been transferred to an account of GQ Inc. from fund transfer agents, and it cannot be confirmed that GQ Inc. is conducting FX trading.
- The Company has not obtained registration for engaging in financial instruments business. GQ CAPITAL INC. (also called "GQFX") has also not been registered as a company eligible to engage in financial instruments business.
- The Company, etc. were also introducing installment-type overseas investment instruments offered by RL360 Insurance Company Limited, Premier Trust, Inc., and Cornhill Management, Ltd., in addition to Lion Premium, on its website. However, in any case, the Company, etc. have not been registered for engaging in financial instrument business.
- Also refer to [To general investors].
- If you need consultation about the case of Sky Premium (Lion Premium), please refer to contact points for consultation listed below.

Contact points for consultation

- Consumer Affairs Agency Consumer Hotline: <https://www.caa.go.jp/policies/application/inquiry/> (Available in Japanese)
The Consumer Hotline (phone: 188) provides information on the nearest contact point for consultation.
- Japan Federation of Bar Associations' contact point for consultation about legal affairs: https://www.nichibenren.or.jp/legal_advice.html
(Available in Japanese)
Information on the overview of consultations about legal affairs and on various contact points is provided.
- Contacts points of legal affairs consultation centers operated by bar associations across the nation:
https://www.nichibenren.or.jp/legal_advice/search/center.html (Available in Japanese)
- Individual contacts points for consultation operated by lawyers, etc.
- Dedicated police telephone service for consultation (# 9110) or the nearest police station

[To general investors]

- There have been many problematic cases where unregistered business operators failed to conduct trading as stipulated in agreed contracts. Please note that unregistered business operators are outside the FSA's supervisory jurisdiction and that the FSA is not authorized to issue an order or disposition against them based on regulations regarding investor protection.
- Generally speaking, unregistered business operators who do not conduct trading, investment and other activities as stipulated in agreed contracts may make refunds to customers upon their requests by allocating funds entrusted by other customers. However, please note that even if you have so far been able to receive refunds with regard to a certain instrument, that does not necessarily prove the credibility of the instrument.
- It is illegal to engage in financial instruments business in Japan without obtaining registration. As for the lists of business registered operators, etc., access the following sections of the FSA's website:
 - List of licensed (registered) financial institutions:
<https://www.fsa.go.jp/en/regulated/licensed/index.html>
 - List of business operators engaging in financial instruments business without registration:
<https://www.fsa.go.jp/ordinary/chuui/mutouroku.html>
(Available in Japanese)
 - Points of attention regarding foreign exchange margin trading (FX trading):
<https://www.fsa.go.jp/ordinary/iwagai/index.html>
(Available in Japanese)
 - Points of attention regarding solicitation activity by unregistered business operators located abroad:
<https://www.fsa.go.jp/ordinary/kanyu/20090731.html>
(Available in Japanese)

JFSA's Major Activities in September (December 1 to December 30, 2021)



- [Letter to the Chair of the Board of Trustees of the IFRS Foundation regarding the International Sustainability Standards Board \(ISSB\) \(December 27, 2021\)](#)
- [JFSA initiatives in AML/CFT/CPF in response to FATF Fourth Round Mutual Evaluation Report \(MER\) \(December 21, 2021\)](#)
- [Stewardship Code : 320 institutional investors have signed up to the Principles for Responsible Institutional Investors as of November 30, 2021 \(December 20, 2021\)](#)
- [Overview of financial results of major insurance companies as of September 30, 2021 \(December 17, 2021\)](#)
- [Financial Industry-Wide Cybersecurity Exercise \(Delta Wall VI\) \(December 17, 2021\)](#)
- [Administrative Actions against Mizuho Bank, Ltd. and Mizuho Financial Group, Inc. \(December 15, 2021\)](#)
- [The 15th NAIC-FSA Insurance Dialogue \(December 10, 2021\)](#)
- [Overview of the Discussion Summary : the "Advisory Council on the System of Accounting and Auditing \(2021\)" \(December 8, 2021\)](#)
- [Overview of the Japanese regional banks' financial results for six months ended September 30, 2021 \(December 3, 2021\)](#)
- [Overview of major banks' financial results as of September 30, 2021 \(December 3, 2021\)](#)

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



We are promoting information
dissemination using Twitter!

- The FSA has established the Financial Policies Monitor system in order to collect frank opinions, suggestions and complaints regarding the financial system and the FSA from financial institutions and their employees, academicians, think tank researchers, officers and employees at industrial corporations and other people who may have opinions on financial policies. For detailed information, refer to the "Financial Policies Monitor" section of the FSA website at: <https://www.fsa.go.jp/en/monitor/index.html>



Editorial Postscript

At the beginning of the new year, we carry an interview with State Minister KIKAWADA.

State Minister KIKAWADA has been involved with maritime policy for many years. While interviewing him, we were touched by the depth and breadth of his thoughts and attachments to Japan that are as vast as the oceans.

Starting with the current edition, ACCESS FSA has shifted to a two-column layout. We hope that the new layout improves readability.



SAITO Takafumi, Director,
Public Relations Office, FSA