(Provisional translation)
March 17, 2020

Reconfirmation of Prudential Standards in Response to the Increasing Impact of the Spread of COVID-19 (Novel Coronavirus)

The Financial Services Agency stipulates prudential standards in order to assure the soundness of financial institutions. In response to the needs of financial support for business enterprises due to the increasing impact of the recent COVID-19 outbreak, this statement is to reconfirm treatment of the prudential standards as described below.

1. Risk Weight Regarding Guarantee System Related to Management Stability

A risk weight of 0% can be applied to the following financing, based on the stipulations of Article 74, paragraph 2 of the "criteria to determine whether the adequacy of a financial institution is appropriate in light of assets held, etc. under the Provision of Article 14-2 of the Banking Act (Capital Adequacy Ratio Notice)" as well as the related FAQ (Article 74, Q1),.

- SME loans guaranteed by Credit Guarantee Association based on No.4 Safety Nets for Financing Guarantee (Article 2, paragraph 5 of the Small and Medium-sized Enterprise Credit Insurance Act)
- SME loans guaranteed by Credit Guarantee Association based on Guarantee Related to Emergencies (Article 2, paragraph 6 of the Small and Medium-sized Enterprise Credit Insurance Act)

2. Feature of Capital Buffer

Capital buffer regulations, as a buffer to prevent lending to companies from constrained in times of economic crisis, require internationally active banks to build capital resources.

As referred in the Newsletter on buffer usability* announced by the Basel Committee on Banking Supervision on October 31, 2019, banks can draw down on their regulatory capital buffers as necessary in order to absorb losses or maintain the provision of key financial services to the real economy.

*https://www.bis.org/publ/bcbs_nl22.htm

3. Feature of Liquidity Coverage Ratio (LCR)

The LCR, in order to increase resilience against a liquidity crisis, urges internationally active banks to preserve adequate assets available to be used for times of stress. Also, in the international agreement, it is acceptable to fall below the minimum requirement through the use of the pool of liquidity assets in times of stress.

Going forward, in cases where the LCR temporarily falls below the minimum requirement, based on the future status of the economy and other factors, the FSA will deal flexibly with reports necessary in the “Comprehensive Guideline for Supervision ofMajor Banks, etc.,” (III-2-3-4-2, III-2-3-4-4-3-2).