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Financial Services Agency

Address by Minister of State for Financial Services SUZUKI Shunichi at the 97th annual meeting of the Trust Companies Association of Japan

Minister of State for Financial Services SUZUKI Shunichi delivered the following address at the 97th annual meeting of the Trust Companies Association of Japan*1 (hereinafter called the trust association), a general incorporated association, held on April 13, 2022, in combination with an online delivery platform.

The meeting can be seen on the trust association's website*2.

Photo: Minister SUZUKI addressing the annual meeting of the trust industry

○ Preface

I am Minister of State for Financial Services SUZUKI Shunichi. Thank you very much for inviting me to the trust association's 97th annual meeting.

This year marks the 100th anniversary since the Trust Act and the Trust Business Act were enacted in 1922. This meeting started in the following year of 1923, and I would like to express my heartfelt congratulations on the successful convention of this time-honored assembly. I would also like to take this opportunity to express the expectations I place on you in charge of the trust business.

○ On sustainable finance

The importance of sustainable finance, which contributes to the settlement of social problems, is growing at a time when it is urgently necessary to address problems such as climate change and economic disparities.

Now that huge funds are needed to finance capital investment and technological development for such purposes as achieving a decarbonized society, it is important to create environments that duly appreciate Japanese companies' efforts and technologies for the establishment of a sustainable society and make use of both domestic and overseas investments funds.

The FSA will carry out a variety of programs, positioning (i) enhancement of corporate disclosure, (ii) exertion of market functions and (iii) exertion of financial institutions' functions as three pillars, to support ESG-related corporate efforts. It will simultaneously seek to establish an attractive market as an international financial center that will link both domestic and overseas funds to growth sectors.

Decarbonization and other challenges related to sustainability will lead to the sustainable growth of each company through conversion to new industries and social structures.

I think it is important for trust banks, which manage assets on behalf of pension funds and other institutional investors, to deepen dialogues on management strategies, including decarbonization, with the companies they invest in so as to encourage them to raise their corporate value on a medium- and long-term basis.

○ Response to digitization

Next, I will talk about how to cope with digitization.

Environments for financial settlements have greatly changed as a result of advances in financial digitization

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*1 The trust association is an industry organization grouping financial institutes offering trust services (trust banks, city banks, regional banks and so forth) and trust companies. As of March 2022, it consists of 82 members. For the purpose of developing the trust system and enhancing public interests, the association engages in various activities, such as public relations for the social functions of trust and so forth, trust-related research and studies, the collection of reference materials and proposals to government offices and others concerned.

*2 To see the annual meeting of the trust industry, visit its website at https://www.shintaku-kyokai.or.jp/news/presidential_conference/convention/entry-192433.html (Available in Japanese) and increased international demands for measures to address monetary laundering and other issues.

Under the circumstances, we submitted "a bill to partially amend the Payment Services Act, etc." to the Diet on March 4.

The bill envisions creating regulations on trading in so-called stablecoins and adopting measures, with trust banks and trust companies in mind, to issue stablecoins based on the mechanism of trust beneficiary rights.

While the Diet will deliberate on the bill, I expect you to pay heed to such institutional measures and facilitate programs that take into account a balance between financial innovation and the protection of users.

○ Expectations for trust industry in super-aging society

Now, I would like to discuss expectations for the trust industry in a super-aging society.

Japan's falling birthrate and aging population have been accelerating in recent years. In October 2020, one out of every 3.5 people or so in Japan became 65 or older. Japan has already become a super-aged society as its population aging rate now stands at 28.8%.

In the meantime, 'financial assets accumulated by households exceeded 2,000 trillion yen at the end of last year, roughly two-thirds of which are reportedly owned by households of people aged 60 and over. In other words, it is calculated that households of people aged 60 and over have assets worth as much as 1,300 trillion yen.

While the population aging rate is expected to keep rising, elderly people share such worries as

- How to passed on accumulated assets to the next generation, and
- How to manage assets amid concerns that aging is accompanied by increases in physical burden and falls in cognitive capacity.

Worries of such a kind are expected to become familiar to more people in Japan.

To settle challenges in a super-aging society, the functions of trust to transfer and manage assets need to be exercised more effectively.

The trust industry has provided a variety of trust services based on customer needs, such as testamentary and other inheritance-related trusts and trusts for education. I hope that the industry will continue to develop and promote more trust products and services designed to address social and economic challenges.

○ In closing

Throughout the 100 years since the enactment of the Trust Act and the Trust Business Act, the trust industry has provided the functions of trust to meet demands in the changing times and has contributed to the settlement of various social and economic problems.

Economic environments and social structures surrounding Japan have been rapidly changing in recent years. I think therefore that the trust industry is being required to change the roles it plays. I expect the trust industry to meet the expectations placed on it and achieve further growth.

Last but not least, I would like to close my speech by wishing for the further development of the trust industry and for the health and prosperity of all participants in this meeting.

Photo: During the trust association's annual meeting

Publication of "Toward Enhancement of Banks' Disclosure of Allowance for Loan Losses"

MATSUMOTO Ai, Deputy Director
SHIRAI Shohei, Deputy Director
Regional Financial Planning Office, Banking Business Division II, Supervision Bureau

1. Preface

Financial institutions book allowance for loan losses in their balance sheets to prepare for future losses on loans in the event of defaults or non-payments and disclose how to book them as a note in their accounting statements. They used to book allowance for loan losses in a uniformed manner based on the FSA's Inspection Manual and tend to disclose them in a uniformed manner in line with the way of making allowances.

In December 2019, however, the FSA abolished the Inspection Manual and released a discussion paper on JFSA's Supervisory Approaches to Lending Business (tentative translation). Financial institutions have since been reviewing their ways of booking allowance for loan losses in line with their management strategies, lending policies and so forth while examining how to utilize a variety of information (Figure 1). In addition, the means of making allowances are diversifying as the effects of COVID-19 infections are taken into account.

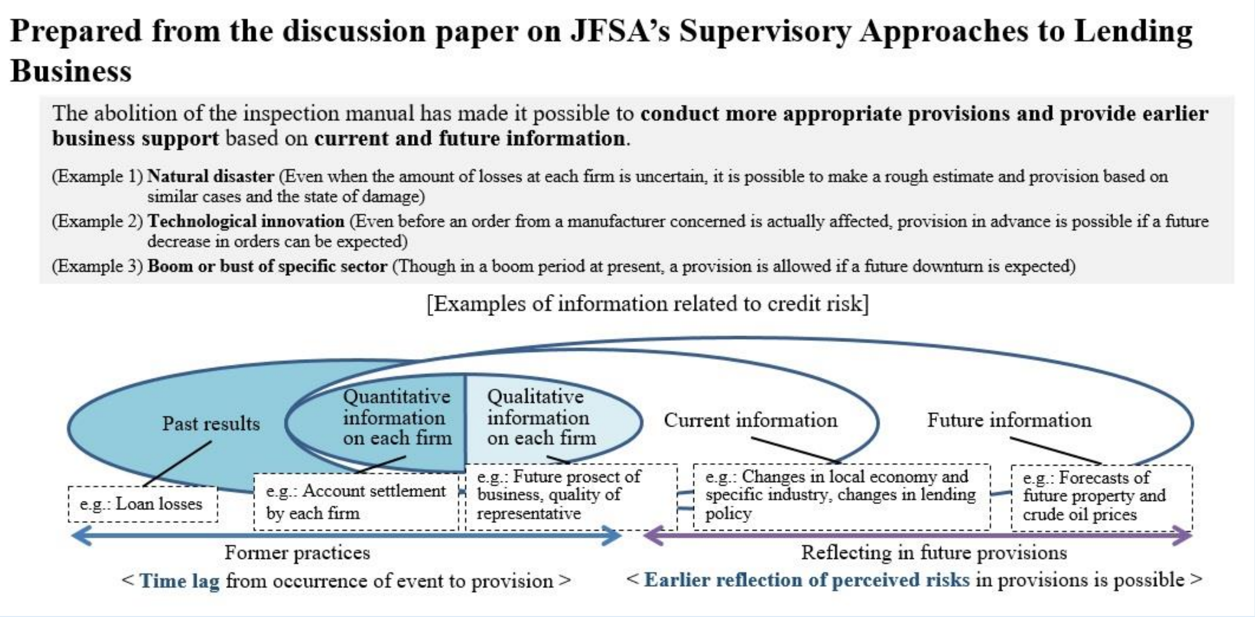
Along with the diversified means of making allowances, their disclosure by financial institutions, which enables investors and other users of financial statements to understand the thoughts behind the way of booking allowance for loan losses and compare financial statements, has become more important. While there are financial institutions that try to give more detailed accounts about their ways of calculating provisions to investors and others through the disclosure of those ways, there also are calls for deliberations on desirable levels of information disclosure, namely how far the disclosure should be extended and upgraded.

Based on such calls and other factors, the FSA held a study session on the enhancement of banks' disclosure of allowance for loan losses on February 21, 2022, where invited analysts and representatives from the Japanese Institute of Certified Public Accountants and the Japanese Bankers Association discussed how banks' disclosure of allowance for loan losses should be. The FSA compiled opinions and actual discussed in the session into a report, titled "Toward the Enhancement of Banks' Disclosure of Allowance for Loan Losses (tentative translation)," and released it on March 1.* Principal contents in the report are introduced in this paper.

2. Points on banks' allowance for loan losses from the investors

The released report refers to points drawing attention from investors and others about banks' allowance for loan losses , as mentioned by analysts. Whereas differences in the way

(Figure 1)



* For the "Enhancement of Banks' Disclosure of Allowance for Loan Losses " released on March 1, 2022, visit https://www.fsa.go.jp/news/r3/singi/20220301.html (Available in Japanese)

of calculating provisions are widening between banks, there are expectations that the following should be readable in disclosed information to make it possible to conduct comparative analyses between banks, and time-series analyses of individual banks and other analyses in detail with regard to banks' allowance for loan losses:

(1) Differences in the background concept of methods of calculating allowance for loan losses between banks
(2) Changes, if any, in a method of calculating allowance for loan losses
(3) Outlook for future credit risk

Taking into account these points of disclosure expected by investors and others, participants in the study session discussed characteristic cases of disclosure under the current practices and conceivable factors of disclosure regarding a calculation method of allowance for loan losses based on future information and expectations (Figure 2).

3. Characteristic cases of disclosure under the current practice

As mentioned below, characteristic cases of disclosure, taken up at the study session, are referred to in the released report with regard to "loan-loss provisioning standards" and "material accounting estimates," designated as "notes" in financial statements.

(1) Loan-loss provisioning standards

(i) Cases of booking grouped loans in calculating loan-loss ratio or bankruptcy probability
(ii) Cases of booking method of calculating amount deemed necessary regarding loans to borrowers considered in danger of bankruptcy
(iii) Cases of mentioning a set period (other than one year or three years) in which losses are expected
(iv) Cases of mentioning specific means or others of necessary adjustments

(2) Material accounting estimates

(i) Case of mentioning reasons for designating the importance of allowance for loan losses as subject to notice
(ii) Case of mentioning the addition of allowance for loan losses due to the impact of COVID-19 infections as well as the method and amount of addition
(iii) Case of mentioning reasons for the use of past loan-loss ratios, etc. or major assumptions in specific terms

(Figure 2)

Brief summary of "Enhancement of Banks' Disclosure of Allowance for Loan Losses"

*** Below, principal views voiced at the study session are enclosed with dotted lines.**

Characteristic cases of loan-loss provisioning standards

(i) Grouping in calculating loan-loss ratio or bankruptcy probability

- Case of further segmentation of debtor classification
- Case of classification by product or loan area

It may be useful to disclose the balance of credit, an expected loss period and an expected loss rate for each group and thoughts behind them in accordance with a loan portfolio in understanding each bank's foundation of calculating allowance for loan losses.

(ii) Means of calculating amounts deemed necessary regarding loans to borrowers considered in danger of failing

- Case of applying cash flow estimation method
- Case of applying cash flow deduction method
- Loan-loss ratio method or bankruptcy probability method

(iii) Set period of time in which losses are expected

- Case using average time left to maturity

The disclosure of average time left to maturity in the case of using one year and three years, among others, may be useful from the standpoint of comparability.

Characteristic cases of material accounting estimates

(i) Reasons for designating the importance of loan-loss reserves as subject to notice

- Case of mentioning reasons for designating the importance of loan-loss reserves as subject to notice

(ii) Effects of COVID-19 on allowance for loan losses

- Case of mentioning the addition of loan-loss reserves due to the impact of COVID-19 infections as well as the method and amount of addition

(iii) Major assumptions

- Case of mentioning reasons for the use of past loan-loss ratios
- Case of mentioning specific assumptions (other than debtor classification)

To understand each bank's recognition of future risks stemming from the impact of COVID-19, it may be useful to disclose sectors and amount highly likely to be affected regarding allowance for loan losses, and amounts regarding added provisions.

Conceivable factors of disclosure regarding a calculation method of allowance for loan losses based on future information and expectations

(i) Background of adopting a provision method using future information

- For example, management considers provisions necessary to prepare for economic fluctuations

(ii) Contents of the model

Summary and concept of the model, including the following:

- Content and numerical value of and grounds for macroeconomic index
- Content of scenario if used
- Method of weighing each scenario if adopted

(iii) Arrangement and organizational structure to make optimum estimation

- To avoid arbitrariness and ensure certain objectivity of the estimation
- Arrangement and organizational structure to examine the model, including back-testing

Disclosure may be conducted by stages. The background, adopted indices and the conception of the model may be disclosed first, and then the contents of the model (macroeconomic indices, etc.) may be disclosed when the model stabilizes.

Regarding the above-mentioned characteristic cases, there were voices such as “since information of grouping is important, it is useful to disclose the balance of credit, an expected period of losses and an expected rate of losses for each group" and "in the case of additional provisions under the impact of COVID-19 infections, it is useful to mention major assumptions for the move in a specific manner.

4. Conceivable factors of disclosure regarding a calculation method of allowance for loan losses based on future information and expectations

The released report also introduces issues discussed at the study session with regard to conceivable factors of disclosure regarding allowance for loan losses based on future information and expectations, so-called forward-looking provision.

The study session discussed three points: (i) Background to adopting the method of calculating provisions based on future information, (ii) Contents of the model, and (iii) Arrangement and organizational structure to make optimum estimation. While a number of banks have adopted the new provision method since the release of the discussion paper on JFSA’s Supervisory Approaches to Lending Business, there have yet to be enough disclosure cases that can be used as reference. During the session, therefore, a suggestion was made that disclosure should be made by stages as follows: first, the background, adopted indices, concept of the model, and so forth behind the adoption of the provision method, using future information, should be disclosed, and then once the model is stabilized, the contents of the model for macroeconomic indices' forecasts, etc. should be disclosed.

5. In closing

Banks are increasingly required to work out a variety of innovative means of extending loans and dealing with loans so as to meet various ways of growth and needs envisioned by corporate managers through the exercise of financial functions. With regard to the disclosure of allowance for loan losses, there has been a steady shift from the uniform way of disclosure to diverse methods that reflect each bank's characteristics and features.

The "Enhancement of Banks' Disclosure of Allowance for Loan Losses " was released as a yardstick for reference when banks attempt to give more detailed accounts about their ways of calculating provisions to investors and others by enhancing their disclosure. We hope that the released report will serve as the first step toward achieving environments for banks' active disclosure of provisions. We also hope that auditing firms, analysts and other concerns, in addition to banks, will read the report and so raise momentum toward the enhancement of provision disclosure in the banking industry through dialogues with various stakeholders.

The FSA will continue to collect examples of cases related to provision methods and their disclosure to support the further enhancement of the disclosure and furthermore efforts to make the estimation of credit risks more suited to each banks, which is the basis of the discussion paper on JFSA’s Supervisory Approaches to Lending Business.

Publication of a report by the "Expert Panel on Water Disaster Insurance Premium Rate in Fire Insurance"

YANO Masataka, Insurance Actuary, Insurance Product Office,
IZUMI Shota, Subsection Chief, Property and Casualty Insurance Product Subsections II and III
TARUI Junpei, Subsection Member, Property and Insurance Casualty Insurance Product Subsection III
Insurance Business Division, Supervision Bureau

The FSA established the "Expert Panel on Water Disaster Insurance Premium Rate in Fire Insurance" (Chairman: SUZAKI Hiroshi, Professor, Graduate School of Law, Kyoto University) in June 2021 and has since been discussing how to break down the water disaster insurance premium rate in accordance with water disaster risks and points of attention in promoting discussions among property and casualty insurance firms and others.

In March this year, the FSA released the panel's "Report Pertaining to Water Disaster Insurance Premium Rate in Fire Insurance."* The following are the principal points in the report.

1. Background

Pertaining to compensation for water disasters (hereinafter water disaster compensation), insurance premium rates (hereinafter water disaster insurance premium rates) are unified throughout the country. In recent years, property and casualty insurers and others are considering fragmenting the rate on the basis of upgraded data on water disaster risks and from the viewpoint of fairness of insurance premium payments during a policy period (hereinafter fragmentation of the water disaster insurance premium rate).

In implementing the fragmentation of the water disaster insurance premium rate, it is considered necessary to conduct appropriate deliberations from the standpoint of disseminating and promoting water disaster compensation.

Under the circumstances, the panel has been set up to sort out points of attention for the sake of discussing how the fragmentation of the water disaster insurance premium rate should be and help property and casualty insurers and others proceed with studies.

(Figure 1) Expert panel's Report Pertaining to Water Disaster Insurance Premium Rate in Fire Insurance Summary (1) (Current state and challenges)

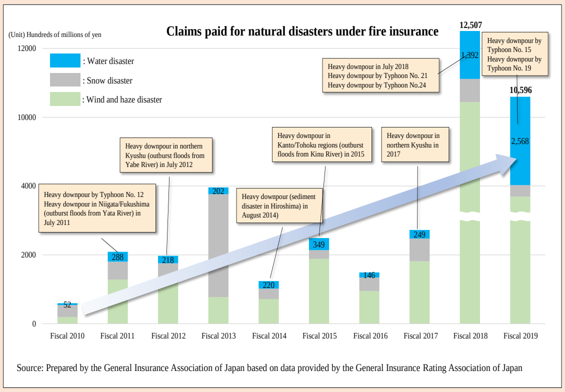
I. Purpose of panel

- **To compile how the premium rate should be and what should be taken into account, such as the balance between the possibility of purchasing policies and fairness of premium payments, in order to encourage property and casualty insurers and others to conduct more appropriate studies on the fragmentation of the water disaster insurance premium in accordance with water disaster risks**

II. Current state of fire insurance

- **Fire insurance premium rates have continued to be raised in recent years due to the frequent occurrence, intensification and so forth of natural disasters.**
- **One major reason is the frequent occurrence and intensification of typhoon and heavy rain disasters.**
- **Under the circumstances, however, the water disaster insurance premium rate for individuals does not reflect differences in each policyholder's waster disaster risk.**

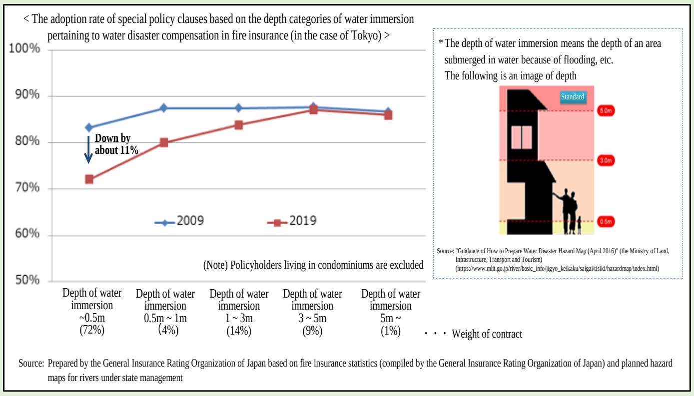
(Reference) Payment of insurance claims



III. Problems with the water disaster insurance premium rate and responses by insurers, etc.

- **Policyholders residing in areas with relatively low water disaster risks are rarely satisfied with the current water disaster insurance rating structure.**
- **As customers in areas with a shallow depth of water immersion on a flood hazard map tend to remove water disaster compensation from the coverage of fire insurance, an unexpected shortage of compensation may occur if, by any chance, a large-scale water disaster occurs.**
- **From the viewpoint of improving the fairness of insurance premium payments, therefore, property and casualty insurers and others are studying the fragmentation of the water disaster insurance premium rate so as to reflect the risk of each area.**

(Reference) The adoption rate of special policy clauses based on the depth categories of water immersion pertaining to water disaster compensation in fire insurance (in the case of Tokyo)



* For the "Publication of the Expert Panel's Report Pertaining to Water Disaster Insurance Premium Rate in Fire Insurance" released on March 31, 2022, visit https://www.fsa.go.jp/news/r3/singi/20220331.html (Available in Japanese)

2. Awareness of problems

Water disaster risks, the theme of studies at the panel, include a variety of risks, such as the "inundation of river water" or a flood that occurs when a river flows over its banks or the banks burst amid a typhoon or deluging rain, "inundation inside a levee" that occurs when rainwater fallen on an urban area fails to drain to a local river and overflows, damage from a landslide, and high tide water. The risks are not limited to structures in such areas as those having a river nearby.

To prepare for such water disaster risks, property and casualty insurers sell fire insurance policies that offer compensation for water damage in addition to compensation for damage to structures, household articles and so forth caused by fire, wind, snow and other disasters.

The payment of fire insurance claims has been on the rise due to an increase in the occurrence of natural disasters in recent years. As a result, an increase in insurance premiums has remained unavoidable.

As mentioned above, the nationally unified water disaster insurance premium rate, which does not reflect differences in the water disaster risks that each policyholder is exposed to, applies to fire insurance for individuals.

In raising fire insurance premiums, therefore, the water disaster insurance premium rate is uniformly hiked regardless of each policyholder's water disaster risk. The adoption rate of special policy clauses in the past 10 years shows that low-risk people, such as those in areas with a shallow depth of water immersion on a flood hazard map, tend to shun water disaster compensation (hereinafter "shunning of water disaster compensation") when they take out fire insurance or renew their contracts. It is therefore considered that policyholders residing in areas with relatively low water disaster risks, such as the inundation of river water, are rarely satisfied with the water disaster insurance premium rate.

Without the special policy clause of water disaster compensation, an unexpected shortage of compensation may occur if, by any chance, a large-scale water disaster occurs. Given the possibility of such a worrisome consequence, it is important to heighten economic preparedness for water disasters in society at large through the widespread adoption of water disaster compensation. The panel therefore spent a large part of deliberations on how the fragmentation of the water disaster insurance premium rate should be.

3. Due fragmentation of water disaster insurance premium rate

The fragmentation of the water disaster insurance premium rate in fire insurance is required to meet the basic premise that premium rates should be set in accordance with actual risks. In addition, it is expected to generate meaningful effects, such as (i) differences in insurance premiums enable policyholders to recognize differences in the scale of risk and therefore raise the awareness of risks among high-risk policyholders (hereinafter the "announcement effect of insurance premiums) and (ii) economic preparedness for water disasters is heightened in society at large by curbing the shunning of water disaster compensation among low-risk policyholders by making insurance premium payments fairer. The panel thus concluded that progress toward the fragmentation of the water disaster insurance premium rate is moving in a socially desirable direction.

But if differences in risks based on water disaster information, such as "flood- and immersion-expected area maps," which serves as the foundation of flood hazard maps, are directly reflected, preparedness for water disasters may become insufficient as a steep rise in water disaster insurance premiums will prevent people who are exposed to high risks from adopting the special policy clause of water disaster compensation when they take out fire insurance or renew their contracts. Therefore, the panel's main conclusion is that it is appropriate for the fragmentation of the water disaster insurance premium rate to adopt a rating structure that not only takes the fairness of premium payments into account but also facilitates the adoption of insurance by high-risk people. (For more information, refer to the results of compiling opinions in Figure 2.)

4. To improve workability

As mentioned above, the fragmentation of the water disaster insurance premium rate will enhance the fairness of premium payments by setting premium rates in accordance with actual risks and contribute to an increase in policyholders' awareness of risks through the announcement effect of premiums. The practice is thus expected to heighten economic preparedness for water disasters in society at large.

Property and casualty insurers and others have implemented programs to increase customers' awareness of water disasters, such as the release of hazard maps prepared on their own. To complement the risk announcement effect of the fragmentation of the water disaster insurance premium rate and enhance the effectiveness of efforts to disseminate and promote water disaster compensation through an increase in the awareness of risks, it is considered important for customers to recognize water disaster risks surrounding them. To this end, property and casualty insurers and others need to contrive their efforts so far to help them properly understand the risks of inundation of river water, shown on flood hazard maps, and increase their awareness of other water disaster risks. In particular, it is important for property and casualty insurers to proactively provide water disaster information to customers who are less prone to recognize risks mainly because they reside in an area with a shallow depth of water immersion on the local flood hazard map and holders of long-term policies who have fewer opportunities to review their contracts. The FSA will support efforts of this kind by property and casualty insurers and others.

5. Coming measures

The FSA, in cooperation with other government ministries and agencies, and on the basis of this report, will hold dialogues with property and casualty insurers and others to help them conduct appropriate studies.

(Figure 2) Expert panel's Report Pertaining to Water Disaster Insurance Premium Rate in Fire Insurance Summary (2) (Results of compiling opinions)

IV. Direction and points of attention in studies on fragmentation of the water disaster insurance premium rate

- **As the fragmentation of the water disaster insurance premium rate is expected to generate the following meaningful effects, such as heightening economic preparedness for water disasters as society at large, it represents a socially favorable direction:**
  - **Differences in insurance premium enable policyholders to recognize differences in the scale of risk and therefore raise the awareness of risks among high-risk policyholders (hereinafter the "announcement effect of insurance premiums)**
  - **Shunning of water disaster compensation among low-risk policyholders is curbed through an improvement in the fairness of insurance premium payments.**
- **Points of attention in studies on segmentation are as follows:**

Basic data for fragmentation

- **As basic data for fragmentation, the use of a "flood- and immersion-expected area map" (flood hazard map), for example, to assess the inundation of river water is considered acceptable to consumers due to the encompassing nature and objectivity of its information.**
- **The Land, Infrastructure, Transport and Tourism Ministry is preparing a water disaster risks map(*) that shows ranges of water immersion in accordance with the frequency of immersion, as part of efforts to upgrade information on water disaster risks. Changes in such risk information are expected to be reflected in reviewing the water disaster insurance premium rate.**

* A water disaster risk map for the inundation of river water is being prepared together with a water disaster risk map that takes inundation inside a levee into account.

Gaps in fragmentation of premium rates

- **From the standpoint of risk announcement effects, there is a view that differences in risks should be reflected more minutely as rating disparities.**
- **But there is concern that if differences in risks in water disaster information are directly reflected, people living in high-risk areas will not be able to afford to take out insurance and be adequately prepared for water disasters.**
- **It is considered appropriate to adopt premium rates paying heed to the possibility of people in high-risk areas taking out insurance.**

Regional divisions in fragmentation

- **Regional divisions in fragmentation are considered more satisfactory to consumers if they are made to match as much as possible the assessment of risks in a "flood- and immersion-expected area map" (flood hazard map).**
- **From the viewpoint of providing insurance to consumers as inexpensively as possible, however, there is concern that premiums will increase due to rises in system and other costs if regional divisions are made too minutely.**
- **Taking these points into account, it should be kept in mind that regional divisions need to be arranged in a manner that contributes to consumer benefits.(*)**

Expected efforts by insurers

- **From the viewpoint of enhancing the workability of risk announcement effects through fragmentation, insurers need to strive to collect the latest risk information and continue efforts to provide water disaster and other risk information.**
- **As for marketing insurance policies after the fragmentation of the water disaster insurance premium rate, insurers are expected to provide customers with detailed accounts about the concept of fragmentation, the state of applied rates and other matters of concern.**

* Given these and other points, it is first considered that property and casualty insurers utilize the administrative divisions of municipal governments and others as regional divisions for reference loss cost rates they use to calculate their premium rates. Even in such a case, they can set regional divisions fragmented on their own. It is thus conceivable that they innovatively fragmentate regional divisions as part of their management strategies.

Summary of Results of the 3rd Survey on the Use of LIBOR

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SUZUKI Kazuo, Deputy Director
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The Financial Services Agency (FSA) and the Bank of Japan (BOJ) jointly conducted a survey on the use of LIBOR (at end-December 2021), covering a wide range of financial institutions (banks, securities companies, insurance companies, etc.), and published the results of the survey on March 31, 2022. We here outline the survey results and explain what financial institutions are required to do in the future, based on the survey.

1. Overview of LIBOR cessation and objective of the survey

The London Interbank Offered Rate (LIBOR) had been used by a wide range of financial market participants for various financial instruments and transactions. Yet, the publication of the LIBOR that had been calculated based on reference rates provided by panel banks (i.e., panel-based LIBOR) was ceased at end-December 2021, except for some USD LIBOR tenors. Ahead of the LIBOR cessation date, financial market participants promoted their transition away from LIBOR rates. Since January 2022, synthetic LIBOR calculated using market data for certain tenors of GBP and JPY LIBOR have been released in a transitional manner. They are assumed to be used as a safety net only for so-called tough legacy contracts for which it is difficult to transition away from LIBOR.[*1] (Chart 1)

In consideration of such situation, the FSA and the BOJ have monitored financial institutions' transition away from LIBOR and encouraged their smooth transitions. The survey was conducted to check progress in the

Chart 1 Summary of LIBOR cessation

Currency	Tenors	Last date of publication of panel-based LIBOR	Synthetic LIBOR	
			First date of publication	Last date of publication
JPY	Overnight, 1-week, 2-month, and 12-month	December 31, 2021	No publication	
JPY	1-, 3-, and 6-month	December 31, 2021	January 4, 2022	December 31, 2022
GBP	Overnight, 1-week, 2-month, and 12-month	December 31, 2021	No publication	
GBP	1-, 3-, and 6-month	December 31, 2021	January 4, 2022	December 31, 2031 (up to a maximum period of 10 years)[1]
CHF	Overnight, 1-week, 1-, 2-, 3-, 6-, and 12-month	December 31, 2021	No publication	
EUR	Overnight, 1-week, 1-, 2-, 3-, 6-, and 12-month	December 31, 2021	No publication	
USD	1-week and 2-month	December 31, 2021	No publication	
USD	Overnight and 12-month	June 30, 2023	No publication	
USD	1-, 3-, and 6-month	June 30, 2023	NA[2]	

(Note 1) The British Financial Conduct Authority (FCA) has the power to compel the administrator of LIBOR to continue publishing synthetic GBP LIBOR up to a maximum period of 10 years on condition that it reviews the use of its power at least annually. Within 2022, the FCA will seek views on retiring 1- and 6-month synthetic GBP LIBOR at end-2022 and on when to retire 3-month synthetic GBP LIBOR.
https://www.fca.org.uk/news/press-releases/finalising-libor-transition-achievements-sterling-markets

(Note 2) The FCA offered to consider whether to exercise the proposed power to require continued publication of a synthetic USD LIBOR after June 30, 2023.
https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf

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*1 Regarding synthetic yen LIBOR, the FSA and the BOJ support the results of the public consultation on the treatment of tough legacy contracts in Japan by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, including the points to note for using synthetic yen LIBOR, and require financial institutions to abide by the results.
Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, “Public Consultation on the Treatment of Tough Legacy Contracts in Japan” (https://www.boj.or.jp/en/paym/market/jpy_cmte/cmt210928a.pdf)
The FSA, "Future Responses Based on Final Report on the Results of the Public Consultation on the Treatment of Tough Legacy Contracts in Japan by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks"
(https://www.fsa.go.jp/policy/libor/toughlegacy211125.pdf) (Available in Japanese)

transition away from panel-based LIBOR for which the publication was ceased at end-December 2021, as well as the feasibility of synthetic LIBOR and progress in transition away from USD LIBOR for which the publication will be ceased at end-June 2023.

2. Key results of the 3rd survey on the use of LIBOR

(1) Transition away from panel-based LIBOR for which the publication was ceased at end-2021

There are two ways to transition away from LIBOR – the advanced transition to replace LIBOR with alternative reference rates and the incorporation of fallback provisions that represent advanced agreement on arrangements after the permanent cessation of LIBOR publication.

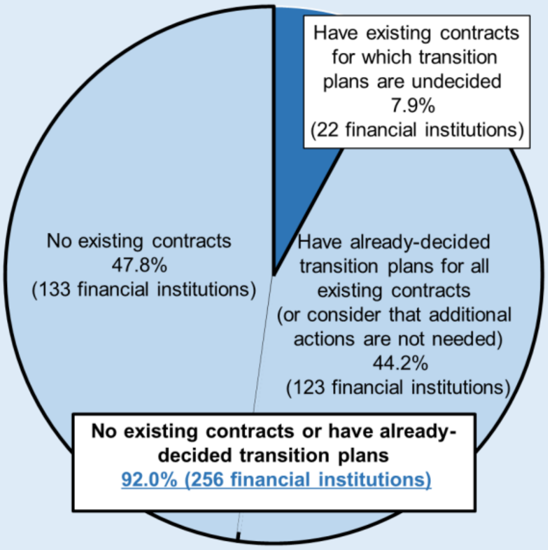
For contracts referencing panel-based LIBOR for which the publication was ceased at end-December 2021, more than 90% of financial institutions roughly completed the transition though transition into advance or the incorporation of fallback provisions or their agreement with relevant parties to transition to alternative reference rates by the first interest rate reference date after the cessation even in the absence of fallback provisions (Chart 2). The survey confirmed that the outstanding value and number of contracts that did not incorporate fallback provisions at end-December 2021 had declined substantially from the previous survey (as of end-December 2020) for assets (i.e., loans, etc.), liabilities (i.e., deposits and bonds, etc.), and derivatives (Chart 3). Some financial institutions have existing contracts for which transition policies are not yet decided due to the factors such as customers' requests. However, it was confirmed that they had sufficient time to take transition procedures before the first days for referencing benchmark rates after the LIBOR cessation and agreed with relevant contract parties on the need for such procedures.

The survey also found that most of the respondents expected to limit the use of synthetic yen and GBP LIBOR during 2022.

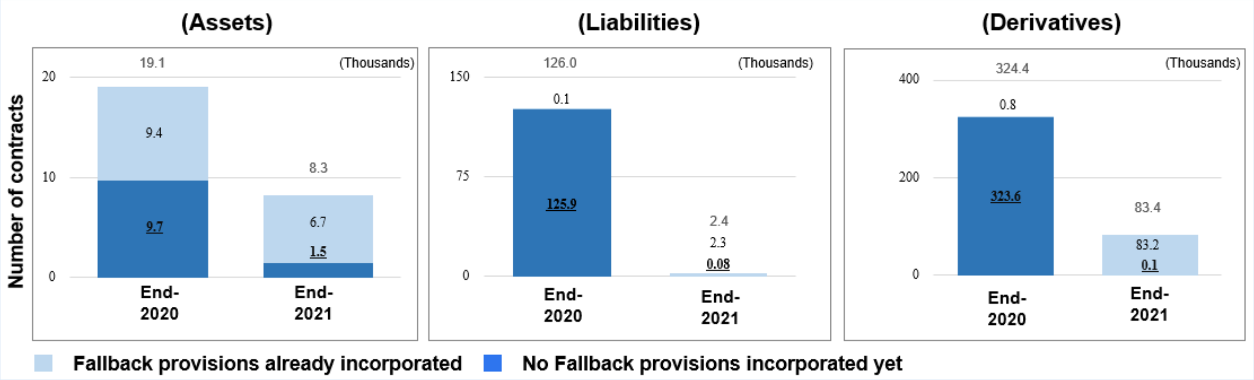
(2) Transition away from USD LIBOR for which the publication will be ceased at end-June 2023

The U.S. authorities have published guidelines and other documents for an orderly transition from USD LIBOR for which the publication will be ceased at end-June 2023, calling for stopping the new use of USD LIBOR-from January 2022 except for special cases.[*2] The FSA has urged the Japanese financial institutions to stop using them, to ensure a globally-consistent

(Chart 2) Status of LIBOR transition arrangement at end-December 2021



(Chart 3) Number of contracts referencing JPY LIBOR and incorporation of fallback provisions



(Note) Figures for end-December 2020 are those as of the previous survey (contracts that mature beyond end-2021).

*2 Joint statement by five U.S. organizations (SR21-17/CA21-15) (October 22, 2021) (https://www.federalreserve.gov/supervisionreg/srletters/sr2117.html)
FRB FAQ (SR21-12 Attachment B) (November 19, 2021) (https://www.federalreserve.gov/supervisionreg/srletters/sr2112.html)

transition.[*3]

The survey confirmed that most of the surveyed financial institutions had completed arrangements for the cessation of new transactions referencing LIBOR from January 2022 and already ceased such new transactions in principle, and that financial institutions that had not yet completed such arrangements were on track to do so after the beginning of 2022.

On the other hand, the survey confirmed that USD LIBOR had frequently been referenced in contracts that mature beyond the cessation at end-June 2023. Also, the survey found that fallback provisions had yet to be incorporated for many contracts above mentioned (Chart 4).

3. Actions that financial institutions are required to do going forward

(1) Transition away from panel-based LIBOR for which the publication was ceased at end-2021 and from synthetic LIBOR

Since 2022, financial institutions are required to take necessary actions in a coordinated way after the cessation of panel-based LIBOR, including the appropriate management of existing contracts referencing LIBOR and the switch to alternative reference rates due to the triggering of fallback provisions. If using synthetic LIBOR, financial institutions are also required to take appropriate actions in a coordinated way for their customers and transition to alternative reference rates, while keeping in mind that the use of synthetic LIBOR would be temporary.

(2) Transition away from USD LIBOR for which the publication will to be ceased at end-June 2023

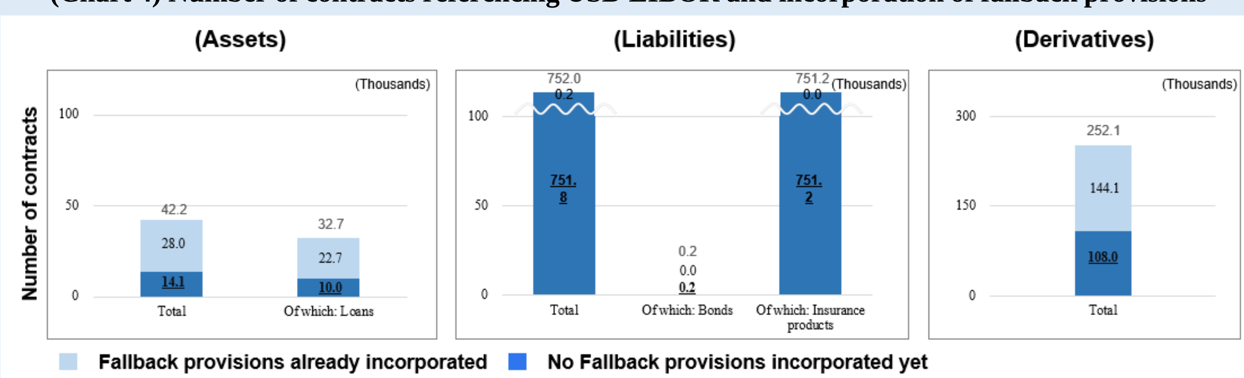
The FSA and the BOJ have been requesting financial institutions to take actions for transition away from USD LIBOR by end-June 2023 based on guidelines and other documents published by the U.S. authorities and committees. Financial institutions will be required to identify and manage their exposure of contracts in USD LIBOR appropriately, to cease new transactions referencing USD LIBOR, to transition from USD LIBOR for existing contracts in advance, and to incorporate fallback provisions that specify robust alternative reference rates.

4. Actions by the FSA and the BOJ going forward

Based on the survey, the FSA and the BOJ will jointly continue to monitor financial institutions' transition away from existing contracts referencing panel-based LIBOR for which the publication was ceased at end-December 2021 and from USD LIBOR for which the publication will be ceased at end-June 2023 and require financial institutions to take appropriate actions in light of the situation.

The FSA and the BOJ will also monitor financial institutions' use of synthetic yen LIBOR and their engagements with their customers when using synthetic yen LIBOR as needed. In particular, the FSA and the BOJ will check the reasons and grounds for the use of synthetic yen LIBOR, the responses to important notices when synthetic yen LIBOR is used, and the progress of transition from synthetic yen LIBOR to alternative reference rates for existing contracts. Based on the monitoring results, the FSA will consider taking supervisory measures as deemed appropriate.

(Chart 4) Number of contracts referencing USD LIBOR and incorporation of fallback provisions



(Note 1) The figures in the charts are for contracts maturing beyond end-June 2023 among those referencing USD LIBOR tenors (overnight, 1-, 3-, 6-, and 12-month) for which the publication will be ceased at end-June 2023.

(Note 2) Among most of the insurance products that are subject to responses such as approval, some were approved after the beginning of 2022. Regarding insurance products that have not yet been approved, consultations are underway between insurance companies and the FSA.

[*3] The FSA has required financial institutions to treat transactions referencing foreign currency LIBOR according to timelines, guidance, etc. given by relevant foreign authorities or committees for those currencies.
The FSA "How to Treat Transactions Referencing Foreign Currency LIBOR (June 2021) (https://www.fsa.go.jp/policy/libor/fsb_202106_ja.pdf) (Available in Japanese)

Message to the Market (Explanation of recommendation based on financial instruments business operator inspection results)

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

The content of "Message to the Market" posted on April 28, 2022, is as below.

* For the full text of "Message to the Market" , please access the SESC's website at https://www.fsa.go.jp/sesc/message/20220428-1.html. (Available in Japanese)

"for investors, with investors"

Recommendation for administrative disciplinary action against AMI Co., Ltd.

The SESC on March 25, 2022, recommended that the FSA take administrative disciplinary action against AMI Co., Ltd.(hereinafter "the Company")[*1]

[Summary]

The Company solicited the purchase of Fund A and Fund B, which are foreign investment securities, between August 2018 and December 2020, and received compensations for the solicitation from a management firm for Fund A and an investment firm for Fund B. Such acts are recognized as handling public offerings or private placements of foreign investment securities.

The abovementioned acts by the Company fall under the category of "Type I Financial Instruments Business" as prescribed in Article 28, paragraph (1) of the Financial Instruments and Exchange Act (hereinafter "the Act"), and conducting such acts without obtaining registration of change based on Article 31, paragraph (4) of the Act constitutes a violation of Article 29 of the Act.

In January 2020 and January 2021, the Company submitted notification of two acquaintances (individual business owners) of its Representative Director SUGAWARA Kazuhiko as persons that makes investment decisions for the Company to the Director-General of the Kanto Local Finance Bureau. However, it was identified in the latest inspection of the Company that the two conducted investment advisory services in the name of the Company even in the absence of its employment contracts with them or its control and supervision of them.

Specifically, the two concluded investment advisory contracts with customers and provided advice, giving customers document for delivery upon conclusion of contract and investment advisory contracts that specified the Company's trademark and registration number.

The Company thus had others to conduct financial instruments business in its name, being identified as violating Article 36-3 of the Act.

It was identified that the Company's business operations were actually implemented by Representative Director Sugawara alone and the development of its business and ensuring appropriate business operations were left to him. Under these circumstances, it was also identified that he conducted the abovementioned illegal acts and other numerous illegal acts, including the failure to provide documents for delivery prior to the conclusion of a contract and the falsification of business reports and other documents, and failed to develop required business management arrangements such as internal compliance rules.

Given that these illegal acts were attributable to Representative Director Sugawara's remarkable lack of awareness of legal compliance and investor protection, it was identified that the Company failed to have a sufficient personnel system to accurately perform investment advisory and agency business. Given that no arrangements were made to check or deter Representative Director Sugawara's arbitrary decisions, it was also identified that the Company failed to establish a business system required to accurately perform investment advisory and agency business.

The abovementioned status of the Company falls under "a person who does not have a personnel structure sufficient to conduct Financial Instruments Business in an appropriate manner" as prescribed in Article 29-4, paragraph (1), item (i), (e) of the Act and "a person who does not have a system required to conduct Financial Instruments Business in an appropriate manner" as prescribed in Article 29-4, paragraph (1), item (i), (f) of the Act. Therefore, such situation of the Company falls under Article 52, paragraph (1), item (i) of the Act.

[SESC Message]

In this case, Representative Director Sugawara, who was the only full-time officer and employee, took leadership in committing the abovementioned offenses due to his remarkable lack of awareness of legal compliance and investor protection, and as a financial instruments business operator, grave problems have been identified regarding investor protection.

The SESC will take tough actions against such acts that are problematic in regard to investor protection. On April 12, 2022, the Director-General of the Kanto Local Finance Bureau took administrative disciplinary action against the Company, revoking its registration and issuing a business improvement order.[*2]

[*1] For "Recommendation for administrative disciplinary action against AMI Co., Ltd." as published on March 25 this year, see https://www.fsa.go.jp/sesc/news/c_2022/2022/20220325-2.html. (Available in Japanese)

[*2] For "Administrative disciplinary action against AMI Co., Ltd." as published on April 12 this year, see https://lfb.mof.go.jp/kantou/kinyuu/pagekthp202204122609.html on the Kanto Local Finance Bureau website. (Available in Japanese)

Beware of new types of black-market financing!

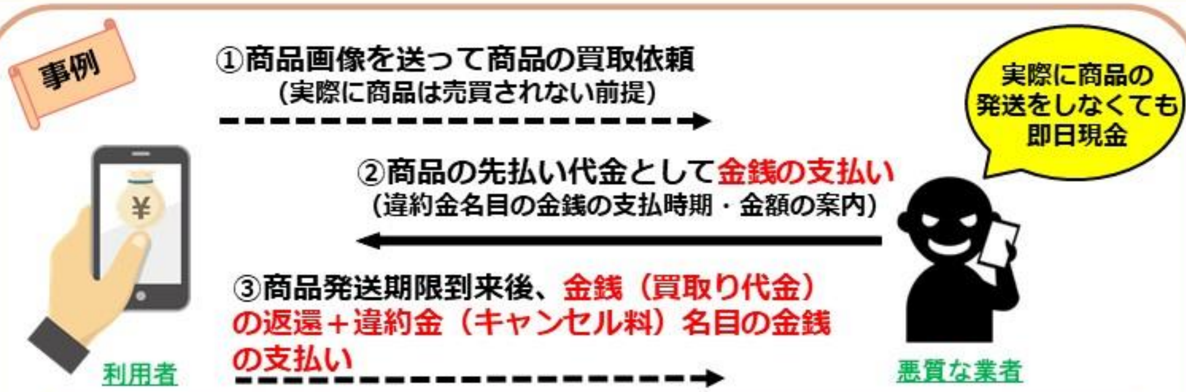
--Warning on advanced payments for purchases followed by massive penalty charges --

商品の買取りをうたって高額な違約金を請求する悪質な業者にご注意ください！

高額な違約金（キャンセル料）を支払う前提で、
商品買取業者からお金を受け取っていませんか？
そのお金、ヤミ金融からの借金かもしれません！

いわゆる「先払い買取」現金化に要注意！

事例



特徴１　商品売買（※１）を装っているが、**契約の解除（キャンセル）を前提としている。**（※２）

特徴２　**違約金（キャンセル料）名目の金銭が高額。**

（※１）ネット上の商品（スマホ、ゲーム機等）の画像など、利用者の手元にない商品を対象とすることが多い。また、業者側から商品画像が提供されることもある。

（※２）業者は実際に商品を買い取るつもりはないため、対象の商品の価値に関心はなく、契約に当たっては、主として利用者の収入等による審査が行われる。

- 後々の高額な違約金（キャンセル料）名目の金銭の支払いによりかえって生活が悪化し、多重債務に陥る危険性があります。
- 取引で提供した個人情報が悪用されたり、ネット上でさらされるなど、トラブルや犯罪に巻き込まれる危険性があります。

⚠商品売買を装っていても、その経済的な実態が貸付けであり、業として行う場合には、貸金業に該当するおそれ（※）があります。

（※）個別具体的な実態を踏まえて判断する必要があります。

貸金業登録を受けずに貸金業を営む者は、違法なヤミ金融業者（罰則の対象）です。（10年以下の懲役もしくは3,000万円以下の罰金またはその併科（貸金業法第47条第２号））

日本貸金業協会 Japan Financial Services Association　財務局　金融庁 Financial Services Agency　警察庁 National Police Agency　消費者庁

JFSA's Major Activities in April
(April 1 to April 30, 2022)

- [Supervisory Focus Points and Actions in Light of the Losses Resulting from the Default of a U.S. Investment Fund (April 20, 2022)]
- [Updated : Guidebook for Registration of Investment Management Business and Other Financial Instruments Businesses (April 15, 2022)]
- [Sixteenth Meeting of the "Council for Cooperation on Financial Stability" (April 14, 2022)]
- [Stewardship Code : 323 institutional investors have signed up to the Principles for Responsible Institutional Investors as of March 31, 2022 (April 13, 2022)]
- [The eighth meeting of the Working Group on Corporate Disclosure of the Financial System Council (April 11, 2022)]
- [EU-Asia Pacific Forum on Financial Regulation (April 5, 2022)]
- [International Forum of Independent Audit Regulators published the Report on 2021 Survey of Inspection Findings (April 5, 2022)]

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

We are promoting information dissemination using Twitter!

- On **May 26 (Thursday)**, the FSA will hold **an international symposium titled "Transition to Net-Zero: The Role of Finance and Pathway toward Sustainable Future"** at the Toranomon Hills Forum, focusing on the pathway for transition to net-zero emissions and the role of transitional finance in achieving a sustainable society. Financial and industrial sector representatives, including foreign investors and key participants in private net-zero initiatives, as well as government officials, are invited to join us for a lively discussion.
  See the following official website for details and signing up for participation:
  https://supportoffice.jp/fsasustainable2022/index_en.php

Editorial Postscript

I received many souvenirs at my workplace from colleagues who enjoyed trips in the holiday-studded golden week, which gave me the sense that economic activities have begun again.

I will continue my own COVID-19 infection prevention measures so as to help this positive trend continue.

SAITO Takafumi, Director,
Public Relations Office, FSA

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