FSB- G20 - MONITORING PROGRESS – Japan September 2011

# *# in brackets are # from the 2010 template*		**G20/FSB RECOMMENDATIONS**		**DEADLINE**	**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. Improving bank capital and liquidity standards						
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 date not later than 31	By end-2011	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 publicized the final domestic rules in May 2011.	Enhanced trading book rules will be implemented as of the end-December 2011.

			December 2011 for all elements of the revised trading book rules.			
3 (5, 6, 8)	(Seoul)	Adoption and implementation of international rules to improve bank capital and liquidity standards (Basel III); including leverage ratios (Note) Please explain developments in i) capital standards, ii) liquidity standards and iii) leverage ratios respectively.	We are committed to adopt and implement fully these standards (Basel III) within the agreed timeframe that is consistent with economic recovery financial stability. The new framework will be translated into our national laws and regulations, and will be implemented starting on January 1, 2013 and fully phased in by January 1, 2019.	January 1, 2013 and fully phased in by January 1, 2019.	The FSA decided following schedules to apply Basel III in Japan. i) The revision of the capital standards will be conducted with a phase-in approach from 2013 to 2019. ii) As for liquidity standards, the LCR will be introduced in 2015 and the NFSR will be introduced in 2018. iii) Leverage ratios will pass the period of preparation period from 2013 to 2016 and will be introduced in 2018.	The FSA will revise domestic capital public notices in 2012 so as to implement Basel III capital standards in 2013. In terms of liquidity standards and leverage ratios, the FSA will develop necessary rules based on the final Basel rules.
4 (4, 7, 9, 48)	(WAP) (FSF 2009)	Strengthening supervision and guidelines on 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.(48) 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.(4)	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 and the Bank of Japan (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	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. 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, On-site Examination Policy and the check points on liquidity management properly. .

	(FSF 2008) (FSB 2009)		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. (7) Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.(9)		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.	
II. Addressing systemically important financial institutions (SIFIs)						
5 (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 Diet on March 9, 2010, which was established on May 12 and promulgated on May 19. The Cabinet Order and Cabinet Office Ordinance which specify the details of 1) were issued on December 27, 2010. Above the bill, Cabinet Order, and Cabinet Office Ordinance were enforced on April 1, 2011. In addition, the Guidelines for	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 apply this rule by March 2012.

					Supervision were revised to implement the new policy of 1) (these revised guidelines will be applied on 1st April). As for 2), the Cabinet Office Ordinance which specifies the details of 2) measures was issued on March 31 2011.	
6 (43, 44)	(Pitts) (Seoul)	Mandatory international recovery and resolution planning for G-SIFIs	Systemically important financial firms should develop internationally-consistent firm-specific contingency and 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.(44) We agreed that G-SIFIs should be subject to a sustained process of mandatory international recovery and resolution planning. We agreed to conduct rigorous risk assessment on G-SIFIs through international supervisory colleges and negotiate institution-specific crisis cooperation agreements within crisis management groups. 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.(43)	End-2010 (for setting up crisis management groups) Ongoing	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. . For the purpose of ensuring soundness in the management of banks and preventing 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. 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.	Japan will continue the dialogues about crisis management among relevant authorities. Taking into account international discussion, Japan continues to proceed towards finalizing the recovery and resolution plans.

7 (45)	(Seoul) (Tor) (WAP) (FSF 2008)	Implementation of BCBS recommendations on the cross-border bank resolution	We reaffirmed our Toronto commitment to national-level implementation of the BCBS's cross-border resolution recommendations. 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 reply in 6.	Please refer to the reply in 6. The FSA has already taken various measures to build a framework on this issue, and will continue to make efforts.
8 (41)	(Lon) (Seoul)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009. We agreed to conduct rigorous risk assessment on these firms through international supervisory colleges …	June 2009 (for establishing supervisory colleges) Ongoing	Please refer to the reply in 24.	Please refer to the reply in 24.
9 (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,	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

			supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.			national and international levels.
10 (New)	(Seoul)	More effective oversight and supervision	We agreed that supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools and powers to proactively identify and address risks, including regular stress testing and early intervention.	Ongoing	The FSA is explicitly authorized to conduct inspection and supervision to financial institutions by the law. The BOJ has carried out on-site examinations and off-site monitoring, for achieving the purpose of the BOJ's act. The FSA revised the Inspection Manual and established a new department, with the aim of capturing and analyzing risks in the financial market and the financial system at an early stage, and achieving effective inspection and supervision. Japan has implemented various types of stress tests to capture risks in the financial system. The FSA has placed "Early intervention measures" and "Early warning measures" so that the FSA could achieve early interventions in an effective way when risks in financial institutions materialize.	
III. Extending the regulatory perimeter to entities/activities that pose risks to the financial system						
11 (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	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, off-site monitoring and the semi-annual Financial System Report.

					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 established in May 12 and promulgated in May 19. The Cabinet Order and Cabinet Office Ordinance which specify the details were issued on December 27, 2010. The Act, Cabinet Order and Cabinet Office Ordinance relating to regulations on hedge funds and securities companies on a consolidated basis were established on April 1 2011. The regulation on OTC derivatives is scheduled to be enforced within two and half years after promulgating the relevant bill.	
Hedge funds						
12 (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.

13 (33)	(Seoul) (Lon)	Regulation (including registration) of hedge funds	We also firmly recommitted to work in an internationally consistent and non-discriminatory manner to strengthen regulation and supervision on 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 measures to expand coverage of registration to some types of foreign investment entrustments which were out of the scope of the Financial Instruments and Exchange Act. The Cabinet Order and Cabinet Office Ordinance which specify the details were promulgated on December 27, 2010 and enforced on April 1 2011 On March 4, 2010, the FSA revised, enforced and applied 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.
14 (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.
15 (35)	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds’ leverage and set limits	Ongoing	The FSA revised the Guidelines for Supervision and the Inspection Manual to strengthen banks’ and insurance companies’ management of credit risks regarding the counterparties, including hedge funds (August, 2008).	The FSA has already taken various measures on this issue and will continue the efforts. The FSA and BOJ will continue to check the risk management of institutions that have hedge funds as their counterparties

			for single counterparty exposures.			through supervision/monitoring and inspection/ examinations.
16 (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 15. 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 15.
Securitisation						
17 (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; • implement IOSCO's proposals to strengthen practices in securitisation markets.	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). 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	Enhanced securitization rules will be implemented as of the end-December 2011.

					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. Concerning "Enhancements to the Basel □ framework" published by the BCBS in July, 2009, the FSA has publicized the final domestic rules, including measures to strengthen regulation on securitized products, e.g., raising risk-weights on re-securitized products, in May 2011.	
18 (51, 52)	(Lon) (Pitts)	Improvement in the risk management of securitisation, including retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	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.(51) Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.(52)	By 2010	Please refer to the reply in 17. The FSA chaired the work stream on Ratings and Securitization in the BCBS.	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 2009. 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. 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.
19 (10)	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing	The FSA clarified the supervisory review points in the Guidelines for Supervision in order to strengthen risk management 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. Insurance companies disclosed solvency margin ratio based on the new regulation as an indicator as of the end of March 2011.	The FSA is scheduled to refer to solvency margin ratio based on the new regulation as a reference for early intervention measures since the end of March 2012.
20 (54)	(FSF 2008)	Strengthening of supervisory requirements or best practices fir investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	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 - 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	The FSA has already taken various measures to enhance risk management. We 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.

					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.	
21 (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 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).	The FSA has already taken various measures regarding this issue and will continue the efforts.
IV. Improving OTC derivatives markets						
22 (17, 18)	(Seoul) (Pitts)	Reforming OTC derivative markets, including the standardisation of CDS markets (e.g. CCP); and trading of all standardized OTC derivatives on exchanges,	We endorsed the FSB's recommendations for implementing our previous commitments in an internationally consistent manner, recognizing the importance of a level playing field. All standardized OTC derivative contracts should be traded on	By end-2012 at the latest	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	The JSCC is currently considering how to provide a clearing service for yen interest swap. .

	(Lon)	clearing and trade repository reporting.	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. (18) 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.(17)		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 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 established in May 12 and promulgated in May 19. In July 2011, Japan Securities Clearing Corporation (JSCC) started providing a CDS clearing service.	
V. Developing macro-prudential frameworks and tools						
23 (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 off-site monitoring.
24 (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	Ongoing	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 FSA, in corporation with the BOJ, will continue to host supervisory college.

			risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.		the "Development of Institutional Frameworks Pertaining to Financial and Capital Markets" which includes, 2) making it possible - 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 established in May 12 and promulgated in May 19. The Cabinet Order and Cabinet Office Ordinance which specify the details of 1) - 3) were promulgated on December 27, 2010. The bill, Cabinet Order and Cabinet Office Ordinance relating to 2) and 3) were enforced on April 1 2011. The regulation relating to 1) is scheduled to be enforced within two and half years after promulgating the relevant bill. Based on the above bill amendment, which introduced regulation and supervision on a consolidated basis, the supervisory viewpoints on Integrated Control Environment for Risk Management over the whole group; etc, were clarified in the supervisory guideline on April 2011.	

25 (28)	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macro-prudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macro-prudential (system-wide) level… 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.	Please refer to the reply in 3. 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.
26 (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 BOJ reviews the development of indicators such as asset prices and credit aggregates in the semi-annual Financial System Report.	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.
27 (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.
VI. Strengthening accounting standards						
28 (11)	(WAP)	Consistent application of high-quality accounting	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private	Ongoing	The FSA encouraged Japanese stakeholders to actively participate and express their opinions in the international accounting standards setting process.	Discussion about application of IFRS is underway by the Business Accounting Council.

		standards	sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.		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: - It was allowed for the listed companies which engage in international activities to apply the IFRS as a voluntary basis since March 2010. -The judgment regarding the mandatory use of IFRS will be made around in 2012. On December 11, 2009, the FSA revised 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 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). On June 21 2011, the Minister of the FSA announced "The view on application of the IFRS." - The FSA does not suppose application of mandatory use of the IFRS at least at the timing of March 2015. - Even in case of applying mandatory use, sufficient preparation period, say 5-7 years, is needed after the final decision. - Although the US standard was	

					scheduled to be prevented as of March 2016, the FSA abandons this expiration and allows entities to continue to use this US standard.	
29 (New)	(Seoul)	Convergence of accounting standards	We re-emphasized the importance we place on achieving a single set of improved high quality global accounting standards and called on the International Accounting Standards Board and the Financial Accounting Standards Board to complete their convergence project.	End-2011	As for convergence of international accounting standards, according to “Tokyo agreement” between the ASBJ (Accounting Standards Board of Japan) and the IASB, it was agreed that both institutions would point out significant gaps between them in 2008. This agreement was achieved as scheduled. Moreover, both institutions set a target to achieve convergence on most of significant gaps by the end of June 2011. This target has been broadly achieved in June 2011.	
30 (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.	Considering the progress made in discussion conducted by the IASB, the ASBJ is examining the possibility of improvement in accounting standards with Japanese stakeholders.
31 (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 finalized the IFRS 9 (clarification and measurement) in November 2009, and finalized the IFRS 13 (measurement of FVA) on May 12 2011. Japan designates the IFRS 9 as the international standard for entities which apply the IFRS as a voluntary basis.	The IASB published a draft on the hedge accounting on December 9 2010, and this accounting is intended to be finalized in 2011. The draft on macro hedge is intended to be published by the end of 2012. The ASBJ is considering whether to make revisions in parallel with decisions of the IASB in coordination with domestic relevant institutions.

VII. Strengthening adherence to international supervisory and regulatory standards.						
32 (21, 22, 23)	(Lon) (WAP)	Adherence to international prudential regulatory and supervisory standards, as well as agreeing to undergo FSAP/ FSB periodic peer reviews (Note) Please try to prioritise any major initiatives conducted specifically in your jurisdiction.	We are committed to strengthened adherence to international prudential regulatory and supervisory standards. 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.(22) All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.(23)	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. The initial FSAP was already conducted in 2003. Since then, Japan has taken various measures in financial sectors aligned with actions recommended by the update of the FSAP. In January 2011, Japan requested the FSAP update to the IMF. Since then, Japan has continued to discuss with the IMF.	We will continue to take part in the discussion at the FSB and standard setters actively and implement international financial standards. Japan will continue to take part in the international discussion on transparent assessment of countries' national regulatory systems actively. It is expected that the IMF Board on the FSAP update on Japan will be held and outcomes will be made in public around in summer 2012.
Reforming compensation practices to support financial stability						
33 (15)	(Pitts)	Implementation of FSB/FSF compensation principles	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	End-2010	The FSA issued the revised Supervisory Guidelines on March 4, 2010, clarifying supervisory viewpoints, such as the roles of remuneration committees or equivalent bodies, the consistency of compensation structures with risk management, and the disclosure of the design and operations of the compensation systems, based on the FSF/FSB Compensation Principles and Standards. The FSA continues to monitor compensation practices of firms. If necessary, firms would be required to submit a report to JFSA based on the Supervisory Guidelines and the relevant	See the left side column.

	          (Tor) (Seoul)		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 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. We reaffirmed the importance of fully implementing the FSB's standards for sound compensation.		laws. Furthermore, if there are serious concerns or problems, the FSA would take further supervisory actions based on the laws. The Supervisory Guidelines clarify the mechanisms and detailed viewpoints in the supervisory process. The Supervisory Guidelines state that the FSA shall monitor remuneration systems of firms and that, if the FSA detects serious deficiency in implementation, a firm would be required to submit a report to the FSA based on the laws. Furthermore, the Supervisory Guidelines state that, if there are serious violations or material concerns and problems, the FSA shall take further supervisory and enforcement actions, including corrective orders, based on the laws. In addition, there is a more stringent regulatory framework for banks, which have received government support and yet repaid, based on the Deposit Insurance Act and other relevant laws. This legal scheme includes regulatory frameworks governing remuneration arrangements. In the past, the FSA issued correction orders to these banks. These enforcement actions included replacement of senior management, reduction of regular employees' bonuses, no payment of executives' bonuses, and review of total compensation system.	
34 (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	Ongoing	Please refer to the reply in 33.	Please refer to the reply in 33.

			practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.			
VIII. Other issues						
Credit rating agencies						
35 (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 revise the Financial Instruments and Exchange Act ("the Act"), which introduced a registration system for CRAs, was established 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 was enforced 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. They enabled appropriate inspection and supervision. 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 revised the Cabinet Office Ordinances of the Act, which included the reviews of the rule for disclosure regarding	The FSA and the SESC properly supervise and inspect CRAs in accordance with the Guidelines for Supervision and the Inspection Manual for CRAs.

					the use of credit ratings. The revised regulation was applied on January 1, 2011.	
36 (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 established 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 Cabinet Office Ordinance 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 was enforced 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. They enabled appropriate inspection and supervision.	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.
37 (39)	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	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 Act to amend the Financial Instruments and Exchange Act ("the Act"), which introduced a registration system for	The FSA continues to contribute to discussions at IOSCO and engage in bilateral dialogues.

					CRAs, was established 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 was enforced on April 1, 2010.	
38 (40)	(Seoul) (FSF 2008)	Reducing the reliance on ratings	We also endorsed the FSB's principles on reducing reliance on external credit ratings. Standard setters, market participants, supervisors and central banks should not rely mechanistically on external credit ratings. 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 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	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.

					rely excessively on credit ratings, requirements of credit ratings were removed from the Shelf Registration System(December 2009). 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 was applied on January 1, 2011.	
Risk management						
39 (48)	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	Please refer to the reply in 4.	Please refer to the reply in 4.
40 (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 1.7% at the end of March 2011 and capital adequacy ratio of them increased from 10.8% to 17.33%).	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.

41 (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 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.
Others						
42 (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.
43 (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 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.	Ongoing	【Financial sector policy】 As a response to the current financial crisis, Japan has implemented measures such as: 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. 【Efforts by the Bank of Japan】 Of the temporary measures that the Bank of Japan has introduced after the fall of 2008, when the turmoil in global financial markets intensified, the effective periods of the following have expired. (Measures to Ensure Stability in Financial	Japanese government will continue to carefully reflect on exit strategies, including withdraws of the exceptional measures. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank of Japan will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

					Markets) ・U.S. dollar funds-supplying operations (expired on Feb. 1, 2010) Note: re-established on May 10, 2010 ・Inclusion of the Development Bank of Japan as a counterparty in operations such as CP repo operations (expired at the end of Mar. 2011) (Steps to Facilitate Corporate Financing) ・Expansion in the range of ABCP as eligible collateral (expired at the end of 2010) ・Special funds-supplying operations to facilitate corporate financing (expired at the end of Mar. 2010) ・Expansion in the range of corporate debt as eligible collateral (expired at the end of 2010) ・Outright purchases of CP (expired at the end of 2009) ・Outright purchases of corporate bonds (expired at the end of 2009) (Measures to Secure the Stability of the Financial System) ・Resumption of stock purchases held by financial institutions (expired at the end of Apr. 2010) ・Provision of subordinated loans to banks (expired at the end of Mar. 2010) 【Fiscal policy】 In June 2010, Japan established the Fiscal Management Strategy in order to show the path to fiscal consolidation. In the Strategy, the following targets has been set: a) for the national and local governments' primary balance, the deficit ratio to GDP shall be halved from the ratio in FY2010 by FY2015 at the latest, b) for the national and local governments' primary balance, the surplus shall be achieved by FY 2020 at the latest, c) from FY 2021, a stable reduction in the ratio of	

					public debt to GDP for both national and local governments shall be maintained. In addition, the Strategy provide that the Medium-term Fiscal Framework is to be formulated every year to provide fiscal framework for the subsequent three years, thereby taking measures both on revenue and expenditure sides as well as restraining the amount of new government bonds issue. According to the Strategy, Cabinet endorsed the revised Medium-term Fiscal Framework which targets at FY2012-FY2014 in August 2011.	

Origin of recommendations:

Seoul: The Seoul Summit Document (11-12 November 2010)
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)