FSB- G20 - MONITORING PROGRESS – Japan September 2010 [For Publication in March 2011]

#		G20/FSB RECOMMENDATIONS		DEAD-LINE	PROGRESS TO DATE Explanatory notes: In addition to information on progress to date, specifying steps taken, please address the following questions: 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? Also, please provide links to the relevant documents that are published.	PLANNED NEXT STEPS Explanatory notes: Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?) Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps? What are the key challenges that your jurisdiction faces in implementing the recommendations?
I. Building high quality capital and mitigating procyclicality						
1	(Pitts)	Basel II Adoption	All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.	By 2011	Basel II was implemented covering all the deposit-taking financial institutions from the end of March 2007. The Financial Services Agency (FSA) intends to properly implement "Enhancements to the Basel II framework", including issues on complicated financial products, published by the BCBS in July 2009, considering such things as the content and time schedule in the enhanced framework.	Japan has already adopted Basel II.
2	(FSB 2009) (Tor)	Basel II trading book revision	Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010. We welcomed the BCBS agreement on a coordinated start	By end-2011	Basel II was implemented covering all the deposit-taking financial institutions from the end of March 2007. Japan has introduced proper regulation concerning banks' trading books based on Basel II.	Concerning the revised trading book rules, "Revisions to the Basel II market risk framework and Guidelines for computing capital for incremental risk in the trading book" published by the BCBS in July, 2009, the FSA intends to implement necessary measures based on the enhanced framework. More specifically, the FSA will revise Public Notice in 2011.

			date not later than 31 December 2011 for all elements of the revised trading book rules.			
3	(Pitts)	Build-up of capital by banks to support lending	We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.	Ongoing	Based on the Guidelines for Supervision, the FSA has required banks to assess the extent of the overall adequacy of their capital in light of their risk profiles and has monitored whether those banks have implemented proper risk management and measures to retain adequate capital in terms of both quality and quantity considering the results of assessments.	The FSA and the Bank of Japan (BOJ) intend to implement necessary measures based on the Basel III rules text published at the end of 2010, taking into account that the reform avoids having negative effects on bank's lending activities.
4	(FSF 2009)	Basel II – Pillar 2 enhancement	1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.	End-2009 and ongoing	The FSA clarified that the use of various risk management approaches, including stress tests, to complement statistical risk measure approaches would be under supervisory reviews in the Guidelines for Supervision of deposit-taking financial institutions (August 2008).	The FSA has already taken various measures on enhancing the risk management of financial institutions, and will continue to consider where there are points it should reinforce concerning current supervision.
5	(Lon)	Supplementation of Basel II by simple, transparent, non-risk based measure	Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.	Ongoing	The FSA and BOJ have been contributing to the discussion on the banks' supplementary measures at the BCBS.	The FSA and BOJ intend to implement necessary measures based on the Basel III rules text published at the end of 2010.
6	(Pitts) (Tor)	Development of international rules to improve quantity & quality of bank capital	We commit to developing by end-20z10 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. We agreed that all members will adopt the new standards and these will be phased in over a	End-2010, implement over a timeframe that is consistent with sustained recovery and limits market disruption	The FSA and BOJ have been contributing to the discussion on improving quality and quantity of banks' capital and reducing excessive leverage at the BCBS. We have also contributed to reaching agreements of the Basel III rule text on the capital and liquidity reform package published at the end of 2010.	Please refer to the reply in 5.

			timeframe that is consistent with sustained recovery and limits market disruption, with the aim of implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the FSB and BCBS.			
7	(FSF 2008)	Monitoring of banks' implementation of the updated guidance	II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.	Ongoing	The FSA and BOJ have been examining the liquidity risk management conducted by each financial institution based on the Guidelines for Supervision and Financial Inspection Manuals, and On-site Examination Policy. In addition, the FSA has taken supervisory actions, including the issuance of a business improvement order, as necessary. In June 2009, the BOJ released a paper on liquidity risk management in order to promote stronger risk management in financial institutions. In July 2010, the BOJ released a paper on important check points regarding the liquidity risk management of financial institutions so that they can enhance their crisis management ability.	The FSA and BOJ will continue to examine the liquidity risk management conducted by each financial institution based on the Guidelines for Supervision and Financial Inspection Manuals, and On-site Examination Policy properly.
8	(Lon)	Development of liquidity framework	The BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.	By 2010	Please refer to the reply in 7. We have contributed to reaching agreements of the Basel III rule text on the capital and liquidity reform package published at the end of 2010.	Please refer to the replies in 5 and 7.
9	(FSB 2009)	Enhancement of supervision of banks' operation in foreign currency funding markets	Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.	Ongoing		
10	(FSF 2008)	Strengthening of regulatory and capital framework	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline	Ongoing	The FSA clarified the supervisory review points in the Guidelines for Supervision in order to strengthen risk management	Insurance companies will disclose the solvency margin ratio based on the new regulation for reference at the end of

		for monolines	insurers in relation to structured credit.		conducted by insurance companies, not limited to monoline insurers, related to credit investment in financial products, such as securitized products, financial guarantee insurance and CDS(June 2009). The FSA revised Public notice to refine risk factors of financial products, such as securitized products, under the solvency margin regulation on April 2010.	March 2011 and the FSA will use it as an indicator of Early Corrective Measures at the end of March 2012.
II. Strengthening accounting standards						
11	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	The FSA encouraged Japanese stakeholders to actively participate and express their opinions in the international accounting standards setting process. Through the Monitoring Board, the FSA reviews the IFRSF's oversight of the IASB's due process in standard setting. On June 30, 2009, the Business Accounting Council published its "Opinion on the Application of International Financial Reporting Standards (IFRS) in Japan (Interim Report)", which includes the following: -The use of IFRS will be allowed from the fiscal year ending in March 2010, for the consolidated financial statements of certain listed companies. -The decision regarding the mandatory use of IFRS is to be made around 2012. On December 11, 2009, the FSA amended relevant government orders so that listed companies operating globally can adopt IFRS voluntarily for their consolidated financial statements for the fiscal year ending on or after March 31, 2010. On December 18, 2009, the FSA published the examples of consolidated financial statements prepared in accordance with the IFRS as references for relative parties. On March 10, 2010, the FSA amended the	Considering the progress made in discussion conducted by the IASB, the ASBJ is examining the possibility of improvement in accounting standards with Japanese stakeholders. The FSA continuously promotes the efforts of Japanese stakeholders toward the convergence of accounting standards. Around 2012, the decision regarding the mandatory use of IFRS is to be made in accordance with the "Opinion on the Application of International Financial Reporting Standards (IFRS) in Japan (Interim Report)" which was published by the Business Accounting Council on June 30, 2009.

					Public Notices to recognize all IFRS (IAS) and IFRIC guidelines released from July 1 to December 31 in 2009 (including IFRS9)as the Designated IFRSs (IFRS (IAS) and IFRIC guidelines which are designated as effective in Japan by the Commissioner of the FSA).	
12	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.	End-2009	The FSA encouraged Japanese stakeholders to actively participate and express their opinions in the international accounting standards setting process. On August 7, 2009, the ASBJ released the "Discussion Paper on Fair Value Measurement and its Disclosure." On July 9, 2010, the ASBJ published the exposure draft of accounting standards for the fair value measurement and its disclosure.	Considering the progress made in discussion conducted by the IASB, the ASBJ is examining the possibility of improvement in accounting standards with Japanese stakeholders.
13	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (i) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.	End-2009	The FSA encouraged Japanese stakeholders to actively participate and express their opinions in the international accounting standards setting process.	The IASB published a consultation paper on accounting standards for financial instruments and proposed a standard for hedge accounting on December 9,2010 which would generally mitigate procyclicality. The IASB plans to finalize the standard in the second quarter of 2011. Please refer to the reply in 12.
14	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	The FSA revised the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. in order to ensure the traceability of underlying assets of securitized products. The "WG on Distributions of Securitized Products" of Japan Securities Dealers	The FSA has already taken various measures regarding this issue and will continue the efforts.

					Association (JSDA) established and enforced the "Regulations Concerning Distributions, etc. of Securitized Products," which is self-regulation on information communication related to the contents and risks of underlying assets (June 2009).	
III. Reforming compensation practices to support financial stability						
15	(Lon) (Pitts) (Tor)	Implementation of FSB/FSF compensation principles	National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round. We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. We encouraged all countries and financial institutions to fully implement the FSB principles	End-2010	The FSA ensures implementation by adding, in the Guidelines for Supervision, supervisory viewpoints based on the FSB Principles for Sound Compensation Practices and Implementation Standards (the FSA revised and enforced the guidelines on March 4, 2010). The revised guidelines stipulate that the FSA takes supervisory actions through hearings, including the issuance of a business improvement order, when necessary. Regarding deposit-taking financial institutions that have received capital injection to stabilize the financial system, the FSA has the authority to periodically monitor the status of compensation payment to executives and may issue a business improvement order including requiring the financial institutions to review their executives' compensation, as necessary.	The FSA will take supervisory actions through hearings, including the issuance of a business improvement order based on the revised Guidelines for Supervision, when necessary.

			and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.			
16	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	Please refer to the reply in 15.	Please refer to the reply in 15.
IV. Improving OTC derivatives markets						
17	(Lon)	Development of action plan on the standardization of CDS markets (eg CCP)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.	Autumn 2009	On January 21, 2010, the FSA published the "Development of Institutional Frameworks Pertaining to Financial and Capital Markets" which includes, 1) Making the following OTC derivative transactions subject to mandatory CCP clearing: - those with sufficiently large trading volume and - those with the clearing criteria that relates closely to the domestic corporate bankruptcy law, 2) From the perspective of ensuring the overall transparency of markets and enabling authorities to gain an adequate understanding of the actual conditions of OTC derivative transactions, making it possible: - for information on OTC derivative	Currently several CCPs are considering ways to provide a CDS clearing service.

					transactions to be submitted to the authority from trade repositories and from CCPs, and - for the authority to require that financial institutions submit information directly to it. The FSA submitted the relevant draft bill to the Diet on March 9, 2010 which was enacted in May 12 and issued in May 19. Currently several CCPs are considering ways to provide a CDS clearing service.	
18	(Pitts)	Trading of all standardized OTC derivatives on exchanges etc.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	By end-2012 at the latest	Please refer to the reply in 17.	Please refer to the reply in 17.
V. Addressing cross-border resolutions and systemically important financial institutions						
19	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	On January 21, 2010, the FSA published the “Development of Institutional Frameworks Pertaining to Financial and Capital Markets” which includes, 1) Introducing regulation and supervision on a consolidated basis for securities companies, such as those providing large-scale and complex services as an entire group, whose overall operations and risks might be hard to identify under the current non-consolidated-based regulation and supervision, 2) Introducing prudential standards on a consolidated basis for insurance companies. The FSA submitted the relevant draft bill to	The FSA and BOJ will continue to take part in the discussion on addressing systemically important financial institutions at the FSB and the BCBS actively. The FSA is examining a concrete method of calculating the consolidated solvency margin ratio, aiming to make this rule effective by March 2012.

					the Diet on March 9, 2010, which was enacted in May 12 and issued in May 19. The Cabinet Order and Cabinet Office Ordinance which specify the details of 1) were issued on December 27, 2010. In addition, the Guidelines for Supervision were revised to implement the new policy of 1 (these revised guideline will be effective on 1st April).	
20	(Pitts)	Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future	We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.	October 2010	In Japan, Deposit Insurance Law and other related laws provide for necessary resolution regimes. In principle, as a resolution without making deposit insurance payments, resolution is carried out through selected financial administrators and/or Bridge Bank System (transfer of assets and liabilities including insured deposits to the assuming financial institutions and the provision of financial assistance to those institutions). In the case where there is a risk that the failure of a financial institution will cause a significant adverse effect on the maintenance of stability of the financial system, a special resolution is carried out through measures to deal with crisis, including capital injection, protection of total amount of certain liabilities such as deposits and temporary nationalization depending on the financial condition of the financial institution. In addition, when those measures are implemented, the executives' responsibility is pursued and stakeholders such as stockholders are burdened with the loss. As to the cost of resolution, resolution is carried out, in principle, within the cost covered by the deposit insurance premium levied beforehand, while even in the case of special resolution measures to deal with a crisis, if loss incurred due to measures to deal with such situation exceeds the cost covered by the deposit insurance premium levied beforehand, the loss is covered by financial institutions afterward. Moral	Please refer to the first reply in 19.

					hazard is reduced through such system. Please refer to the first reply in 19.	
VI. Strengthening adherence to international supervisory and regulatory standards.						
21	(Lon)	Adherence to international prudential regulatory and supervisory standards	We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas. We are committed to strengthened adherence to international prudential regulatory and supervisory standards.	Ongoing	<Tax> Japan is already compliant with international standards on tax information exchange. <AML/CFT> Japan is a member of FATF and adheres to the international standards in AML/CFT areas namely the 40+9 FATF Recommendations. The FATF's mutual evaluation to Japan was implemented in 2008. Follow up actions are under consideration to address the certain gaps in its AML/CFT regime pointed out by the FATF mutual evaluation report for Japan. The progress Japan has made was reported at the FATF WG meeting held in October 2010. ＜Prudential＞ The initial An FSAP was already conducted in 2003. Since then, Japan has taken various measures in financial sectors aligned with actions recommended by the FSAP.	<Tax> Japan will continue to be actively involved in the Global Forum. < AML/CFT > Additional follow up actions will be proceeded continuously to address the certain gaps in its AML/CFT regime pointed out by the FATF mutual evaluation report for Japan. The additional progress will be reported at the FATF WG meeting scheduled in October 2011. ＜Prudential＞ Japan will continue to actively participate in discussion on objective peer review at the FSB.
22	(Lon)	Periodic peer reviews	FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.	Ongoing	We have been implementing international financial standards appropriately and contributing to the international discussion on various issues, including periodical peer reviews, to secure financial stability at the FSB and standard setters actively.	We will continue to take part in the discussion at the FSB and standard setters actively and implement international financial standards.

23	(WAP)	Undertaking of FSAP	All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.	Ongoing	The initial FSAP was already conducted in 2003. Since then, Japan has taken various measures in financial sectors aligned with actions recommended by the FSAP.	Japan will continue to take part in the international discussion on transparent assessment of countries' national regulatory systems actively.
24	(FSF 2008)	Additional steps to check the implementation of int'l guidance	V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	Ongoing	Based on guidance issued by international committees, we have been supervising appropriately.	Based on guidance issued by international committees, we will continue supervising appropriately.
VII. Other issues						
Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision						
25	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk.	Ongoing	The FSA hosted supervisory colleges for important financial institutions to enable authorities to collect relevant information. The FSA is designated to stabilize the financial system and it does not only supervise each financial institution but also takes various measures such as strengthening its supervisory systems aimed at identifying risks of the overall financial system.	The FSA will continue to identify risks of the overall financial system promptly and properly through such measures as strengthening its supervisory systems and deepening cooperation with the BOJ and foreign authorities, considering the lessons from the current global financial crisis and development in other countries. The BOJ strives to identify risks of the overall financial system promptly and properly through on-site examinations and monitoring.
26	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.	Ongoing	The FSA/BOJ/SESC are gathering relevant information regarding the risk management of financial institutions in a timely manner through their on-site inspection/ examination and off-site monitoring. The FSA hosted, in cooperation with the BOJ, supervisory colleges On January 21, 2010, the FSA published the "Development of Institutional Frameworks Pertaining to Financial and Capital Markets" which includes, 1) making it possible	The FSA, in corporation with the BOJ, will continue to host supervisory college.

					- for information on OTC derivative transactions to be submitted to the authority from trade repositories and from CCPs, and - for the authority to require that financial institutions submit information directly to it. 2) Introducing regulation and supervision on a consolidated basis for securities companies such as those providing large-scale and complex services as an entire group, to set reporting and inspection requirement on sister companies and other group companies. 3) Expanding the items to be reported including ongoing reports to the authorities on the risk management of managed assets in collaboration with other countries, with regard to the reports made by hedge fund managers to the authorities. The FSA submitted the relevant draft bill to the Diet on March 9, 2010, which was enacted in May 12 and issued in May 19. The Cabinet Order and Cabinet Office Ordinance which specify the details of 1) - 3) were issued on December 27, 2010.	
27	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	Based on the international discussion, the FSA has been conducting necessary reviews of regulations, such as the introduction of a registration system for CRAs. On January 21, 2010, the FSA published the “Development of Institutional Frameworks Pertaining to Financial and Capital Markets” which includes policy approaches on OTC derivatives, hedge funds and securities companies on a consolidated basis, based on international discussions such as the G20, etc. The FSA submitted the relevant draft bill to the Diet on March 9, 2010, which was enacted in May 12 and issued in May 19. The Cabinet	The FSA has already taken various measures on this issue, and continues to participate in the international discussion actively and consider taking appropriate measures while watching the regulatory situation in other countries and reviewing the economic environment in Japan. The BOJ strives to identify and analyze the overall financial system and enhance the good practices through on-site examinations, monitoring and the semi-annual Financial System Report.

					Order and Cabinet Office Ordinance which specify the details were issued on December 27, 2010.	
28	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.	End-2009 and ongoing	The FSA and BOJ have been contributing to the discussion on the leverage ratio for banks at the BCBS. CGFS WG has conducted the national surveys regarding the practices of margin requirements and haircuts in securities financing transactions and OTC derivatives. The CGFS WG published a report which includes recommendations on possible policy options to mitigate procyclicality based on the national survey results on March 2010.	The FSA and BOJ will continue to monitor quantitative indicators on leverage. The FSA and BOJ will continue to take part in the discussion on the regulatory framework and details at the BCBS, etc. actively.
29	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	The FSA is designated to stabilize the financial system and it does not only supervise each financial institution but also takes various measures such as strengthening supervisory systems of the FSA, aimed at identifying risks of the overall financial system. The outcome of the developments such as asset prices and credit aggregates is published in the semi-annual Financial System Report by the BOJ.	The FSA and BOJ will continue to monitor the development of indicators such as asset prices and credit aggregates and their impacts on the macro economy and the financial system. The FSA is trying to identify risks in the overall financial system promptly and properly through such measures as strengthening the supervisory systems of the FSA and deepening cooperation with the BOJ and foreign authorities, considering the lessons learnt from the current global financial crisis and development in other countries.

30	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	Ongoing	The FSA established a specialized office that collects and analyzes information related to financial system risks and is trying to advance risk analysis. Besides cultivating and utilizing staffs' expertise internally, the FSA and BOJ have employed professionals actively from the private sector (including system/market risk experts, actuaries, lawyers and public certified accountants) In order to respond properly to sophistication and complication of financial activities, the FSA and BOJ have conducted effective and efficient inspection and/or the supervision through collecting information and analyzing the condition of the macro economy and each market such as the stock or bond market in addition to employment and cultivation of staff with a high level of expertise. The FSA and BOJ believe that these efforts had certain effects on encouraging financial institutions to enhance their risk management.	The FSA and BOJ continue to enhance the capability to collect and analyze information on both macro- and micro-economic fronts and cooperation with relevant domestic and foreign authorities as well as to employ external professionals actively and to make efforts to monitor market trends from the macro-prudential viewpoint overlooking the entire financial system.
31	(FSF 2008)	Supervisory communication with firms' boards and senior management	V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.	Ongoing	The FSA and BOJ have dialogues with firms' management to improve risk management practices.	The FSA and BOJ have already taken various measures on this issue and will continue the efforts. The FSA and BOJ will continue to enhance dialogues with firms' management to improve risk management practices.
32	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	In Japan, the FSA is responsible for the integrated financial administration and BOJ is responsible for the central bank operation. The FSA and BOJ with close coordination take several measures to capture risks in the financial system and to support the real economy through maintaining the financial intermediation function.	The FSA and BOJ will continue to strengthen their coordination to capture risks in the financial system promptly and accurately.

Hedge funds						
33	(Lon)	Registration of hedge funds	Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.	End-2009	In relation to managers who use the same style of investment management as hedge funds, they are now subject to registration as discretionary investment managers and investment trust managers under the Financial Instruments and Exchange Act. On January 21, 2010, the FSA published the “Development of Institutional Frameworks Pertaining to Financial and Capital Markets”, which includes policy approaches such as expanding of the items to be reported including ongoing reports to the authorities on the risk management of managed assets in collaboration with other countries with regard to the reports made by hedge fund managers to the authorities. The Cabinet Order and Cabinet Office Ordinance which specify the details were issued on December 27, 2010. On March 4, 2010, the FSA revised and enforced the Guidelines for Supervision in order to expand operators and items for the fund monitoring survey to strengthen the collecting of fundamental information on various funds. The FSA conducted the survey on September, 2010.	The FSA has already taken various measures on this issue, and continues to participate in the international discussion actively and consider taking appropriate measures watching the regulatory situation in other countries and reviewing the economic environment in Japan. Furthermore, the FSA will take measures to implement “Development of Institutional Frameworks Pertaining to Financial and Capital Markets”.
34	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009.	End-2009	The FSA has been trying to strengthen information sharing among authorities and has been cooperating actively with the FSB.	The FSA has already taken various measures on this issue and will continue the efforts.
35	(Lon)	Effective management of counter-party risk	Supervisors should require that institutions which have hedge funds as their counterparties	Ongoing	The FSA revised the Guidelines for Supervision to strengthen banks’ management of credit risks regarding the	The FSA has already taken various measures on this issue and will continue the efforts.

		associated with hedge funds	have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.		counterparties, including hedge funds (August, 2008).	The FSA and BOJ will continue to check the risk management of institutions that have hedge funds as their counterparties through supervision and inspection/ examinations.
36	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	Please refer to the reply in 35. The FSA has been encouraging the efforts by financial institutions to make their risk management more sophisticated considering the revision of the Guidelines for Supervision.	Please refer to the first reply in 35.
Credit rating agencies						
37	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	The Act to amend the Financial Instruments and Exchange Act ("the Act"), which introduced a registration system for CRAs, was enacted and promulgated in June 2009. In December, 2009, the FSA formulated the cabinet order and cabinet office ordinances of the Act, which included the details of the regulations on CRAs. The registration system became effective on April 1, 2010. On March 31, 2010, the FSA and the SESC established the Guidelines for Supervision and the Inspection Manual for CRAs. They became effective on April 1, 2010. In our CRA regulatory regime, an additional obligation on financial instruments business operators (FIBOs: e.g., broker-dealers) in soliciting customers using the ratings by unregistered entities became effective on October 1, 2010. In order to facilitate this new obligation for FIBOs, while ensuring investor protection, the FSA introduced the Designated CRA-group Supervisory System by revising the cabinet office ordinances. (Part of the requirements regarding explanations on ratings by unregistered firms is changed. This became effective on January 1, 2011.)	The FSA and the SESC properly supervise and inspect CRAs in accordance with the Guidelines for Supervision and the Inspection Manual for CRAs.

					The FSA revised the cabinet office ordinances of the Act, which included the reviews of the rule for disclosure regarding the use of credit ratings. The revised regulation became effective on January 1, 2011.	
38	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.	End-2009	The Act, which introduced a registration system for CRAs, was enacted and promulgated in June 2009, with the aim of ensuring independence and prevention of conflicts of interests of CRAs, quality and fairness of the rating process, and transparency for market participants. In December 2009, the FSA formulated the cabinet order and cabinet office ordinances of the Act, which included the details of the regulations on CRAs. The finalized version of the cabinet order and ordinances were published in December 2009. The ordinances included provisions concerning differentiation of ratings for structured products and disclosures of rating history and material information used in the rating process. In addition, under the ordinances, an exemption scheme was put in place where the FSA may approve exemptions for certain operation control requirements for foreign registered CRAs, which may bring about certain overlaps or inconsistencies with regulations in such foreign jurisdiction. The new registration system became effective on April 1, 2010. On March 31, 2010, the FSA and the SESC established the Guidelines for Supervision and the Inspection Manual for CRAs. They became effective on April 1, 2010.	The FSA and the SESC properly supervise and inspect CRAs in accordance with the Guidelines for Supervision and the Inspection Manual for CRAs. An effective oversight of cross-border CRAs is being facilitated through continuing bilateral dialogues concerning supervisory cooperation amongst regulators.
39	(FSB 2009)	Globally compatible solutions to conflicting	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations	As early as possible in 2010	To secure international consistency in regulations, the FSA has been contributing to discussions at IOSCO and bilateral dialogues.	The FSA and the SESC properly supervise and inspect CRAs in accordance with the Guidelines for Supervision and the Inspection Manual for CRAs.

		compliance obligations for CRAs	for CRAs) as early as possible in 2010.		The Act to amend the Financial Instruments and Exchange Act ("the Act"), which introduced a registration system for CRAs, was enacted and promulgated in June 2009. In December 2009, the FSA published the cabinet order and cabinet office ordinances of the Act, which included the details of the regulations on CRAs. Under the ordinances, an exemption scheme was put in place where the FSA may approve exemptions for certain operation control requirements for foreign registered CRAs which may bring about certain overlaps or inconsistencies with regulations in such foreign jurisdiction. The new registration system became effective on April 1, 2010. On March 31, 2010, the FSA and the SESC established the Guidelines for Supervision and the Inspection Manual for CRAs. They became effective on April 1, 2010.	The FSA continues to contribute to discussions at IOSCO and engage in bilateral dialogues.
40	(FSF 2008)	Review of roles of ratings in regulations and supervisory rules	IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.	Ongoing	The FSA clarified that some points, including the following point, would be under supervisory reviews in the Guidelines for Supervision in order for financial institutions to strengthen the management of market and credit risk related to investment in marketable credit products and securitization(August 2008）. - Whether the financial institution has in place systems that enable it to avoid excessive dependence on external ratings for its investment management of securitized products, for instance, through using external ratings with an understanding of the mechanism and meaning of ratings by CRAs. The FSA chaired the work stream on Ratings and Securitisation in the BCBS. Following the application of Basel Ⅱ, as a strict rule unique to Japan, the FSA	The FSA has been taking various measures to enhance risk management. The FSA and BOJ intend to implement necessary measures based on the discussion at the BCBS.

					required that rating agencies disclose detailed information, including the subordinate ratio, for free in principle when financial institutions use external ratings related to securitized products in Basel Ⅱ (the end of March 2007). Taking into account the views that the use of credit ratings for regulatory purposes may have had certain roles for investors to rely excessively on credit ratings, requirements of credit ratings were removed from the Shelf Registration System(December 2009).	
Supervisory colleges						
41	(Lon)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009.	June 2009	Please refer to the reply in 26.	Please refer to the reply in 26.
42	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.	Ongoing	Japan has been trying to strengthen information sharing among authorities and has been cooperating actively with the FSB.	The FSA and BOJ have already taken various measures on this issue and will continue the efforts to strengthen the coordination among authorities at both national and international levels.
Crisis management						
43	(Lon)	Implementation of FSF principles for cross-border crisis management	To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.	Immediate	The FSA and BOJ have been preparing to implement the FSF principles for cross-border crisis management. Dialogues about crisis management among relevant authorities were held in Japan. .	Japan will continue the dialogues about crisis management among relevant authorities in Japan.
44	(Pitts)	Development of contingency and resolution plans by SIFIs and the	Systemically important financial firms should develop internationally-consistent firm-specific contingency and	End-2010	Please refer to the reply in 43. For the purpose of ensuring soundness in the management of banks and preventing	Please refer to the reply in 43.

		establishment of crisis management groups etc.	resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.		management failure, the system of Early Correction Measures, which orders banks whose capital adequacy ratios are under the regulatory standard to swiftly improve management as necessary including capital increase based on the Banking Act, has been established. Furthermore, Japan's Deposit Insurance Law and other related laws provide for the necessary resolution regimes and measures to deal with a crisis including public capital injection in the case where there is a risk of a significant adverse effect on the maintenance of the stability of the financial system (See 20 for details). In addition, supervisory authority over banks is unified in the FSA and when it copes with a crisis, it appropriately cooperates with the BOJ, which provides liquidity in a timely and appropriate manner.	
45	(Tor) (WAP) (FSF 2008)	Implementation of BCBS recommendations on the cross-border bank resolution	We endorsed and have committed to implement our domestic resolution powers and tools in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010. National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions. VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.	Ongoing	Please refer to the first reply in 20 and the replies in 43 and 44.	Please refer to the reply in 43. The FSA has already taken various measures to build a framework on this issue, and will continue to make efforts.

46	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	Japan has been contributing to the international discussion at the BCBS. The deposit insurance system in Japan generally meets the "Core Principles for Effective Deposit Insurance Systems" issued by the BCBS and IADI.	Japan will address the issues in consideration of the international discussion on the standard of the review of the deposit insurance system
Risk management						
47	(WAP)	Development of enhanced guidance for banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.	Ongoing	The FSA clarified that some points, including the following, would be under supervisory reviews in the Guidelines for Supervision in order to ensure sound risk management in financial institutions (August 2008). 1) Proactive management of risks by the management team and establishment of systems that enable quick decisions from the viewpoint of the group's overall portfolio. 2) Use of various risk management approaches, including stress tests, to complement statistical risk measure approaches 3)Valuation of financial products, including securitized products, as objective as possible 4) Appropriate understanding of the nature of financial products, including securitized products, for example, avoiding excessive dependence on external ratings 5) Proper management of market liquidity risk related to investment in financial products including securitized products 6) Study on risks, including the pipeline risk in originating securitized products 7) Appropriate counterparty risk management regarding transactions involving derivatives etc. The FSA has been encouraging the efforts	The FSA has already taken various measures to enhance risk management. The FSA will continue to contribute to the international discussion at the BCBS and make reviews to strengthen banks' risk management and their internal management.

					by financial institutions to make risk management more sophisticated considering the revision of the Guidelines for Supervision.	
48	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	Please refer to the reply in 2.	Please refer to the reply in 2.
49	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	By adding, in the Guidelines for Supervision, necessary supervisory viewpoints, the FSA is encouraging financial institutions to recognize non-performing loans early through stringent assessment of assets and, in order to deal with those loans properly to take early measures that essentially make such loans sound according to their risks (for debtors who can be rehabilitated, making efforts to rehabilitate them as much as possible). Based on supervisory guidelines, the FSA has required banks to assess the extent of the overall adequacy of their capital in light of their risk profiles and monitored whether the banks have implemented proper risk management and measures to retain adequate capital in terms of both quality and quantity considering the results of assessments. Because of the measures mentioned above, financial institutions made progress in disposing of nonperforming loans (nonperforming loan ratio of major banking groups decreased from 8.4% at the end of March 2002 to 1.6% at the end of 2009).	The FSA has already taken various measures toward ensuring the soundness of the financial conditions of financial institutions such as by prompting the disposal of nonperforming loans, and will continue to consider reinforcing current supervision as necessary.
50	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: ○ implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure;	During 2010	The FSA chaired the work stream on Ratings and Securitization in the BCBS including IOSCO's proposals. Following the application of Basel II, the FSA applied a strict look-through rule to investment in funds and the corresponding risk weight according to the original assets (the end of March 2007).	Based on "Enhancements to the Basel framework" published by the BCBS in July, 2009 which mentioned strengthening the regulation on securitized products, the FSA intends to implement necessary measures based on the enhanced framework.

			○ implement IOSCO's proposals to strengthen practices in securitisation markets.		Following the application of Basel II, as a strict rule unique to Japan, the FSA required that rating agencies disclose detailed information, including the subordinate ratio, for free in principle when financial institutions use external ratings related to securitized products in Basel II(the end of March 2007). The FSA revised the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. in order to ensure the traceability of original assets of securitized products (April, 2008). The FSA clarified that some points, including the following, would be under supervisory reviews in the Guidelines for Supervision in order for financial institutions to strengthen the management of market risk and credit risk related to investment in marketable credit products and securitization (August 2008). 1) The valuation of financial products, including securitized products, as objective as possible 2)An appropriate understanding of the nature of financial products, including securitized products, for example, avoiding excessive dependence on external ratings 3)The proper management of market liquidity risk related to investment in financial products including securitized products 4) A study on risks including the pipeline risk in originating securitized products WG on Distributions of Securitized Products of Japan Securities Dealers Association (JSDA) established and enforced the "Regulations Concerning Distributions, etc. of Securitized Products" which is self-	

					regulation on information communication related to the contents and risks of original assets (June 2009). The FSA has already implemented IOSCO's proposals to strengthen practices in securitisation markets such as strengthening the risk management of securitised products.	
51	(Lon)	Improvement in the risk management of securitisation	The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010.	By 2010	Please refer to the reply in 50.	The FSA has already taken various measures to strengthen risk management. The BCBS issued the final standards to enhance Basel II with regard to risk management in July. The FSA would consider an appropriate implementation of the standards where necessary considering such things as the content and time schedule in the document. We will contribute to the development of the discussions through the work stream on Ratings and Securitization in the BCBS.
52	(Pitts)	Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.	Ongoing	The FSA chaired the work stream on Ratings and Securitization in the BCBS.	The FSA will contribute to the development of the discussions through the work stream on Ratings and Securitization in the BCBS and take appropriate measures based on the discussions.
53	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	The FSA added in the Guidelines for Supervision that as part of voluntary disclosure, financial institutions should make efforts to actively disclose the exposures in which markets have strong interest, considering the international best practices (August 2008). As a result of the measure above, financial institutions have been making their disclosure considering the international discussion.	The FSA has already taken various measures on this issue and will continue the efforts.
54	(FSF 2008)	Strengthening of supervisory requirements or	II.18 Regulators of institutional investors should strengthen the requirements or best practices	Ongoing	The FSA clarified that some points, including the following, would be under supervisory reviews in the Guidelines for	The FSA has already taken various measures to enhance risk management. We will contribute to the development of

		best practices fir investment in structured products	for firms' processes for investment in structured products.		Supervision in order for financial institutions to strengthen the management of market risk and credit risk related to investment in marketable credit products and securitization (August 2008). 1) The proactive management of risks by the management team and establishment of systems that enable quick decisions from the viewpoint of the group's overall portfolio. 2) The use of various risk management approaches, including stress tests, to complement statistical risk measure approaches 3) The valuation of financial products, including securitized products, as objectively as possible 4) An appropriate understanding of the nature of financial products, including securitized products, for example, avoiding excessive dependence on external ratings 5) The proper management of market liquidity risk related to investment in financial products, including securitized products 6) A study on risks, including the pipeline risk in originating securitized products 7) Appropriate counterparty risk management regarding transactions of derivatives etc. The FSA has been encouraging financial institutions to make their risk management more sophisticated considering the revision of the Guidelines for Supervision.	the discussions through the work stream on Ratings and Securitization in the BCBS and take appropriate measures based on the discussions.
Others						
55	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial	Ongoing	【Financial sector policy】 As a response to the current financial crisis, Japan has implemented measures such as:	Japan will continue to reflect on exit strategies, including the extension of the exceptional measures.

			sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.		1) the resumption of the service of Banks' Shareholdings Purchase Corporation, 2) the enforcement of the revised Act on Special Measures for Strengthening Financial Functions to support smooth financing to small and medium-size enterprises and regional economies by means of capital injection into financial institutions by the government, 3) the enforcement of the SME Finance Facilitation Bill which requires financial institutions to strive to take appropriate steps such as revising the loan terms wherever possible when requested by an SME or residential mortgage borrower. The relevant acts stipulate the time and specific methods to terminate such exceptional measures beforehand. 【Fiscal policy】 In June 2010, Japan established the Fiscal Management Strategy in order to show the path to fiscal consolidation. Japan formulated the FY2011 draft budget based on the Fiscal Management Strategy.	

<u>Origin of recommendations</u>:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)
WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)