

# 2

2021

FEBRUARY

Monthly  
magazine

# Financial Services Agency Newsletter

# Access FSA



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⇐Access the online version here  
<https://www.fsa.go.jp/access/index.html>



Financial Services Agency

# Maintenance of the Functions of the Financial System and Financial Markets under the Declaration of a State of Emergency Responding to the Spread of the COVID-19 Infection

## (Statement by ASO Taro, Minister of State for Financial Services)

On January 7, 2021, the national government declared a state of emergency for Tokyo and three other prefectures\*<sup>1</sup> (additionally for Osaka and Kyoto, and five other prefectures\*<sup>2</sup> on January 14). In response, ASO Taro, Minister of State for Financial Services, published a statement. The content of the statement follows.

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In response to the extensive spread of the COVID-19 infection, the central government declared a state of emergency on January 7, 2021. Accordingly, the Financial Services Agency asks for continued cooperation from financial institutions and the financial service users as follows from the perspective of maintaining the functions of the financial system and financial markets and preventing further spread of infection. We apologize for the inconvenience but would appreciate your kind cooperation.

■ **Request to financial institutions, etc.**

Financial institutions in areas subject to emergency measures are requested to make efforts for preventing the spread of infection in line with the policies and requests of the central government and respective prefectures, and to endeavor to properly continue required services based on the basic concept\*<sup>3</sup> from the perspective of protecting customers and maintaining financial functions to support economic activities of the people, including cash flow support for companies, even under such circumstances.

Financial exchanges are also requested to endeavor to properly continue required services in the same manner from the perspective of maintaining market functions.

Financial institutions outside areas subject to emergency measures are also requested to continue required services while making the utmost efforts for preventing the spread of infection.

■ **Request to financial service users**

Even in areas subject to emergency measures, deposit-taking institutions will open their branches and continue customer services relating to deposits, exchanges, bills, remittances, loans, ATMs, etc., including cash flow support for companies.

In consideration of the purport of the government's declaration of a state of emergency and respective prefectures' requests for preventing the spread of infection, financial institutions are reducing unnecessary face-to-face services to the extent possible, irrespective of whether they are in areas subject to emergency measures or not. It would be appreciated if you could use the internet, call centers, ATMs, etc. so as to avoid face-to-face contact wherever possible.

Cases of fraud or illegal loans taking advantage of the COVID-19 pandemic are highly likely to occur. FSA will take countermeasures in cooperation with relevant organizations, but please be fully aware of such risks.

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\*<sup>1</sup> Coverage: Saitama, Chiba, Tokyo and Kanagawa  
\*<sup>2</sup> Coverage: Tochigi, Gifu, Aichi, Kyoto, Osaka, Hyogo and Fukuoka  
\*<sup>3</sup> See the FSA's website for more details.  
<https://www.fsa.go.jp/en/announce/state/20210107.html>

# Ceremony for Opening of Financial Market Entry Office

The Financial Services Agency ("FSA") and Local Finance Bureaus ("LFBs") jointly held a ceremony on January 12, 2021, to commemorate the establishment of the Financial Market Entry Office (the "Office") as part of the Japanese Government's strategic initiative to expand Japan's role as an international financial center open to the world. Following is a report on the ceremony.

The Office will handle all the regulatory process from pre-application consultation, registration, to supervision after the registration for newly entering asset management firms as a single point of contact with all the communications available in English.

For more information, please refer to "Promoting the Use of English and Establishing a Single Point of Contact for Foreign Asset Management Firms" in the Policy Commentary Corner in the December 2020 edition of Access FSA (<https://www.fsa.go.jp/en/newsletter/accessfsa2020/208.pdf>) and the website of the FSA (<https://www.fsa.go.jp/en/policy/marketentry/index.html>). For information on policy measures for the international financial center, please refer to "Regarding the realization of 'Japan as a global financial center'" in the Policy Commentary Corner in the January 2021 edition of Access FSA (<https://www.fsa.go.jp/en/newsletter/accessfsa2021/209.pdf>) and the website of the Prime Minister's Office (<https://www.kantei.go.jp/jp/headline/tokushu/flow.html>). (Available in Japanese)

Prior to the ceremony, Minister ASO Taro announced the opening of the Office on the same day as part of the initiative to expand Japan's role as an international financial center open to the world at a press conference following a Cabinet meeting in the morning of the day.

In the presence of Minister ASO and State Minister AKAZAWA Ryosei (Financial Services), the ceremony was subsequently held in the FSA building, which houses the Office, while paying heed to the prevention of infection with the COVID-19.

During the ceremony, the signboard of the Office, posted in front of its office, was unveiled. Following an administrative officer's verbal cue of "please," Minister ASO and State Minister AKAZAWA pulled a rope to reveal the name of "Financial Market Entry Office" engraved on a silver metallic

plate (right photo), prompting members of the press to send off camera flashes to photograph the signboard. Some participants 'oohed' and 'aahed' because of the original signboard different from conventional boards for other offices and expectations for the new program.

Various programs, such as promotion of reforms to make the financial and capital markets as attractive as those overseas and establishment of an environment that attracts overseas businesses and highly-skilled foreign professionals, are being strategically implemented on an "all Japan" basis to expand Japan's role as an international financial center. All parties concerned will work together to promote the Office as a key contributor to the goal.



Photo: Minister ASO, left, and State Minister AKAZAWA, right, pose by the signboard in a ceremonial press photo event.



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

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

## ◆ Preface

The Financial Services Agency, jointly with Nikkei Inc., held an event "Regional Banking Summit (Re:ing/SUM)" x "Nikkei Regional Revitalization Forum" based on "Comprehensive Economic Measures to Create a Future with Security and Growth" approved by the Cabinet on December 5, 2019.

The Re:ing/SUM was aimed at launching programs in the new age of "Reiwa" by creating values shared between regional economies and financial systems through discussions by various people concerned on regional financial systems capable of contributing to vitalization and problem solving of regional economies.

Specifically, experts from various sectors discussed how to establish a sustainable business model for regional financial institutions capable of providing any type of support for regional businesses and industries, not to mention fundraising support, amid the impacts of the COVID-19 infection that will bring added value to regional economies. At a panel discussion, the panelists discussed from various perspectives how to face and overcome the coronavirus crisis as its main theme.

Following the previous session held on June 16, 2020, those held in Nagoya and Hiroshima on November 23 and December 20 of the same year, respectively, were mainly via online.

This report provides brief summaries of events at each session.

## ◆ Summary of event

**Second Session: Nagoya (November 23)** (Streamed from Midland Hall)

### ● Opening Speech: Parliamentary Vice-Minister WADA Yoshiaki of Cabinet Office (Financial Services)

Parliamentary Vice-Minister WADA in his opening speech not only stressed the importance of regional financial institutions' support for business operators amid the coronavirus crisis but also pointed out that the improvement of their abilities to cope with changes from long-term perspective is indispensable for their support of business operators and regional economic vitalization.



Photo: Parliamentary Vice-Minister WADA delivers an opening speech in the hall.

### ● Keynote Speeches

#### (1) Professor HASEGAWA Tsutomu, College of Commerce, Nihon University "Regionally Oriented Membership Banking"

Professor HASEGAWA stressed that regional financial institutions should take a long-term perspectives on business relationship with clients and take their families into account in order to provide support on the occasion of inheritance

and business succession. He also mentioned regional financial institutions should promote programs such as plugging the so-called "leaky bucket" to prevent the outflow of regional funds to big cities.

For sales routes and technology, Professor HASEGAWA stressed the importance of innovation realized through combining existing sources and of the "0.5-dimensionalization" of achieving industrial changes by providing some additional value. He then proposed that regional financial institutions should become platforms capable of offering such support. What is expected of them is financial services to solve problems, and they will be able to create innovations and new ideas by continuously asking "Why?" instead of following precedents and manuals.

#### (2) President YOKOYAMA Keichi of Shinonome Shinkin Bank "Corporate Philosophy and Future of Shinkin Banks"

A strong organization can be realized when a common corporate philosophy penetrates the organization, and the members make decisions and act based on the same standard and sense of values, while demonstrating their individualities and abilities, President YOKOYAMA said, referring to Shinonome Shinkin Bank's reforms achieved after the bank's establishment through the merger of community credit unions.

Mr. YOKOYAMA then pointed out three programs shinkin banks should promote -- (1) long-term activities for the sake of clients' benefits when extending loans and selling financial products, (2) streamlining of systems through all means including rationalization and digitization of operations and organizational reforms, and (3) proactive and voluntary involvement in solving problems in local business enterprises and communities.

#### (3) President and Chief Executive Officer TSUEMURA Shuji of The Hokkoku Bank Ltd. "To Become a Next-Generation Regional Financial Institution"

President TSUEMURA discussed reforms the bank has carried out and the future course of action it will take for the full-scale introduction of consulting services as an important base of productivity improvements and business turnaround at business enterprises.

Referring to programs Hokkoku Bank has undertaken so far, Mr. TSUEMURA stressed the importance of a three-point approach to converting its operations into those based on consulting services -- (1) having the mindset of managers and investors, (2) education to foster consultants and (3) establishment of business operations and systems. This approach is expected to enable regional financial institutions to become more attractive businesses, he said.

### ● Panel Discussion

#### ➤ Twinkling Credit Guarantee Corporations

Officials of Credit Guarantee Corporations in various parts of Japan, engaging in support for business operators suffering from the impacts of the COVID-19, took the stage and stressed the importance of continuing steady management support after authorization of guarantees and of working together with local financial institutions.



## ➤ Digital x HR x Regional Bank

People engaging in HR(human resources management) jointly with regional financial institutions took the stage and stressed the importance of diversity that connects human resources beyond business sectors and expands organizational possibilities and of the exercise of creativity through such activities.

### ➤ Challenge for sharing of know-how to support business operators

Officials of regional financial institutions and other organizations in various parts of Japan, engaging in support for business operators suffering from the impacts of the COVID-19, took the stage and stressed the need of sharing knowledge and know-how beyond organizational barriers through cooperation between financial institutions and support organizations and promoting community-wide programs.

### ➤ Financial institutions and business enterprises prepared for repeated risks

People dealing with business continuity plans at various organizations took the stage and stressed the importance of strengthening preparedness for risks, noting that the improvement of IT infrastructures to promote automatization and prevent disruption of supply chains is indispensable as has been learned from the experience of disasters.

## ●Closing Speech: Tokai Local Finance Bureau Director MIZUGUCHI Jun

**Third Session: Hiroshima (December 20)** (Streamed from Hotel Granvia Hiroshima)

## ●Opening Speech: State Minister AKAZAWA Ryosei (Financial Services)



Photo: State Minister AKAZAWA delivers a video message as an opening speech

State Minister AKAZAWA in his opening speech stressed the importance of regional financial institutions taking advantage of business opportunities: found even under tough management environments caused by the spread of the COVID-19 infection, to not only mediate the flow of capital but also to mobilize all of their intermediation functions, such as those for people, goods and information, to support local business operators and support local industries.

## ●Keynote Speeches

### (1) Kobe University Professor YAMORI Nobuyoshi "To become regional financial institutions capable of contributing to local development"

Professor YAMORI introduced results of his several questionnaire surveys of regional financial institutions, finding most of them having "contribution to local business enterprises and economies" in their management philosophies and other policies. "Local contribution" is regional financial institutions' raison d'être and many of their employees are willing to work for their communities, he said.

Professor YAMORI then stressed the importance of human resources education and personnel evaluation to raise the morale of employees. While the number of business operators that have received advice from financial institutions is small, a high ratio of them recognized management improvements thanks to the advice, he said,

pointing out regional financial institutions' great potential ability of contributing to local economic development.

### (2) President YAMAMOTO Akihiro of Hiroshima Credit Cooperative "Ideal form and hands-on management of regional financial institutions"

President YAMAMOTO stressed an ideal form of regional financial institutions, referring to, among others, the Hiroshima Credit Cooperative's lending stance and other factors concerned.

As its mission, the cooperative takes risks (extension of loans) for small and midsize companies based on the belief that local capital should be used locally, Mr. YAMAMOTO said. He stressed the importance of thorough hands-on management capable of recognizing clients' conditions unseen in their financial statements alone and speedily responding to needs of small and midsize companies (decision within three days to extend loans) and the usefulness of servicers in rehabilitating clients' operations.

### (3) Director and Deputy President YOSHIDA Yasuhiko of Fukuoka Financial Group Inc. "Earnest approach to digital transformation"

Deputy President YOSHIDA introduced group-wide programs for digital transformation (DX) and future strategies, noting that they are indispensable to achieve the group's sustainable strong competitiveness and high growth.

To cope with rapidly changing management environments, Mr. YOSHIDA noted the need of programs to proactively challenge existing and new businesses and achieve improvements based on use of what has been gained from the challenges.

## ●Panel discussion

### ➤ Challenge for loans and practical rehabilitation services to support business operators

People working in the forefront of business turnaround took the stage and said a comprehensive collateral system that assesses the whole business value, if introduced, may become an effective option for business turnaround including measures to address the impacts of the COVID-19.

### ➤ Challenge by official transferred outside

Financial institution officials, with the experience of transfer from the employer to an outside entity, took the stage and talked about wide range of experiences and learnings that can be obtained from belonging to a different organization. They stressed the importance of making use of such experiences as a 'breath of fresh air' in an original organization.

### ➤ To give financial spice to new trends toward regional vitalization

People promoting regional vitalization in cooperation with financial institutions took the stage and argued that financial institutions' proactive involvement in local government challenges, such as establishment of a mechanism to successively generate local business founders, may support the post-coronavirus community.

### ➤ Conversion of regional challenges into business chances

People, who take regional challenges as business chances and engage in businesses by bringing out the attractive points of local areas, took the stage and stressed the importance of treating the coronavirus crisis as chances for businesses. Regional financial institutions, jointly with others concerned, should think of businesses to open a new era, they said.

## ●Closing Speech: Chugoku Local Finance Bureau Director KANAMORI Masaki

## ◆ Reference

Information: The sessions are available on the following Nikkei sites. (Available in Japanese)

**Second session: Nagoya (November 23)**

<https://channel.nikkei.co.jp/reingsum2020nagoya/>

**Third session: Hiroshima (December 20)**

<https://channel.nikkei.co.jp/reingsum2020hiroshima/>

# Key Points of the Report by the Financial Council Working Group on Banking Regulations

HASHIMOTO Hideo, Director for Banking Regulations Office, Policy and Markets Bureau

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

The Financial Council Working Group on Banking Regulations - established in September 2020, following the consultation by Minister of State for Financial Services ASO Taro, and was chaired by KANSAKU Hiroyuki (Professor, University of Tokyo Graduate Schools for Law and Politics)- compiled the Report in December 2020. The key points of the Report are summarized as followed.

## 1. Background

As the key to the recovery and revitalization of the Japanese economy in the post-COVID-19 era, banks should play a vital role in the following functions:

- Contributing to resolving the structural challenges confronted by local economies (such as unfavorable demographics).
- Providing strong support to companies/industries undertaking business transformation in the post-COVID-19 era.
- Strengthening the ability to evaluate business viability and channel a sufficient level of funds to growth sectors.

## 2. Revising Banking Regulations related to Permissible Business and Equity Investment

### (1) Broadening the scope of permissible non-financial sector business

#### (Domestic Subsidiaries)

Banks have been allowed to own subsidiaries for exclusively conducting non-financial sector business since 2017, with stringent conditions aiming to ensure that the combination of their superior bargaining positions and non-financial sector business would not impair borrowers' interests. The Report proposed to change the banking law to broaden the permissible activities of the subsidiaries for nonfinancial sector business. It also proposed relaxation of the permission standards for a certain segment;

- Bank's subsidiaries should be allowed to undertake vast areas of nonfinancial sector business that support digital transformation, revitalization of local economies and creation of sustainable societies with the current stringent permission standards
- The permission standards should be relaxed for non-financial sector businesses that are (a) related to banking activities; (b) demonstrating sound track records; and (c) unlikely to impair borrowers' interests. (eight segments were proposed including FinTech, local trading companies, human resource management support companies)

#### (Foreign Subsidiaries)

The regulatory framework related to permissible business applies to foreign subsidiaries of Japanese banks. Foreign financial groups acquired by Japanese banks are required to conform to the Japanese framework within a 5-year transition period. The following revisions were proposed:

- Extending the transition period from 5 years to 10 years
- Allowing the continuation of non-financial sector business (that are outside of permissible business under the Japanese framework) beyond 10 years (permanently), with the approval of Japanese FSA

### (2) Relaxing regulations related to equity investment

Banks' subsidiaries specialized in investment business (banks' subsidiaries) are allowed to hold over a 5 percent threshold of voting rights of non-financial companies on an exceptional basis. Given the importance of hands-on support for business model change and provision of equity investment to small-and medium size companies in the post-COVID-19 era, the regulatory framework related to equity investment should be relaxed to facilitate proactive support in these areas:

- Permitting banks' subsidiaries to provide hands-on support to broader companies including non-investee companies
- Broaden the exceptional treatment so that banks' subsidiaries could invest in a wider range of unlisted companies such as startups including a service sector, those implementing early business restructuring and those with business succession needs.

## 3. Maintaining Financial Intermediation in Local Economies

### (1) A grant scheme for regional banks

Regional banks should play a vital role in revitalizing local economies in the post-COVID-19 era. However, a steady decline in the working age population and persistent low rates environment have posed a significant challenge for the viability of their business model. The Report proposed to establish a temporary grant scheme to support regional banks that aim to drastically strengthen their business foundation by mergers and other business integration. Five guiding principles were proposed:

- A grant should be given to regional banks that apply with a plan to strengthen their business foundation and contribute to regional economies.
- A grant should be provided to regional banks that have played an essential role in providing "basic financial services" in local areas where business environment is particularly severe.
- A plan should include the provision of "basic financial services" for 5 years. FSA should monitor its implementation.
- A grant would partially cover additional initial costs associated with business integration (mostly system integration). The FSA should ensure that a grant would not undermine fair competition among regional banks.
- A grant should be funded by the reserves (retained earnings from equity investment to regional financial institutions over the past 15 years) in the Deposit Insurance Corporation's special account.

### (2) Locally-focused business model for regional banks

Regional banks fully pursuing a locally-focused business model could consider delisting, thus aligning equity-ownership structure with their overarching mission. In such cases, due consideration should be given to appropriate disclosure and organizational governance design. It is also crucial to take proper procedures related to delisting.

# Report of "Study Group on Lending and Business Turnaround Practices to Support Corporate Borrowers' Business Enhancement" (provisional English title)

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

In February 2021, issues on secured transactions laws will be consulted with the Legislative Council of the Ministry of Justice. Prior to this event, the FSA established the "Study Group on Lending and Business Turnaround Practices to Support Corporate Borrowers' Business Enhancement," which consists of academic experts and practitioners, to discuss from the perspective of achieving smoother financing, and a report of this Study Group\* was published on December 25, 2020. This article introduces the background and key points of the Report.

## 1. Background of discussions

The fundamental framework of the Japanese secured transactions laws, founded under the Meiji Civil Code, has not been changed for approximately 120 years. However, the domestic and global industrial structure has changed significantly, and the importance of not only tangible assets but also intangible assets has increased since then. Foreign countries have adopted a framework to allow establishment of security interests over the whole enterprise including intangible assets, and companies are utilizing those security interests for procuring business enhancement or DIP financing. The UNCITRAL Model Law also allow a creditor to take security interests over all assets of the entity.

However, Japan has no such collateral system, and unlike as in some other countries, security interests are mainly established on individual tangible assets. Some issues pointed out regarding current Japanese secured transactions laws are: business owners with a promising business plan but not tangible assets to be provided for security interest still may not obtain necessary financing and need to rely on their own personal guarantee. Also, under the current collateral system based on the individual tangible assets, creditors are apt to be ultimately interested in the liquidation value of individual assets rather than in the going-concern value of the business. Considering such background, Japan's financing environment is ranked 94th among 190 countries in the World Bank Doing Business's ranking in terms of ease of getting credit for business.

Accordingly, the Legislative Council of the Ministry of Justice will commence deliberations for reviewing Japanese secured transactions laws. In order to contribute to the deliberations toward the first legal amendment in approximately 120 years, the FSA established "Study Group on Lending and Business Turnaround Practices to Support Corporate Borrowers' Business Enhancement" to have experts discuss from the perspective of financial practices how security interests should support sustainable growth of Japanese companies and economy after the economic environment has significantly changed in the last 120 years.

## 2. Positioning of security interests covering the whole enterprise

With security interests that cover the whole enterprise, discussed in the Study Group, a creditor can establish security interests over all assets including not only business owner's claims, inventory or other individual assets but also intangible assets, and the collateral value is linked to the enterprise value, which significantly differs from that of conventional security interests established to preserve claims. Under a provisional title of "Enterprise Charge for Business Enhancement," the Study Group drafted and discussed points of issue for introducing a new collateral system.

"Enterprise Charge for Business Enhancement" is expected to enable a new form of getting credit at various stages of companies' lifecycle,

### Enterprise Charge for Business Enhancement (provisional title)

- ❑ Enterprise Charge for Business Enhancement can be established over **a whole enterprise including intangible assets such as goodwill**.
- ❑ Significantly differing from conventional security interests, security interests for business growth will expand **the possibility of fund procurement based on the future potential of a business, instead of depending on the business owner's personal guarantee, by turning financial institutions' attention to the whole business.**

Expand the possibility of **getting credit-based on the future potential of a business**

For example,

- ✓ Get credit **not dependent on a business owner's personal guarantee** (in particular, procurement of **funds for business succession**)
- ✓ Get credit **without conventional collateral assets** such as real property (e.g., venture debt)

Become easier to obtain **support for continuing or expanding business**

For example,

- ✓ Become easier to receive **appropriate advice on management problems**, in addition to cash flow support
- ✓ **Facilitate consultations on financing even during a crisis** such as the COVID-19 pandemic

(Note) Enterprise Charge for Business Enhancement is proposed as a new option in addition to means of getting credit under the conventional collateral system.



from a start-up or business succession (second start-up) to a growth period, a time of crisis, and during a turnaround period as is practiced in some foreign countries. The Study Group discussed how to establish a system that can be utilized for securing new loans when starting new businesses or for financing or refinancing for business succession.

“Enterprise Charge for Business Enhancement” is proposed as a new option to compensate for deficiencies of the conventional collateral system, and are not intended to deny the current practices under the existing collateral system. Decisions whether to choose the new or conventional security interests depends on needs and know-how of each businesses owners and financial institutions. Discussions at the Study Group aimed at developing an environment to introduce new means for getting credit to enable business owners in various circumstances make optimal decisions easier.

**3. Key points for designing a new collateral system**

Specifics of the legal amendment will be deliberated at the Legislative Council of the Ministry of Justice, but to contribute to the deliberations, the Study Group sorted out and compiled points of issue regarding “Enterprise Charge for Business Enhancement,” referring to the UNCITRAL Model Law, the US Uniform Commercial Code, and other collateral systems in foreign countries.

In order to make the system beneficial to all stakeholders including transaction partners and employees, as well as business owners and financial institutions, the Study Group compiled points of issue at each stage of the creation, attachment, perfection (public notification) and foreclosure and possible means for adjustments between their interests (relationship of priority).

For example, ”Enterprise Charge for Business Enhancement” is expected to serve as a new option for business owners to procure funds without depending on their own personal guarantee when they take on risk to continue or expand valuable businesses at all stages from a start-up to growth and turnaround. Therefore, the Study Group discussed business owners' personal guarantee when ”Enterprise Charge for Business Enhancement” was established should require a certain condition precedent by reference to the Guidelines for Personal Guarantee Provided by Business Owners.

As for a relationship of priority of security interests, it was basically considered to be in the order of registration with necessary exceptions to protect customers, transaction partners and employees who are indispensable for continuing businesses. Nevertheless, if such exceptions are allowed unlimitedly and ambiguously, predictability for lenders will significantly be undermined and may cause difficulty for business owners to raise new funds. Accordingly, the Study Group discussed limiting such exceptional protection to, for example, creditors who contribute to continuity or expansion of businesses and setting the maximum amount to ensure lenders' predictability.

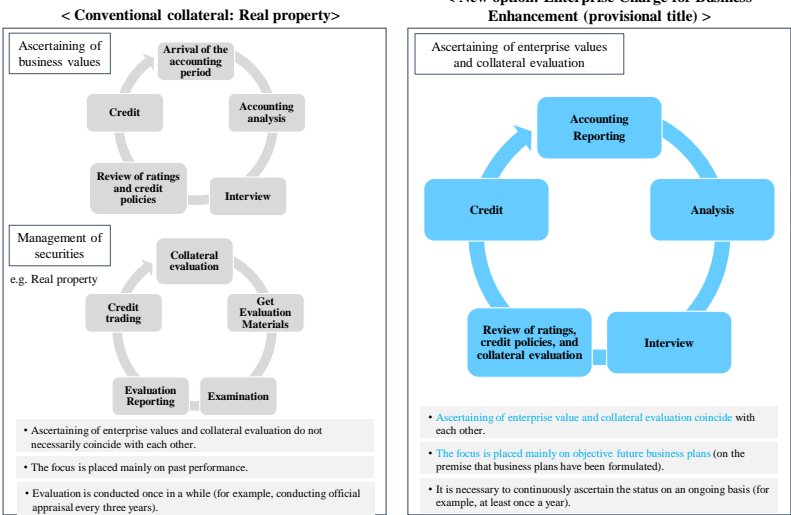
Furthermore, the possibility of the foreclosure that can secure business continuity, unlike the foreclosure of conventional security interests, which tend to lead to business dissolution, was also discussed. The Study Group considered three types of foreclosure, i.e., auction, sale by means other than auction procedures, and foreclosure under an agreement between the borrower and the lender, in order to balance protection of stakeholders' property rights, guarantee of due process, and prompt and smooth business transfer.

**4. Conclusion**

The FSA has long been promoting financial institutions' efforts to provide loans by evaluating the business potential or future cash flow of businesses, instead of excessively depending on real property liquidation value or business owners' personal guarantee, and has been constantly reviewing its policies, to encourage better financial practices, including recent repeal of the Inspection Manuals. Also, financial institutions are more trying to meet diverse needs of customer companies by for example, evaluating customer companies' business potentials and demonstrating their consulting abilities. The new security interests will encourage such endeavors and motivate both business owners and financial institutions to make efforts for business enhancement.

The FSA will further discuss on this issue with diverse practitioners and experts based on the ideas in the Report compiled by the Study Group, and will contribute to the deliberations of the Ministry of Justice and the Legislative Council of the Ministry of Justice by proposing issues in a way that financial functions could support sustainable enhancement of Japanese companies and economy.

**□ Ascertaining of enterprise values and collateral evaluation (conceptual diagram)**





# FSA's Information Relating to the COVID-19 Infection

The following are major information relating to the COVID-19 infection provided by the FSA.

## ■ Consultation services

When you have any worries concerning transactions with financial institutions, feel free to consult with the following.

### ✓ FSA Consultation Hotline

0120-156811 (toll free) (from 10:00 am to 5:00 pm on weekdays) (Available in Japanese)

\*Call 03-5251-6813 when you use an IP phone.

### ✓ Local Finance Bureaus' consultation desks

- Hokkaido Local Finance Bureau: 011-729-0177
- Tohoku Local Finance Bureau: 0120-917-993
- Kanto Local Finance Bureau: 048-615-1779
- Hokuriku Local Finance Bureau: 076-208-6711
- Tokai Local Finance Bureau: 052-687-1887
- Kinki Local Finance Bureau: 06-6949-6530
- Chugoku Local Finance Bureau: 0120-99-0028
- Shikoku Local Finance Bureau :087-811-7803
- Kyushu Local Finance Bureau: 096-353-6352
- Fukuoka Local Finance Branch Bureau: 092-433-8066
- Okinawa General Bureau: 098-866-0095

### ✓ Consultation desks of Bankers Associations/Government Financial Institutions

- Japanese Bankers Association: 0570-017-227
- The National Association of Shinkin Banks: 03-3517-5825
- National Central Society of Credit Cooperatives: 03-3567-2456
- National Association of Labour Banks: 03-3295-6740

Please see the website of the Ministry of Finance for consultation desks of government financial institutions.

[https://www.mof.go.jp/financial\\_system/fiscal\\_finance/coronavirus-jigyousya/coronavirus-jigyousya.html](https://www.mof.go.jp/financial_system/fiscal_finance/coronavirus-jigyousya/coronavirus-jigyousya.html)

(Available in Japanese)

## ■ Request for financial institutions' cooperation for cash flow support

The FSA has requested financial institutions to positively provide cash flow support to companies and individuals.

### {Request issued in January}

#### ✓ Cash Flow Support for Companies in Response to the Expansion of the Impact of the COVID-19 Infection

- Considering the influence of the declaration of a state of emergency issued by the central government in response to the current expansion of the impact of the COVID-19 infection, the FSA requested financial institutions to continue making their utmost efforts to meticulously and promptly provide cash flow support to companies, etc. while sufficiently ascertaining their business conditions.

## ■ Deadlines for Submission of Annual Securities and Other Reports in Relation to COVID-19 Infection

The FSA announced the following in consideration of the possibility that some companies, etc. may not be able to submit annual securities reports, etc. by their deadlines for submission due to the declaration of a state of emergency that was issued under the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response.

- ✓ Regarding the disclosure of the documents based on the Financial Instruments and Exchange Act (annual securities report, internal control report, quarterly securities report, semi-annual securities report), if they cannot be submitted by the deadline due to unavoidable reasons triggered by the impact of the COVID-19 infection, such as making it impossible to continue the auditing of Chinese subsidiaries, you may receive an extension to the submission deadline according to the approval of the head of your local Finance Bureau or its branch office, so feel free to contact your local Finance Bureau or its branch office.

Note:

Annual securities report and Internal controls report : Within three months following the end of the fiscal year

Quarterly securities report : Within 45 days following the end of the quarterly accounting period

Semi-annual securities report : Within three months following the end of the interim accounting period

- ✓ Also, regarding extraordinary reports, if a company cannot generate an extraordinary report by itself due to the impact of the COVID-19 infection, after the circumstances causing the delay end, the company shall submit the report as soon as possible, and the report shall be deemed to have been submitted without delay.
- ✓ In addition to those mentioned herein, if you are facing any obstacles, difficulties, or other issues produced by the COVID-19 infection, please do not hesitate to contact the Finance Bureau or branch office in your jurisdiction.

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

Information on COVID-19 (Novel Coronavirus): <https://www.fsa.go.jp/en/ordinary/coronavirus202001/press.html>

# To Bank Customers

## - Request for the Prevention of COVID-19 Infection -

# Dear valued customers

## — COVID-19 safety precautions and considerations —

As a bank, we will work to provide essential banking to support our customers' everyday life and business through these challenging times.

As we rise to meet these challenges, the health and safety of our customers remain our top priority. With that in mind, we have implemented measures in order to avoid the "Three C's"; closed spaces, crowded places and close-contact settings.

We also would like to kindly ask our customers to consider the below actions in order to minimize the spread of the COVID-19.

### 01 When visiting a branch

#### Social Distancing



We are limiting the number of customers permitted in our branch at one time so you may experience longer than normal wait times.

#### Masks and temperature checks



Please consult your bank prior to your visit for any urgent services you may need to perform when feeling sick.

### 02 Other banking options

- Please refrain from visiting a branch on dates that are expected to be crowded.
- Please consider using other channels available to you aside from visiting our branch by using online & ATM service and call centers.
- Customers also have the option to use ATM and online services such as "Pay-easy" for their tax and utility payments.

#### Expected crowded dates in Apr. 2021

the expected crowded dates.

SUN.	MON.	TUE.	WED.	THU.	FRI.	SAT.
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

#### Services available as usual

Deposits and withdrawals of ordinary account

Cancellation of time deposits, investment trust etc.

—Transfer funds  
—Taxes and utility bill payments

Reporting of lost items

—Issuance of new passbook and card  
—Magnetic malfunction of card

Help with borrowing loans

#### Services for you to kindly reconsider performing on crowded dates

Opening and closure of accounts

Depositing money into a time deposit account

Notice of amendment and bank statements

Request to withdraw certain coins and banknotes

Property accumulation products

Money exchange

\* Please ask the bank or check its website for the details of transaction handled.

\* Please consult the bank for your specific reasons of the needed transaction.

# Publication of the FSA's Annual Report (for the 2019 Business Year)

Considering the protection of depositors, policyholders, and investors in securities, etc. by securing financial stability in Japan and the facilitation of financing as its mission, the FSA is endeavoring to perform administrative duties in a transparent and fair manner.

The FSA compiles those efforts into a report every business year to help the general public better understand its initiatives. We here announce the publication of the FSA's Annual Report for the 2019 Business Year.<sup>\*1</sup>

The FSA's Annual Report contains many materials and data comprehensively from the perspective of being a record of financial administration. We hope you will access it from the webpage of the "White Paper and Annual Report, etc." of "Announcements" on the FSA's website (only available in Japanese).

## Major matters added in the FSA's Annual Report for the 2019 Business Year

- Designing and planning of systems relating to financial and capital markets
  - Creation of financial services intermediary business and review of regulations on funds transfer services
  - Promotion of new market entries by the Financial Market Entry Consultation Desk
- Responses to advancement of IT
  - Establishment of the "Enterprise System and Frontrunner Support-Hub"
- FSA's initiatives in the government-wide measures and policies
  - Responses to the 2019 East Japan Typhoon, etc.
  - Responses to the COVID-19 infection
- Efforts for improving the quality of financial intermediation functions
  - Regional Banking Summit, efforts by the Regional Solutions Support Team and Office
- Financial monitoring targeting insurance companies
  - Administrative dispositions targeting insurance companies
- Moves surrounding supervision of financial instruments business operators, etc.
  - Accreditation of the Japan Virtual and Crypto Assets Exchange Association

Additionally, the FSA has published the "JFSA Priorities for July 2020-June 2021 – Fight against COVID-19 and develop a better post-COVID society"<sup>\*2</sup> that clarifies goals of financial administration and approaches for achieving them, evaluates the progress and achievement of relevant efforts, analyses the current status and raises challenges. Please read it as well.

<sup>\*1</sup> "Publication of the FSA's Annual Report (for the 2019 Business Year)" published on December 24, 2020: <https://www.fsa.go.jp/common/paper/2019/zentai/index.html> (Available in Japanese)

<sup>\*2</sup> "JFSA Priorities for July 2020-June 2021 – Fight against COVID-19 and develop a better post-COVID society" published on August 31, 2020: <https://www.fsa.go.jp/en/news/2020/20200831/20200831.html>

## Message to the Market (January 25, 2021)

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

The "Message to the Market" posted on January 25, 2021, is summarized below.

\* The whole Japanese text is available on the SESC website:

<https://www.fsa.go.jp/sesc/message/20210125-1.htm>



### Petition to the court for prohibition and suspension against Wealth design Co., Ltd. and its manager

On November 10, 2020, the SESC filed a petition with the Tokyo District Court for prohibition and suspension of acts violating the Financial Instruments and Exchange Act against Wealth design Co., Ltd. (hereinafter, "the Company") and its manager, HIGASHIBATA Masanori, (he used "AKAI Masanori" in two different Chinese characters as his business names; hereinafter, collectively referred to as "the respondents" together with the Company).<sup>\*1</sup>

#### [Outline of the case]

Since August 2011 at the latest, the respondents had held asset management seminars titled "Asset Building before You Leap," "Story of Savings No One Will Tell You," or the like and had solicited purchase of multiple financial instruments falling under shares in foreign collective investment schemes (hereinafter, "the Funds") from general investors under the involvement of Asia Wealth Group Holdings Ltd. located in the UK, Meyer Asset Management Ltd. located in the British Virgin Islands, and Meyer International Ltd. located in the Kingdom of Thailand (senior consultant: KURISU Toyokazu (he used "SHIBATA Toyokazu" as his business name) (all these companies are represented by Mr. Richard Cayne and are not registered as Financial Instruments Business Operators).

#### [Outline of the Funds]

(1) Financial instruments organized by RL360 Insurance Company Limited (previously Royal London 360, a corporation located in the British Isle of Man that is not registered as a Financial Instruments Business Operators; hereinafter, "RL360"):

- Quantum, REGULAR SAVINGS PLAN: An investor regularly contributes a certain amount of money and RL360 manages the amount of the money after subtracting fees by making investments in overseas funds, etc. and the resulting amount of assets at maturity is paid to the investor.
- ORACLE, PERSONAL INVESTMENT MANAGEMENT SERVICE: An investor contributes a certain amount of money in lump sum and RL360 manages the amount of the money after subtracting fees by making investments in overseas funds, etc. and the resulting amount of assets at maturity is paid to the investor.

<sup>\*1</sup> "Petition to the court for prohibition and suspension against Wealth design Co., Ltd. and its manager" published on November 10, 2020: [https://www.fsa.go.jp/sesc/news/c\\_2020/2020/20201110-1.htm](https://www.fsa.go.jp/sesc/news/c_2020/2020/20201110-1.htm) (Available in Japanese)



(2) Financial instruments organized by Providence Life Limited, PCC (a corporation located in the Republic of Mauritius that is not registered as a Financial Instruments Business Operators; hereinafter, "Providence"):

- Compass: An investor regularly contributes a certain amount of money and Providence manages the amount of the money after subtracting fees by making investments in overseas funds, etc. and the resulting amount of assets at maturity is paid to the investor.
- Polaris: An investor contributes a certain amount of money in lump sum and Providence manages the amount of the money after subtracting fees by making investments in overseas funds, etc. and the resulting amount of assets at maturity is paid to the investor.

The respondents solicited purchase of the Funds and had a total of at least 1,125 general investors contribute at least 3 billion yen from August 2011 to July 2020.

In order to conduct the aforementioned acts in the course of trade, it is necessary to become registered under the Financial Instruments and Exchange Act (for Type II Financial Instruments Business), but the respondents had conducted the aforementioned acts without becoming registered.

On December 24, 2020, the Tokyo District Court rendered a decision to order prohibition and suspension of acts in violation of the Financial Instruments and Exchange Act against the respondents.<sup>\*2</sup>

[To general investors]

- The Company is an insurance agent engaging in non-life insurance agency services and businesses relating to solicitation of life-insurance policies and has opened multiple insurance shops. However, please note that none of the foreign financial instruments dealt with by the Company in this case is an insurance product approved by the FSA.
- The Company placed leaflets announcing schedules of its asset management seminars in those insurance shops and had held seminars there or has otherwise solicited purchase of those foreign financial instruments (called offshore investments or overseas NISA, etc.) taking advantage of the status as an insurance agent and insurance shop without becoming registered as legally required.
- The Company is found to have conducted solicitation by delivering application forms for overseas financial instruments in English without translating them into Japanese. Investors may have concluded contracts with the Company without fully understanding the details of the contract terms of those overseas financial instruments (specific fee rates and amounts of fees, etc.), so those who have concluded contracts are recommended to recheck the details of the contracts.
- It is illegal in Japan to conduct Financial Instruments Business without becoming registered. Before making transactions, check whether the counterparty is a registered business operator with the "List of Licensed (Registered) Financial Institutions" available on the FSA's website<sup>\*3</sup> and be careful not to make transactions with unregistered business operators (including those located overseas).
- For names, etc. of persons warned by the FSA (Local Finance Bureaus) as being persons conducting financial instruments business without becoming registered, see "Names, etc. of Persons Conducting Financial Instruments Business without Becoming Registered" available on the FSA's website.<sup>\*4</sup>
- Even if no warning has been issued by the FSA (Local Finance Bureaus), be careful not to conclude contracts for financial instruments (foreign financial instruments) solicited by unregistered business operators.

<sup>\*2</sup> "The court's prohibition and suspension order against Wealth design Co., Ltd. and its manager" published on December 24, 2020: [https://www.fsa.go.jp/sesc/news/c\\_2020/2020/20201224-1.htm](https://www.fsa.go.jp/sesc/news/c_2020/2020/20201224-1.htm) (Available in Japanese)

<sup>\*3</sup> "List of Licensed (Registered) Financial Institutions": <https://www.fsa.go.jp/en/regulated/licensed/index.html>

<sup>\*4</sup> "Names, etc. of Persons Conducting Financial Instruments Business without Becoming Registered": <https://www.fsa.go.jp/ordinary/chuui/mutouroku.html> (Available in Japanese)

# JFSA's Major Activities in January

(January 4 to January 29, 2021)



- [What we saw in 2020 and what we need to do in 2021 and beyond- Remarks by Himino Ryoza, Commissioner, Financial Services Agency of Japan, at the Asian Financial Forum \(January 28, 2021\)](#)
- [Updated statistics of money lending business \(January 28, 2021\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(January 28, 2021\)](#)
- [Publication of the First Report by the Working Group on Capital Market Regulations of the Financial System Council \(January 26, 2021\)](#)
- [The 2nd Japan-China Capital Markets Forum was Held Online \(January 26, 2021\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(January 22, 2021\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(January 21, 2021\)](#)
- [“The Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” the Twenty-Third Council \(January 20, 2021\)](#)
- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(January 15, 2021\)](#)
- [Preparation for permanent cessation of LIBOR \(January 12, 2021\)](#)
- [The Financial Market Entry Office \(January 12, 2021\)](#)
- [Finalization of Cabinet Office Order to Partially Amend Cabinet Office Order on Financial Instruments Business, etc., the Ordinance to Partially Amend the Ordinance on Financial Services Providers’ Deposit for Operation and Regulatory Notices \(January 12, 2021\)](#)
- [FSA publishes English translation of monthly magazine, Access FSA No.208 \(January 5, 2021\)](#)

- Twitter: FSA's official account  
[https://twitter.com/fsa\\_JAPAN](https://twitter.com/fsa_JAPAN)



**Positively  
communicating  
information via  
Twitter!**

- FSA's website dedicated for NISA  
<https://www.fsa.go.jp/policy/nisa2/index.html>



- Counseling Office for Financial Services Users, FSA  
<https://www.fsa.go.jp/receipt/soudansitu/index.html>

(From 10:00 to 17:00 on weekdays)

Tel: (Navidial): 0570-016811; FAX: 03-3506-6699

\* Call 03-5251-6811 when you use an IP phone.

## Editorial Postscript

It is almost one month after the declaration of a state of emergency was issued on January 7. How have you been? Staff members of the Public Relations Office have been promoting digitalization of daily duties through wider adoption of teleworking.

This February issue picks up the statement by the Minister for Financial Services regarding the maintenance of the financial systems and functions of financial and capital markets amid a declared state of emergency and introduces FSA's information relating to the COVID-19 infection, such as requests to financial institutions and consultation services concerning transactions with financial institutions.

We hope that you will refer to information contained in this issue when taking measures against the COVID-19 infection.

SAKAI Yoshitaka, Director, Public Relations Office, FSA  
Edited and issued by the Public Relations Office, FSA