

Fight against COVID-19 and Develop a Better Post-COVID Society

JFSA priorities for July 2020-June 2021

August 2020



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Introduction

In the business year 2020, Japanese Financial Services Agency (JFSA) will focus on the following three areas.

1. Fight against COVID-19 and develop a better post-COVID society

First, JFSA will continue to work on policy responses to COVID-19 related issues. We will make every effort so that financial institutions will be able to perform their financial intermediary function to firmly support businesses and households. At the same time, we will take measures so as to prepare for a strong post-COVID economic recovery and the construction of a better society.

2. Make the Japanese financial and capital market more sophisticated and attractive

Second, JFSA will take measures to improve the function of the Japanese financial and capital markets and enhance its role in Asia and the rest of the world. The Japanese market has the potential to contribute to international risk diversification as geopolitical risks increase. We will think through to develop the Japanese market in a way that it will benefit both the Japanese and global economy.

3. Reform JFSA

Third, JFSA will continue to reform itself so that it can serve as an agency to develop the financial industry and literacy. We will further evolve and establish work style reforms triggered by responses to COVID-19 related issues. We will create an organizational culture in which employees discuss in a free and easy way with each other and take the initiative. We intend to enhance our capability to grasp the reality and conceptualize our policies.

July 2020 marked the twentieth anniversary of JFSA's establishment following the reorganization of the Financial Supervisory Agency and Financial System Planning Bureau of the Ministry of Finance. We continue our effort to increase the welfare of the people through sustainable growth of businesses and the economy as well as stable asset formation by striking a balance between each of: (1) stabilizing the financial system and having financial institutions fully perform their financial intermediary function; (2) ensuring user protection and enhancing user convenience; and (3) securing fairness and transparency over, and invigorating, the market.

*JFSA is always open to receiving opinions concerning "JFSA priorities for July 2020-June 2021", which we will take into consideration for the future. To give an opinion, please visit our website <<https://www.fsa.go.jp/en/contact.html>>.

1. Fight against COVID-19 and develop a better post-COVID society

First, JFSA will continue to work on policy responses to COVID-19 related issues. We will make every effort so that financial institutions will be able to perform their financial intermediary function to firmly support businesses and households. At the same time, we will take measures so as to prepare for a strong post-COVID economic recovery and the construction of a better society.

[Fight against COVID-19 and prepare for a strong post-COVID economic recovery]

As business operators struggle with their severe liquidity conditions due to the impacts of the COVID-19 crisis, JFSA has been implementing a range of measures in cooperation with other ministries and agencies to ensure that prompt and appropriate liquidity assistance is provided to them (see Appendix on page 30 and thereafter). Specifically, our liquidity assistance measures have included: repeatedly requesting financial institutions to take support measures; establishing a system to enable private-sector financial institutions to provide loans with no interest and no collateral in effect; strengthening cooperation between government-affiliated and private-sector financial institutions; reducing financial institutions' burdens by postponing the implementation of, and simplifying, regulations and their regulatory reporting; and setting up a consultation desk for providing consultation concerning transactions with financial institutions. Financial institutions are working to provide liquidity assistance, including changing the terms and conditions of the outstanding loans and providing new loans. As a result, loans have been significantly increasing recently. Furthermore, it is also necessary to facilitate a strong economic recovery through supporting business improvement and recovery of businesses. Going forward, JFSA will develop necessary systems to enable financial institutions to fulfill their functions even more adequately to prepare for a strong economic recovery. Also, we will help financial institutions develop their sustainable business models, accurately grasping the present statuses of financial institutions and the financial system as a whole.

(1) Having financial institutions fully perform their financial intermediary function

(i) Financial institutions' liquidity assistance for business operators

Given the enormous economic impacts of COVID-19 crisis in and outside Japan, financial institutions must continuously keep track of performances of business operators in detail and provide them with adequate liquidity assistance.

In providing liquidity assistance, it is important to provide support that meet the business operator's needs with an optimal combination of measures such as revising the terms and conditions of the outstanding loans, providing new loans, and utilizing financial institutions' proprietary loans as well as loans guaranteed by Credit Guarantee Corporations (CGCs).

To this end, JFSA continues to monitor the financial institutions' initiatives and cooperate with government-affiliated financial institutions, CGCs and other organizations to ensure financial institutions providing liquidity assistance to businesses.

Specifically, we will check whether appropriate and adequate supports are provided on the whole based on a range of information such as the picture of initiatives checked through special supervisory processes, details of consultation handled by the consultation desk, and the overall trend of loans.

At the same time, for the sake of smoother processing of loans including government-directed loans, we will collect examples of streamlined and digitalized procedures and share them with financial institutions, local governments, and CGCs. Furthermore, we will share good examples of financial institutions' liquidity assistances with other financial institutions to encourage them to draw on such examples, thereby supporting their initiatives.

(ii) Support for people affected by heavy rains and other natural disasters

Considering the occurrences of heavy rains and other natural disasters in recent years, we are, during normal times, developing readiness to respond to natural disasters. In the event of a natural disaster actually occurring, we will provide prompt and adequate support to affected people based on the situation of the affected area and in coordination with relevant organizations.

In addition, during ordinary times, we will have financial institutions improve their business continuity readiness based on experiences in disaster responses and in response to the COVID-19 crisis. In the event of a natural disaster actually occurring, we will request financial institutions to adopt prompt and adequate financial measures and to provide other fine-tuned support to affected people based on fully understanding their needs.

With respect to individuals and sole proprietors who face difficulty in repaying their housing or other loans outstanding, getting their debts consolidated based on the “Guidelines for Debt Consolidation after a Natural Disaster” would help them rebuild their livelihood and/or business. This approach provides various benefits including allowing them to keep part of their properties with them and enabling them to receive professional support from lawyers and other Registered Support Experts free of charge during the proceedings.

Furthermore, this Guidelines will be applied also to individuals and sole proprietaries who faces difficulty in repaying their debts outstanding due to the COVID-19 crisis, supporting their debt consolidation towards rebuilding their livelihood and business.

(2) Support for business improvement, recovery, etc.

We continue to pay attention to the COVID-19 crisis and other related situations. It is concurrently imperative to shift the policy emphasis from provision of liquidity assistance to provision of support for business improvement and recovery of business operators to facilitate robust economic recovery and further improve productivity towards the post-COVID new normal era.

We request financial institutions to have detailed discussions with business operators about optimal options for their management approaches during and after the COVID-19 crisis including business redevelopment and recovery and to implement effective support measures utilizing the funding scheme of Regional Economy Vitalization Corporation of Japan (REVIC) and other entities as well as quasi-capital loans. We will monitor the status of their actions in this regard through special supervisory interviews.

Furthermore, we will ensure the effectiveness of the local support system by requesting regional organizations and professional service providers—including financial institutions, the SME Revitalization Support Committee, CGCs, tax accountants—to provide collaborative and smooth support for business operations. To this end, the Regional Finance Bureau and JFSA will make requests and provide supports to relevant organizations according to the region’s situations. Moreover, we will improve the business environment and support financial institutions’ initiatives by encouraging them to process loans in digital way and share know-hows to support businesses across regions and organizations.

(3) Institutional Measures

(i) Revise regulations on the scope of business for banks to allow them to conduct business essential to support the recovery of their clients and their local economy

Impacts of the COVID-19 crisis and other factors are causing socio-economic changes, which are coupled with structural changes including the aging society with fewer children and declining population. Against this backdrop, financial institutions must proactively support business operators and individuals in responding to these changes and, at the same time, review their own services.

We will develop an environment that enables financial institutions to proactively address these issues thereby contributing to the revitalization and sustainable growth of the regional economy. Specifically, JFSA's Financial System Council will consider the following points concerning the banking system that contributes to a sustainable economic recovery and growth:

- (a) Revise regulations on the scope of services provided by subsidiaries and affiliated companies of banks to enable banking groups to proactively provide socially valuable services including contributing to regional revitalization.
- (b) Revise regulations concerning banking groups' investment in general operating companies, from the perspective of provision of support for regional business recovery, business succession and start-ups.
- (c) Consider general operating companies' possible ownership of a bank from the perspective of securing an equal footing between banking groups and groups of operating companies.
- (d) Revise regulations concerning services a bank and its subsidiaries and affiliated companies may provide, from the perspective of full utilization of banking groups' resources including talent, data, and IT systems.
- (e) Revise regulations on the scope of services provided by a bank's overseas subsidiaries and affiliated companies, from the perspective of helping Japanese banking groups increase their international competitiveness.

(ii) Consider practices of lending and restructuring operations, including legislation of blanket security interest, to enable financial institutions to comprehensively support borrowers' business continuity and enhancement

The COVID-19 crisis has become one cause to reconsider the essence of lender-borrower relationships. It has once again been recognized that building a close relationship with borrowers on a regular basis and grasping borrowers' business prospects establish the essential foundation for financial institutions to take risks and to provide prompt supports for corporate borrowers at a time of crisis. Developing such close relationships and supporting continuity of valuable businesses are crucial in order to strengthen their resilience against future crises and to support Japan's robust economic recovery.

We will consider desirable lending and business turnaround practices that support business continuity and enhancement through a study group with practitioners and academic experts, taking into account the current economic environment and overseas practices. Presently, there are issues including: even entrepreneurs with business prospects face difficulties in getting loans without tangible assets for collaterals or personal guarantee; further, financial institutions tend to pay more attention on liquidation value of individual assets rather than the value produced from business continuity. We pursue practical possibilities of a blanket security interest that could encourage financial institutions to comprehensively support borrowers' business continuity and enhancement.

(4) Accurate grasp of the actual situation

The present environment with economic uncertainties could lead to drastic changes in business environment and industrial structure. Under this environment, it is particularly important to understand the business status of each financial institution and the resilience and vulnerability of the overall financial system, using effective and efficient approaches. An accurate understanding of actual statuses serves as a foundation for every decision the financial regulators make. Without such understanding, no effective dialogues could take place towards helping financial institutions develop sustainable business models.

(i) JFSA's data strategy and enhancement of analytical capability

We will enhance data utilization within JFSA to better understand economic and market trends and to monitor, accurately and in a timely manner, the status of each financial institution and the overall financial system, including through analyzing the data obtained from financial institutions in combination with macroeconomic and financial data and firm-level data.

Moreover, as part of our medium to long-term data strategy to achieve more effective and efficient financial administration, we will improve data governance—i.e., a framework and rules for data collection, management, and utilization—and seek to enhance our analytical skills and tool sets.

(ii) Monitoring methods

In monitoring financial institutions, we keep track of actual statuses with flexible approaches and from a forward-looking perspective, and conduct integrated on-site/off-site monitoring effectively and focusing on important business issues that the financial sector and financial institutions are facing. This includes a shift from conventional approaches to more effective and efficient approaches adopting remote monitoring.

Based on JFSA's Supervisory Approaches, we will develop practical monitoring methods according to the sizes, characteristics, and business models of financial institutions in various areas such as risk management concerning foreign currency liquidity and risk management concerning securities investment while considering new business issues we need to be aware of including responses to the COVID-19 crisis.

(5) Dialogues with financial institutions concerning sustainable business models

Financial institutions in general have strong financial bases at this point and the overall financial system remains stable. On the other hand, the environment surrounding the financial industry is changing drastically. Factors include declining population, aging of customers, continuously low interest rates eroding profitability, the worldwide COVID-19 pandemic, frequent occurrences of severe natural disasters, and digitalization. Financial institutions must develop sustainable business models considering these changes.

(i) Major banking groups and other banks

Financial soundness is the foundation for the financial intermediary functions. Given the increasing economic uncertainty, we will analyze and understand individual financial institutions' financial situations based on data and other information, and conduct in-depth dialogues with them. In doing so, we seek to accurately understand their risks concerning credit costs, overseas credit investment, and non-JPY funding.

Furthermore, we seek to understand the impacts of economic changes on the financial system and their contagion routes through sensitivity analyses based on certain scenarios, stress tests jointly conducted by JFSA and the Bank of Japan, and dialogues with financial institutions based on these analyses. Additionally, we will utilize individual financial institutions' own stress tests in understanding financial institution's risks and soundness and in dialogues with financial institutions on their capital policies.

Concurrently, we will have dialogues with financial institutions concerning how they develop business models that would help solve issues that households, businesses, communities, and the international society face under the new environment with the prolonged low interest rates worldwide and the accelerated digital transformation of the entire society.

(ii) Regional financial institutions

For regional financial institutions (regional banks and cooperative financial institutions), it is important to leverage their talent, trust from communities, and local networks to help solve a range of issues facing the communities and to create added values and share with them. Furthermore, it is imperative for them to develop sustainable business models and continue to maintain their financial soundness into the future so that they could perform even more roles in revitalizing regional economy, including by helping business operators improve and recover their business. From these perspectives, JFSA will monitor in depth regional financial institutions' business conditions and governance while paying attention to the status of the COVID-19 crisis.

We pay close attention to changes in business conditions of business operators and in financial markets in and outside Japan on a real time basis that are caused by the COVID-19 crisis and other related factors. Moreover, when we identify a regional financial institution with an issue in their profitability that must be sustainable or financial soundness that must continue, we will have an in-depth dialogue with it based on an early warning system etc., and request it to take effective measures for developing a sustainable business model. In doing so, we will encourage the financial institution to consider a wide range of approaches including utilizing initiatives it could adopt based on the revised Act on Special Measures for Strengthening Financial Functions and the Special Act under the Anti-trust Law that

were passed into laws at the recent ordinary Diet session as well as improving the efficiency of systems and other operational bases and administrative functions.

Furthermore, we will monitor regional financial institutions by optimally combining various methods according to the issues facing them, including dialogues with their top management members, employees at different levels and external directors and investigations utilizing remote communication technologies. Dialogues with the management members will address core issues, too. Additionally, in conducting dialogues, attention will be paid to securing psychological safety.

We will hold dialogues with regional financial institutions indicating issues, such as in their securities investment system to improve their risk management system as promptly as possible, while paying attention to the impacts of fluctuations in financial markets on them.

Furthermore, in regards to regional financial institutions' actions concerning loans, provisioning, etc. following the discontinuation of JFSA's Inspection Manual, we seek to collect good examples implemented based on the Supervisory Approaches.

Concurrently, for the purpose of encouraging regional financial institutions to develop sustainable business models and to provide support to local businesses, we are proceeding various initiatives such as holding dialogues concerning a review of systems cost and human resource matching utilizing government-sponsored projects. Besides, from the perspective of realizing smooth mobility of management professionals to the region and their side jobs, we will prepare a list of professionals with experience working for major banks etc., manage the list on REVIC, and promote matching between professionals and local enterprises.

Cooperative financial institutions are deeply rooted in the community through their members and credit union members under the spirit of mutual aid. We will take into consideration this characteristic in holding dialogues and discussion with them, which are being held towards having them perform their financial intermediary functions including supporting businesses affected by the COVID-19 crisis and maintain their own financial soundness. Especially, we will encourage them to give due consideration to provision of support to small and medium enterprises and small businesses.

(iii) Securities companies

Securities companies undertake important roles as key players in the capital markets that perform important functions, such as valuing appropriate prices based on combinations of risks and returns, appropriately sharing them throughout society, and disciplining business operators. The importance of these roles is increasing, especially in helping companies recover their business and at the time of structural transformation of an industry.

Securities companies also undertake crucial roles in promoting asset-building by households. They are expected to provide necessary services and products that enable various generations to appropriately manage family assets and build portfolios along with ensuring their customer-oriented business operations.

We expect securities companies to function well as financial intermediaries and develop sustainable business models through providing services and products depending on their business categories—e.g. large, online, and regional securities companies. With these in mind, we will hold in-depth dialogues with securities companies regarding their measures for the following tasks.

- Considering customers first and providing services and products that are truly beneficial to them. For example, providing businesses with appropriate advice and intermediary functions for necessary finance for strengthening their balance sheets; and, in regards to households, changing business strategies towards supporting their stable asset-building, expanding trading channels, and adapting to the new normal.
- To this end, developing a business operation framework emphasizing customers' benefits; and establishing compliance control and performing governance functions not limited to mere formal adherence to rules.

(iv) Insurance companies

With the frequent occurrence of severe natural disasters and the outbreak of Covid-19, as the environment has been changing, insurance companies have to deal with these new risks as an urgent issue. (Refer to the below section [Develop a better post-COVID society], (2) (iii) (b) “Insurance services for households and businesses protection from new risks.”) Keeping this in mind, it is pivotal for them to review their business models, including products and services design, group-wide governance, risk management, and business operations that correspond with the company's characteristics, so that they can satisfy their customer needs to be prepared for various unforeseeable events.

Under these circumstances, we will hold in-depth dialogues with insurance companies regarding the issues and the statuses of their efforts to develop a sound and sustainable business model. Moreover, based on the customer oriented approach, the dialogue will focus on their expected business operations, including their responses to the new normal, which should be adopted across the insurance industry, in which face-to-face selling was the core retail business practice.

At the same time, we will steadily prepare to realize a prudential policy based on economic value-based solvency regulation to establish a regulatory and competitive environment suitable for changing social conditions and the new risks surrounding the insurance companies.

(v) Japan Post

Japan Post Group needs to unleash its originality and ingenuity as a private-sector company and provide customer-oriented services based on the postal network. To this end, it must establish a sustainable group-wide business model.

From this perspective, we will hold dialogues with Japan Post regarding the status of its group-wide governance in addition to their initiatives for utilizing the postal network for the benefit of citizens, securing stable earnings through market operations, and developing a portfolio resilient to market fluctuations. With respect to Japan Post Insurance and other companies in Japan Post Group, we will monitor their initiatives being implemented towards recovering customer trust.

(6) Internationally coordinated responses

The world's financial systems that have been strengthened in their resilience through a series of financial regulatory reforms remain generally stable despite the impacts of the COVID-19 crisis. Nevertheless, their degree of the future uncertainties are rising. International cooperation is necessary for robustly supporting the economy in a medium to long term while maintaining the financial system's soundness globally under this situation. To support economic recovery in the with- and post-COVID-19 world, we will engage in international discussions so that each country can implement effective initiatives to address their challenges, and if necessary, we will lead the initiatives towards internationally coordinated measures.

It is becoming increasingly important to have a network with foreign authorities so that we could share information and cooperate with them in a timely and adequate manner to avoid confusion when unexpected events occur outside Japan.

In regards to crisis responses, we have contributed to international discussions, drawing on our experience of past financial crises in Japan and have cooperated with other supervisory and resolution authorities, including through Crisis Management Groups¹ and workshops. Going forward, we will further strengthen our relations with other authorities by enhancing the existing collaborations and setting up new communication channels. Knowledge, lessons, and good practices we learn from other authorities will inform our supervisory monitoring framework and crisis preparedness.

¹ The Crisis Management Groups for global systemically important banks (G-SIBs) are meetings among home and host authorities to discuss and assess resolvability of the banks. Key Attributes of Effective Resolution Regimes for Financial Institutions (FSB 2012) require the Groups to meet regularly.

[Develop a better post-COVID society]

Considering the transition towards new normal triggered by the COVID-19 crisis as an opportunity to innovate and streamline the conventional socio-economic structure with improved efficiency, we will develop diverse financial intermediary systems that support relevant changes. It is also important to help create financial services that meet customer needs by incorporating digital technologies and to get the financial intermediary systems to be responsive to global issues including cyberattacks, climate changes and other new risks.

(1) Develop an economic system that adequately diversifies and regulates risks associated with new businesses

The COVID-19 pandemic has forced us to identify uncertainties of businesses that are based on face-to-face operations and risks associated with the society concentrating in large cities. These factors are expected to cause significant changes in the economy, society and industrial structure including behavioral changes including dissemination of remote working and non-face-to-face provision of services and advancement of digital transformation.

Though the post-COVID economy and society remain unknown at this point, it is imperative to develop a financial system that can adequately diversify and regulate risks associated with new businesses towards achieving a vibrant economy and society.

To this end, first of all, the financial industry must change significantly. It would be insufficient if it superficially addresses, for example, digitalization without fundamentally questioning its conventional business approaches. Facing a major turning point, the industry must face up to customers' real needs and consider and achieve added-value creation to meet them. JFSA will develop an environment that facilitates financial institutions' reforms. Its initiatives will include reviewing the scope of banking services to enable banks to conduct operations necessary for helping revitalize customers and communities and considering legislation concerning blanket collateral as well as loan and recover operations that fully support borrowers.

Additionally, it is important to improve the capital market environment. For companies to realize sustainable growth, they must share their mission and vision of change with their stakeholders, including shareholders, customers, employees,

and communities, and implement them. To this end, we will consider corporate governance that can lead changes towards the post-COVID economy and society.

Through these initiatives, we will work to develop a financial system that contributes to building a new post-COVID economy and society.

(2) Develop financial services that meet post-COVID customer needs

(i) Digitalization in finance

Information, communication, data processing and other technologies are rapidly advancing with their social implementation taking place in full scale. The financial industry could also significantly benefit customers by developing and providing advanced and better services incorporating digitalization. Additionally, digitalization is expected to create new earning opportunities for all the relevant businesses, including financial institutions, which in turn are expected to lead to the creation of a virtuous cycle with new financial services being developed that are highly convenient for customers.

All the relevant businesses, including financial institutions, must not be complacent about replacing their conventional operations with digitalized ones. Rather, they must think creatively to generate added value for meeting customer needs and helping solve social issues with new approaches leveraging digital technologies. Furthermore, such financial services are expected to establish an innovation cycle for consistently identifying necessary improvements and continuously evolving the services, utilizing real-time and voluminous data. At the same time, for these digital innovations to penetrate and take root in society, it is important for customers to be able to use new services securely and safely. It is also necessary to encourage the provision of digital services that are friendly to diverse customers.

(a) Support digital innovations

We will enhance the functions of the FinTech Innovation Hub (FIH) to adequately identify regulatory and technological issues and address them in an integrated manner and thereby to enable all the relevant businesses, including financial institutions, to create highly convenient services through digital innovations. Specifically, the functions of the FinTech Support Desk and the demonstration experiment hub will be integrated into the FIH. Furthermore, we will support various stakeholders to cooperate to solve issues by focusing on common issues among

the business community, such as the standardization of security. In regards to the application of blockchains and other distributed computing technologies, we will lead domestic and global discussions through the activities of Blockchain Governance Initiative Network (BGIN) and Multilateral Joint Research Project.

(b) Develop an environment to support digital innovation

In order to promote digital innovations in finance, there are tasks for which individual players' efforts alone would not suffice and which the industry as a whole needs to address, such as improving regulatory frameworks and developing infrastructures.

Along with the new regulatory framework, which allows brokers to provide various financial services spanning multiple sectors (banking, securities and insurance) with a single registration, we will establish an efficient registration process to facilitate new entries.

In regards to infrastructures, given the further dissemination of cashless payment, we will enhance and improve the efficiency of the settlement system, reviewing inter-bank transaction charges and considering the development of a system for frequent and small-amount payment and superior non-banks' participation in the interbank payment system. In respect of enhancing cross-border payments, JFSA will be actively involved in discussions held globally, and JFSA will also contribute to due considerations on CBDC addressed by BOJ, in cooperation with MOF.

We will implement initiatives toward disseminating non-face-to-face services that are completed online and thereby addressing industry-wide issues. The initiatives include reviewing customary practices requiring conventional paper-based documents, seals and face-to-face meetings that are obstacles to digitalization, and promoting the utilization of Individual Number (My Number) Cards. Regarding the many similar payment services available, we will encourage initiatives to be implemented towards improving customer convenience and securing interoperability between all the relevant businesses, including financial institutions.

(c) Resolve customers' issues and continuously improve customer experience utilizing digital technologies

It is strategically important for all the relevant businesses, including financial institutions, to utilize digital technologies for providing services that help resolve customers' issues with new approaches and for evolving services by consistently

improving customer experience, and thereby to acquire customers. We will hold in-depth dialogues with them so that they could adequately implement IT governance towards addressing these tasks.

Also, we will provide comprehensive support to all the relevant businesses, including financial institutions, through FIH and other bodies towards creating a virtuous cycle of financial services, bearing in mind that utilizing financial service intermediary business is an option.

(ii) User-oriented financial service

(a) Customer-Oriented Business Conduct

In order to achieve stable personal asset building, it is necessary for financial institutions to provide better financial products and services from a customer-oriented perspective. JFSA will aim for further enhancement of financial institutions' customer-oriented business conduct, including through developing the desirable initiatives in "Principles for Customer-Oriented Business Conduct" as well as encouraging financial institutions to perform their business accordingly, based on the "Report of the Working Group on Financial Markets of the Financial System Council" published in August 2020. When providing financial products and services to their customers, financial institutions will be encouraged to compare options in an easy-to-understand manner by utilizing "Key Information Sheet," which briefly describes the fees and commissions and investment risks, as well as possible conflicts of interest. JFSA will also enhance information-dissemination through publishing examples of good practices of financial institutions and showing their initiatives in a comparable way. Furthermore, JFSA will hold in-depth dialogues with financial institutions about their management strategies, business models and internal systems supporting them, including the adoption of appropriate fees and commissions.

These initiatives will be conducted in consideration of recent developments in communication measures between financial institutions and customers under digitalization and the COVID-19 epidemic.

(b) Financial and economic education

For individual users to select financial products and services suitable to their life plans toward stably building assets, initiatives for improving their financial literacy is important. Although JFSA has proactively held caravan classes and seminars,

COVID-19 has made it difficult to continue these initiatives in a face-to-face manner. On the other hand, the need for financial and economic education for a wide range of segments of the population is increasing given that crimes and other consumer problems that take advantage of the epidemic and its economic impact on households are increasing.

To cope with these situations, our initiatives will utilize ICT including providing digital contents. This is not only an alternative to face-to-face initiatives but is considered as an approach to delivering our initiatives to a range of segments of the population anytime and anywhere. Specifically, we will conduct training for and provide teaching materials to school teachers. For adults, while paying attention to the consumer problems, we will provide a variety of learning contents ranging from gaining basic knowledge such as family budget management and life planning to utilizing programs such as NISA (Nippon Individual Savings Account), as well as deepen understanding of various financial products.

(c) Respond to various user needs and secure convenience and a sense of security

Population aging could cause anyone to see a decline in the cognitive or physical abilities of their own or their family members. Financial business operators are expected to help customers continue receiving financial services even in the case of a decline in their cognitive, decision-making, or other abilities as set forth in the “Report of the Working Group on Financial Markets of the Financial System Council” published in August 2020. Furthermore, they are expected to respond to different needs of all users, not only the elderly, but also people with disabilities and foreigners. JFSA supports and helps expedite the initiatives of the financial business operators and industry so that all users can receive financial services conveniently, while considering new issues arising from the COVID-19 crisis.

To ensure a sense of security for financial services users, JFSA, in cooperation with the National Police Agency, encourages financial business operators to take measures against crime, such as bank transfer scams and illegal internet banking. Furthermore, we will raise awareness among investors by issuing warning statements to protect them from unregistered operators.

Although the number of multiple debtors had been declining, recently it began to increase. Due partly to the COVID-19 crisis, the various types of transactions, such as peer-to-peer lending on SNS and factoring, are wide-spreading. To prevent

multiple debts, we will further implement response measures, including calling for attention against such transactions.

(iii) Preparations for new risks

(a) Responses to cyberattacks

The threat of cyberattacks is growing due to Tokyo Olympic and Paralympic Games, which is postponed to 2021 and the COVID-19 crisis which has made financial institutions accelerate the shift towards remote working and online/remote service delivery.

Therefore, it is now important to further strengthen initiatives for improving the effectiveness of cyber security. Especially, in regards to remote working and online/remote service delivery, we will request financial institutions to take necessary measures through conducting the cyber exercises under the actual remote working environment, proactively collecting information about the threat of remote work-related cyberattacks, and calling for attention.

(b) Insurance services households and businesses protection from new risks

Households and businesses are exposed to new risks, such as the frequent occurrence of severe natural disasters and the global COVID-19 crisis. Under these circumstances, it is important to provide insurance services protection for households and businesses.

With regard to dealing with the frequent occurrence of severe natural disasters, we will hold dialogues regarding how insurance should function against possible large-scale natural disasters, including operational issues, such as adequate and timely claim assessment and claim settlement, in view of supporting the suffered individuals and organizations for economic recovery. Furthermore, with respect to pandemics, such as COVID-19, we will, through dialogues, encourage insurance companies to provide guarantee and compensation from the policyholders' perspective while taking into consideration the insurance companies' business judgments and financial stability.

(iv) Sustainable finance (climate change etc.)

The consideration of ESG is becoming more important, as reflected in the increase of ESG investment worldwide and the development of international initiatives concerning climate change. Furthermore, given the significant changes that could occur in the socio-economic structure in the post-COVID world, businesses, investors, financial institutions, etc. must address these changes from a medium to long-term perspective. Financial institutions, in particular, are expected to create value that helps with solving environmental and social problems by leveraging their financial functions, including capital allocation and market functions. Reflecting the above, JFSA will support various initiatives taken by businesses and financial institutions around sustainable finance, while contributing to international discussions on the topic.

We will encourage constructive dialogues to be held between businesses and investors towards increasing corporate value in the medium to long term by promoting the private sector's voluntary initiatives, including disclosures, in line with the TCFD's² recommendations, while keeping a close eye on the trends in international discussions towards the 26th United Nations Climate Change Conference of Parties (COP26) in November 2021. Moreover, we will discuss with financial institutions regarding risk management and other issues related to climate changes in light of financial stability, as well as regarding their initiatives in creating values through financial services with attention to ESG.

² The Task Force on Climate-related Financial Disclosures (TCFD) was set up by the Financial Stability Board (FSB) in response to G20's request. In 2017, the TCFD released recommendations for the voluntary disclosures by companies in relation to climate-related risks and opportunities.

2. Make the Japanese financial and capital market more sophisticated and attractive

Second, JFSA will take measures to improve the function of the Japanese financial and capital markets and enhance its role in Asia and the rest of the world. The Japanese market has the potential to contribute to international risk diversification as geopolitical risks increase. We will think through to develop the Japanese market in a way that it will benefit both the Japanese and global economy.

(1) International competitiveness of the Japanese market

(i) Establish international financial hub functions (tax system, talent, improvement of business environment, and English financial administrative services)

Given the various changes occurring in the international economy and society including the COVID-19 crisis, it is possible that financial institutions' operations and transactions get geographically diversified beyond national borders and conducted at places suitable for them. Specifically, such diversification could include: (1) shifts of financial businesses and transactions towards remote environment in response to the COVID-19 crisis; (2) shifts in emphasis from efficiency to capability of responding to changes, reflecting the increasing awareness for disaster risks; and (3) progress in the area of finance-related technologies such as decentralization and cloud.

At the same time, however, international financial hubs, where financial talent, capital and information are concentrated and gathered from throughout the world, are anticipated to keep playing important roles in terms of efficiency achieved by the concentration of talent, operations and transactions, creation of added values through face-to-face businesses, and potential innovations.

Reflecting a needed balance between diversification and concentration, it is likely that international financial hubs will shift from extreme concentration to cooperation in a multipolar system, where it will be important for core hubs to compete with and compensate each other while preserving their unique characteristics.

Pursuing to establish international financial hub functions in Japan would not only contribute to creating employment and industries and strengthening the nation's

economic power but also help increase the resilience of Asian as well as global financial markets against disaster risks through international diversification of risks.

In the view of getting the Japanese market to grow as one of the international financial hubs in Asia, we seek to increase the attractiveness of Japan's financial and capital markets and further expedite the development of environment for promoting foreign financial institutions' and experts' entry into the Japanese market, by maintaining sufficient communications with relevant parties including foreign financial institutions. These efforts include using English in all processes of approval/licensing, supervision and inspection and thus accelerating registration processes. We will comprehensively consider concrete initiatives for facilitating overseas financial institutions' entry into the Japanese market, including fostering the development of human resources, taking tax and fiscal treatments, and improving related business environments.

(ii) Coordination with foreign regulatory authorities

In order to enhance the attractiveness of the Japanese market as described above and enable financial institutions to conduct activities internationally, we should prevent any unintended adverse effects of regulations and supervision.

We will try our best efforts to make regulations and supervision internationally aligned. In addition, if necessary, we will coordinate with foreign authorities to solve problems arising from any unpredicted effects of complying with regulatory and supervision obligations imposed by regulatory authorities of multiple countries.

(2) Enhancing asset management business

It is crucial that all constituents of the "holistic investment value chain" fully play their expected roles and functions effectively to achieve smooth capital circulation which can enhance corporate value and bring benefits to retail investors. Especially, asset managers' role is indispensable. They are expected to achieve favorable medium to long-term performance which would help them gain the credibility and support of their customers by contributing to customers' asset accumulation, and solidify their revenue bases. It is also important to promote healthy competition among asset managers through the visualization of investment performance.

We will continue to hold dialogues with management teams of domestic asset managers and their parent companies (if applicable) regarding their resolute actions toward strengthening their investment capabilities and their progress.

Moreover, we will research and analyze the status of privately placed investment trusts and discretionary investment management for institutional investors to reinforce the visualization of the investment performance. Besides, we will also conduct extensive research and analysis on alternative assets, such as private equity, which has been a minor investment asset in Japan in comparison with overseas markets, as well as SDGs and ESG in Japan's asset management industry. We will prepare a renewed progress report on enhancing asset management business by the summer of 2021 that will include the abovementioned initiatives and dialogues with asset managers.

(3) Reform corporate governance and enhance disclosures

For companies to lead non-linear changes in the economy, society and industrial structure and achieve renewed growth, it is imperative for them to make transparent, fair, prompt and decisive decisions and implement them based on a corporate mission and vision of transformation shared with stakeholders, including shareholders, customers, employees, and communities. In this fiscal year, we will, together with Tokyo Stock Exchange, review the Corporate Governance Code again, following the review of FY2017. In doing so, we will consider corporate governance that would be adequate for helping companies lead reforms towards building a better post-COVID socio-economic structure. In particular, we will consider the way of constructive dialogues between investors and companies as to:

- How companies should approach digital transformation, supply-chain reforms and workstyle reforms; and
- How they should incorporate them into sustainable business models.

Furthermore, in order to contribute to promoting constructive dialogues, we will encourage companies to disclose and provide meaningful business information. To this end, we will collect and share good examples of disclosures including reference to the impacts of the COVID-19 crisis and request them to implement the system of indicating Key Audit Matters (KAM)—matters auditors found especially important in the audit process—in audit reports.

(4) Capital market reform

JFSA has continuously reviewed the capital market towards shifting from a financial intermediary system centered on indirect financing to a system where direct financing also performs significant functions. However, no substantial change has occurred in the actual flow of capital.

We will check the performance of the market and financial intermediary functions of the Japanese capital market from a bird's-eye perspective and consider and implement measures towards improving these functions and their attractiveness while paying attention to investor protection.

In regards to how the capital market should be managed through stock exchanges, we will reform the market structure, including by reviewing Tokyo Stock Exchange's market sections and the calculation method for TOPIX, in the aim of making the market more attractive to both domestic and foreign investors. Also, we seek to strengthen the international competitiveness of the Japanese capital market including through further expanding instruments traded through the Comprehensive Exchange launched in July 2020.

Furthermore, we will also consider improving the crowd funding system and trading of un-listed securities in order to diversify off-exchange capital flow, thereby expand overall capital flow in Japan as well as promote the smooth provision of capital to growing businesses.

In addition, we will consider possible exclusion of information about foreign corporate customers from the banking-security firewall restrictions as well as the necessity of these restrictions on customers in Japan, too, while paying attention to securing a fair competitive environment.

(5) SESC's Holistic, timely, and in-depth oversight

Securities and Exchange Surveillance Commission (SESC) is a collegiate organization established in the FSA, which operates market surveillance. Under the recent circumstances where the rapid progress of digitalization is having a significant impact on the financial and capital markets, we will conduct holistic, timely, and in-depth oversight. We will ensure fairness and transparency in the market and protect investors, through countermeasures against malicious transactions taking advantage of investors' anxiety.

(i) Holistic oversight

- We will analyze the trends and issues of various financial and capital markets, including stock, bond and derivative markets. We also analyze the potential risks for each financial sectors so that problems are identified early and prevented in advance.
- Considering the accounting fraud associated with the globalization of companies (diversifying corporate operations towards overseas subsidiaries), we will enhance market integrity by grasping the true state of misconduct through strengthening cooperation with foreign authorities and market participants and by publishing information on specific cases in an easy-to-understand manner.
- We will promote digitalization of our market surveillance activities through enhancing our market surveillance system as well as digital forensics technology. We will also focus on fostering the human resources with high expertise in digitalization.

(ii) Timely oversight

Given the uncertainty of the current financial and capital markets, we will conduct timely oversight, heightening the alert level for market misconduct, such as market manipulation.

(iii) In-depth oversight

We will proactively and flexibly conduct inspections and investigations which can bring swift recommendations for an administrative monetary penalty payment order. As to material and egregious violations, we will take rigorous measures, including filing a criminal complaint.

In monitoring financial instruments business operators, based on strengthened cooperation between SESC and JFSA, we will:

- Monitor the progress of customer-first business practices, based on the principle of suitability, to protect diverse investors, including the elderly, as well as changes in the way of treating their customers and business models due to the COVID-19 crisis;
- Proactively exercise our powers of investigation related with filing a complaint on non-registered entities.

Moreover, in order to monitor misconduct and examine orders executed in a range of transactions, we will keep a close eye on the cross-venue transactions (exchanges, PTS and dark pools).

(6) Responses to the reforming interest rate benchmarks (preparation for permanent cessation of LIBOR)

Whereas London Interbank Offered Rate (LIBOR), is an important interest rate benchmark used in wide range of users, including financial institutions, non-financial corporations and institutional investors, the possibility that it will be permanently discontinued after the end of 2021 has been increasing. In this regard, there is the possibility of significant disruption to users, such as receipt and payment of interests being disabled, if LIBOR were ceased without sufficient preparation.

Specific issues and required initiatives have been discussed in the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, of which JFSA is a observer. Also, the public and private sectors are working together to implement appropriate initiatives towards a transition away from JPY-LIBOR to alternative reference rates, in view of the time limit of end-2021. JFSA will monitor whether financial institutions take necessary actions in line with the transition plan they have developed, including dealing with their customer services. Moreover, we will support market-led initiatives so that robust alternative reference rates are promptly established.

(7) Anti-Money Laundering and Combating the Financing of Terrorism

In order to help financial institutions and other organizations enhance anti-money laundering and combating the financing of terrorism (“AML/CFT”), we will cooperate with other relevant ministries and agencies as well as industry associations to take necessary measures while paying attention to their customer relations. Specifically, we will strengthen our monitoring of deposit-taking institutions and monitor funds transfer service providers and other new sectors, including conducting on-site monitoring. We will also strengthen our cooperation with other relevant ministries and agencies in relation to non-financial sectors. Besides, based on the results of the monitoring, we will sort discussion points for future dialogues.

With respect to the government’s demonstration project verifying the enhanced effectiveness and improved efficiency of AML/CFT that are being developed with AI-based systems and might be jointly used by financial institutions, we provide

support to related organizations. Based on the project's results, we will also consider and sort points of discussion in relation to the present regulations as well as issues towards the practical application of the project.

The FATF Fourth Round of Mutual Evaluation of Japan, including on-site inspections of JFSA and other relevant ministries and agencies, was conducted in October and November 2019. We will continue and deepen discussions with FATF's evaluation team about Japan's AML/CFT, including their current status and issues, and thereby to improve Japan's initiatives, according to the evaluation results.

International discussions about AML/CFT are focusing on crypto-assets and stablecoins. We will lead the discussions at FATF Contact Group, of which JFSA is a co-chair, towards implementing new standards for crypto-assets and setting additional rules about crypto-assets and stablecoins.

3. Reform JFSA

Third, JFSA will continue to reform itself so that it can serve as an agency to develop the financial industry and literacy. We will further evolve and establish work style reforms triggered by responses to COVID-19 related issues. We will create an organizational culture in which employees discuss in a free and easy way with each other and take the initiative. We intend to enhance our capability to grasp the reality and conceptualize our policies.

(1) Develop an environment that supports our staff's proactive initiatives

The environment surrounding the financial market is changing and citizens' needs are diversifying. Against this backdrop, in order to steadily implement measures for the COVID-19 crisis and enable Japan to win global growth competition in the post-COVID world, we must improve the quality of financial administration. To this end, we will develop a workplace environment and organizational culture that enable our staff with diverse backgrounds to consider the future vision of the financial administration in the area they are responsible for, fully unleash their strengths, and proactively and vibrantly work on their tasks including challenging cutting-edge issues. We will organizationally support their initiatives so that they get organically interwoven and achieve results that contribute to national interest.

Specifically, we will develop an environment that supports staff members' proactive initiatives including by creating groups (consisting of five to ten members) in each division (consisting of dozens of people) to encourage open communication and by increasing opportunities for staff members' voluntary participation such as Open Policy Lab³ and JFSA's internal website. Moreover, in the view of conducting organizational operations with more management awareness than ever, we will have top management and directors share management policies and ideas with their subordinates and evaluate the status afterwards, including through employee satisfaction surveys and 360-degree feedback. Also, we will implement initiatives to raise group leaders' management awareness.

With a view to improving motivation and unleashing the creativity of our diverse staff, we will seek to place more emphasis on staff members' motivation and skills in human resources development and allocation, and review training programs to increase relevance with jobs. We will also encourage our staff members to participate in projects in which they set challenging targets and work to solve

³ Open Policy Lab is a framework for encouraging staff members to voluntarily propose policies in the aim of incorporating new ideas and helping formulate fresh and unique policies. In the business year 2019, 14 teams (over 120 members in total) participated in the Lab.

issues. Through these initiatives, we will develop a culture of JFSA where the staff members proactively plan, formulate, and implement policies drawing on lessons they learn from each other.

Furthermore, in the view of establishing new workstyles that has been triggered by COVID-19 and streamlining and improving efficiency of operations, we will continue to proactively utilize teleworking, video conferencing, etc. as part of the established workstyles.

(2) Digitalization of JFSA's administrative procedures

Digitalization is quickly disseminating throughout the economy and society. Against this backdrop, it is important to further promote online administrative procedures and help accelerate Japan's socio-economic changes. The Japanese government as a whole has a policy to review the country's conventional, customary practices based on papers, seals and face-to-face procedures and work to realize a society where more procedures can be completed online without people having to physically travel. These measures will be steadily taken in financial administration, too.

With respect to applications from and filing by financial institutions and other organizations, we will enable all procedures to be completed online based on considering appropriate online procedures. We will update the system and coordinate institutional matters in FY2020 and commence full online operations by the end of FY2021. Especially, we will abolish the practice of affixing seals except for procedures legally requiring seals by the end of 2020. In regards to procedures legally requiring seals, we will reexamine the necessity of seals and abolish the practice by, in principle, the end of the same year.

(3) Integrated operations with the Local Financial Bureaus' departments in charge of financial administration

With the environment surrounding regional banks becoming increasingly severe, JFSA and the Local Financial Bureaus have been closely coordinating with each other at executive and working levels to help regional financial institutions fully unleash their financial intermediary functions. As the COVID-19 is significantly affecting regional economies, we must work together even harder to get the financial system to support economic activities and have regional financial organizations unleash their financial

intermediary functions, support business operators, and contribute to the growth of regional economies.

As the COVID-19 crisis makes it difficult to have face-to-face meetings, we will proactively utilize video conferencing, etc. to get JFSA further connected with the all Local Financial Bureaus, increasing the frequency of communications between them. For example, regular online meetings will be held at executive and working levels to exchange information and share policy issues etc.

Furthermore, we will strengthen our collaboration with the Local Financial Bureaus in policy planning/formation and execution processes. For example, in planning initiatives that relate to the Local Financial Bureaus, such as inspection and supervision of regional financial institutions, we will jointly consider them. Also, in planning and implementing registration and evaluation procedures for which the Local Financial Bureaus serve as the contact point, we will, when necessary, talk with the Local Financial Bureaus from the legislation preparation stage.

(4) Improve financial regulatory and supervisory practices

For financial administration to perform their functions properly, they need to make consistent efforts towards improving their regulatory and supervisory practices. As stated above under Section 1. ([Fight against COVID-19 and prepare for a strong post-COVID economic recovery], (4) (i) Enhancement of JFSA's data strategy and analysis capability), we will improve data governance and seek to diversify analysis methods and foster the development of human resources. Furthermore, we will compare practices between JFSA and foreign regulatory authorities, etc. and proactively incorporate what we should incorporate. At the same time, we will share our good practices internationally in order to contribute to improving global practices.

Towards strengthening the international network and cooperation, we will utilize virtual communications in addition to conventional face-to-face meeting. Specifically, we continue to proactively develop international cooperation frameworks such as Japan-China financial cooperation and technical assistance for Myanmar and other emerging countries, fully utilizing virtual communication infrastructures. Furthermore, in regard to the Global Financial Partnership Center (GLOPAC), we will shift from face-to-face training only to hybrid training combining face-to-face and virtual classes for evolution.

End of Document

Appendix: Main measures taken in response to the impacts of the COVID-19 crisis

Measures concerning cash flow support

- **February 7: Measures taken in response to the outbreak of COVID-19**
 - Requested financial institutions to provide detailed and empathetic consultation to businesses that had been affected by the COVID-19 crisis, including visiting them, to provide them with subtle support including by seeking to respond properly to their loan applications for business continuation and to their requests for adjustment of terms and conditions of their outstanding loans.
- **February 28: Set up an FSA Consultation Hotline Related to COVID-19 as well as equivalent, designated hotlines at every Financial Bureau.**
- **Since late February: Considering the impact of COVID-19, cancelled/suspended onsite inspections and replaced some of them with remote inspections to avoid direct contacts with financial institutions' employees and reduce their burdens in the view of helping financial institutions perform their financial functions smoothly.**
- **March 6: Cash Flow Support for Companies as Impact of COVID-19 (Novel Coronavirus) Outbreak Grows (Statement by ASO Taro, Minister of Finance and Minister of State for Financial Services)**

Requested financial institutions to:

 - Gain detailed understandings of businesses' situations including by visiting them and setting up emergency consultation desks;
 - With respect to their existing debts, respond promptly and flexibly to their inquiries concerning adjustment of terms and conditions such as possible concessions on repayment;
 - With respect to new loans, respond promptly and appropriately to businesses' needs by proactively implementing emergency lending programs including allowing flexibility for collateral and guarantee requirements as well as by coordinating with government-affiliated financial institutions; and
 - Develop readiness for providing businesses with prompt and appropriate support, thoroughly communicating the policy throughout the organization including their front-line sales personnel.

- FSA's inspections and supervision of financial institutions will, for the immediate future, pay a priority attention to the progress of their initiatives for providing businesses with cash flow support, including by:
 - Monitoring financial institutions through interviews specifically focusing on this subject; and
 - Requesting financial institutions to report to FSA the status of their initiatives including adjustment of loan terms and conditions (Demand for reports pursuant to Article 24 of the Banking Act etc.), and publicly disclosing the status.

We will thoroughly communicate to the financial institutions our stance of checking their initiatives adequately and timely.

- **March 19: Posted on FSA's website an information leaflet about cash flow support and distributed the same leaflets to local governments, chambers of commerce and industry, and other relevant organizations throughout Japan.**

- **March 24: Cash flow support for businesses in response to the increasing impact of the COVID-19 crisis**

Requested financial institutions to:

- Provide businesses with an explanation on COVID-19 crisis-related special loans offered by Japan Finance Corporation and other institutions and check/submit relevant documents;
- Respond respectfully to businesses' need for continuous cash flow support after the adjustment of terms and conditions as well as for management consultation, including extending the repayment period and deferred principal repayment period with a leeway; and
- Utilize the safety net guarantee program, proactively coordinating with Credit Guarantee Corporations.

- **March 30: Deferral of the national implementation of the new capital adequacy and other requirements in Japan**

FSA took the following measures:

- Announced a one-year deferral of the national implementation date of the finalized Basel III standards in Japan (deferred from March 2022 to March 2023) in line with the change to the implementation date of the international agreement; and

- Confirmed that the Net Stable Funding Ratio will not be implemented for the next one year from April 2020 in light of the implementation status in other countries.
- **March 30: Posted on FSA’s website an announcement on the extension of submission of reports by financial institutions**
- FSA announced the following points:
- FSA considers flexible approaches to financial institutions’ and other organizations’ reporting and filing for which statutory deadlines are set;
 - With respect to reporting and filing for which no statutory deadlines are set, in the case where preparing reports or for filing is not feasible because of the COVID-19 crisis, reports/filings made as soon as after the situation is defused would be deemed to have been submitted without delay.
- **April 7: Cash flow support based on the Emergency Economic Measures for Response to COVID-19**
- Requested financial institutions to:
- Continue to proactively provide new loans and respond promptly and flexibly to borrowers’ request for changing terms and conditions of their existing debts, ensuring flexible measures including setting deferred repayment periods and revising terms and conditions based on appropriately and timely understanding changes in the business operator’s repayment capacity;
 - With respect to “System to Enable Companies to Obtain Substantially Interest-Free and Unsecured Loans from Private Financial Institutions by the Use of Local Governments’ Loan Programs”, closely cooperate with municipalities, Credit Guarantee Corporations, and other organizations and develop readiness including establishing a work flow, allocating human resources and developing systems to promptly and appropriately respond to businesses’ needs;
 - Do not treat all cases automatically and formalistically, where companies fall foul of financial covenants, which serve as conditions for providing loans. More specifically, [i] meticulously ascertain each company’s business status and avoid demanding immediate debt redemption, etc.; [ii] promptly and sincerely respond to each company’s consultations concerning a change or extension of a financial covenant; [iii] for syndicated loans, in particular, make integrated responses in cooperation among related financial institutions;
 - Regarding home loans and loans for individuals, make prompt and flexible responses in changing loan conditions while fully taking into account individual customers’ needs, based on past requests from the FSA. Financial institutions

engaging in business to guarantee loans for individuals, etc. are also requested to make required efforts based on such effects;

- In light of the circumstances where the number of consultations concerning cash flow received by the Japan Finance Corporation, etc. is increasing rapidly, make efforts to strengthen cooperation with the Japan Finance Corporation and other bodies;
- In the case of financial institutions handling remittance for the Living and Welfare Fund Loan Program, seek to expedite the administrative process for transferring emergency small amount funds and other special funds in response to consultations from prefectural Councils of Social Welfare; and
- When having extended payment periods upon requests from customers affected by the COVID-19 epidemic, refrain from registering such cases as arrearage to credit information agencies.

○ **April 7: Maintenance of the function of the financial system and financial markets under the declaration of a state of emergency responding to the spread of the COVID-19 infection (a statement by ASO Taro, Minister of Finance and Minister of State for Financial Services)**

(Requests to financial institutions)

- The financial institutions located in regions subject to emergency measures are requested to follow the national and prefectural governments' policies and requests and make efforts to help prevent infectious spread; and, at the same time, to seek to take appropriate measures for continuing essential services despite the challenging environment in the view of maintaining financial functions for supporting citizens' economic activities and protecting customers including supporting businesses' cash flows while referring to the Basic Concept on Financial Institutions' Continuation of Business with Customers in the Area Designated in the State of Emergency Declaration; and
- Exchanges etc. are also requested to take appropriate measures for continuing essential services in the view of maintaining market functions.

(Requests to financial service users)

- Use non-face-to-face financial services such as online service, call centers and ATMs as much as possible given that financial institutions are refraining from face-to-face procedures to the possible extent in response to the national government's declaration of a state of emergency and prefectural governments' request for taking measures for preventing infectious spread; and

- Take precautions against opportunistic fraud, illegal lending etc. taking advantage of the COVID-19 epidemic.
- **April 7: Request for cooperation towards expediting the administrative process of fund transfer in relation to the special funding measures including the emergency small amount funds based on the Living and Welfare Fund Loan Program**
 - Requested financial institutions handling the remittance of Living and Welfare Funds based on requests from prefectural Councils of Social Welfare to respond timely and appropriately to their request and expedite the administrative process of fund transfer given the situation where, in some cases, the administrative process of fund transfer takes time after an application for an emergency small amount fund is received.
- **April 10: Call for attention to prevent in-store infection in customer services**
 - Requested financial institutions to further strengthen measures for preventing in-store infection especially if visiting customer concentration is anticipated on specific days considering an increase in risk of infection.
- **April 10: Provided information about consultation desks of FSA, Japanese Bankers Association, The National Association of Shinkin Banks, National Central Society of Credit Cooperatives, and National Association of Labour Banks by running telops in the L-shaped screen space in NHK's television programs.**
- **April 14: Request to labour banks for cooperation in handling applications for emergency small amount funds and other special funds based on the Living and Welfare Fund Loan Program**
 - Requested the National Association of Labour Banks for cooperation in handling applications for emergency small amount funds based on the Living and Welfare Fund Loan Program, including receiving the applications and forwarding them to prefectural Councils of Social Welfare and promptly getting service agreements executed with them.
- **April 16: Handling of promissory notes, checks, etc. in response to the COVID-19 crisis**

Requested financial institutions to:

 - In regards to promissory notes that have expired due to the impact of the

COVID-19 crisis, enable payment based on consulting with other related financial institutions as needed

- Give a due consideration to promissory notes and checks with payments missed due to the COVID-19 crisis in terms of reporting them as dishonored, terminating service contracts etc.; and give an equivalent consideration to electronically recorded monetary claims in terms of suspending transactions and terminating service contracts; and
- Give due consideration to electronically recorded monetary claims affected by the COVID-19 crisis in terms of suspending transactions and terminating service contracts.

○ **April 21: Further strengthening of cooperation with Japan Finance Cooperation and other government-affiliated financial institutions**

Requested private-sector financial institutions to:

- Proactively provide businesses with cash flow supports including bridge loans, considering the fact that Japan Finance Cooperation and other government-affiliated institutions (JFC etc.) will, to the maximum possible extent, refinance the bridge loans that are provided by private-sector financial institutions pending provision of loans from JFC etc.; and
- Closely cooperate with branches of JFC etc. in their respective regions in providing loans so as to help smoothly provide the above-described cash flow support, referring to examples of cooperation between JFC etc. and private-sector financial institutions.

○ **April 23: Cooperation for smooth implementation of the Special Cash Payments Program (tentative name)**

Requested financial institutions to:

- Act proactively in helping smoothly implement this Program in cooperation with the Ministry of Internal Affairs and Communications, municipal governments, and other related organizations; and
- Implement public information and awareness raising activities using their existing media such as bulletin papers for protecting citizens from fraud and other crimes taking advantage of the Special Cash Payments Program.

○ **From April 24 to 28: Posted leaflets for businesses and individuals on industry papers: Nikkei Business Daily, Kankokeizai Shimbun (Tourism Industry Newspaper), Nikkei Marketing Journal, and Nikkan Kogyo Shimbun (Daily Industrial News)**

○ **April 27: Cash flow support for Businesses (Statement by ASO Taro, Minister of Finance and Minister of State for Financial Services, and Hiroshi Kajiyama, Minister of Economy, Trade and Industry)**

Requested financial institutions to:

- Thoroughly provide cash flow support to businesses by promptly and adequately supplying funds under the effectively interest-free and unsecured loan program;
- When providing loans, implement one-stop procedures at financial institutions to integrate and expedite procedures in consideration of borrowers' convenience;
- For businesses in urgent need of funds, proactively provide loans including bridge loans for funds that are needed until they receive loans from financial institutions based on government-sponsored lending programs and other benefits.
- Keep necessary branches open during the holidays between May 2 and 6 to enable businesses to consult with the financial institutions.

○ **May 1: Announcement of the commencement of provision of effectively interest-free and unsecured loans by private-sector financial institutions**

FSA made an announcement that:

- The government has expanded the scope of providers of effectively interest-free and unsecured loans to include private-sector financial institutions based on the prefectural government-sponsored loan program;
- The above-described program will be launched in each prefecture based on the approval of supplementary budget of FY2020;
- Financial institutions will serve as a one-stop contact point for efficiently completing procedures and promptly providing loans

○ **May 1: Announcement concerning financial institutions' consultation desks concerning the COVID-19 crisis during the Golden Week (from May 2 to 6)**

○ **May 7: Request in relation to the payment of Subsidy Program for Sustaining Businesses**

- Requested financial institutions to give special consideration to circumstances surrounding businesses when making decisions on establishment of security rights and/or foreclosures to avoid disrupting their business continuation even if their revenue recovery is not expected in the immediate future or if terms

and conditions have been modified.

○ **May 8: Cash flow support for businesses regarding rent payment**

Requested financial institutions to:

- For SMEs and individuals facing difficulties in paying rent, promptly and flexibly provide new loans or bridge loans using the newly introduced substantially no-interest and unsecured loan system or other loan programs, or modify terms for existing loans such as granting reduction or deferment of payments on principal and interests;
- For owners of hotels, leisure facilities, and commercial buildings, promptly and flexibly provide new loans or bridge loans, or alter conditions for existing loans such as granting reduction or deferment of payments on principal and interests. In particular, when owners are granting tenants reduction or deferment on payments of rent for a certain period of time, financial institutions are urged to take prompt and flexible measures for the relevant period of time, granting reduction or deferment on payments of loans; and
- With regard to fees and penalty charges that are normally required upon modification of terms for existing loans, give special consideration in light of each customer's circumstances.

○ **May 8: Consideration for businesses in terms of rent payment**

- Requested investment management firms managing assets with mandates from investment corporations to consider flexible measures for the lessees of the investment corporations that are faced with difficulty in rent payment, such as accepting the tenants' request for reduction/exemption of or concessions on rent payment, while fulfilling their responsibility for providing investors with necessary explanation.

○ **May 22: Updated the Concrete Measures Taken by Financial Institutions in Response to the COVID-19 Infection (Initial publication: March 27; Updated: April 20 and May 22)**

○ **May 27: Future cash flow support for businesses (Statement by ASO Taro, Minister of Finance and Minister of State for Financial Services)**

- FSA respects financial institutions' decisions to maintain previous evaluations regarding customers that they had recognized as being financially sound before the spread of COVID-19 infection;
- We will analyze the balances of private-sector financial institutions' proprietary

loans and conduct interviews concerning the status of their cash flow, such as whether loan balances are decreasing or not, while referring to loans and guarantees provided by government-affiliated financial institutions etc.

- Proactive use of quasi-equity loans is recommendable and we will clearly indicate this in the Guidelines of Supervision.

○ **May 27: Measures in response to the COVID-19 epidemic (Changes in terms and conditions for housing loans etc.)**

(Requests to financial institutions)

- Consultations about the postponement of repayment are expected to increase from borrowers of housing loans with bonus payments. We further ask financial institutions to proactively offer support to customers by deferring principal payments for a sufficient period or otherwise modify loan terms and conditions promptly depending on customers' needs, refraining from charging fees for modification of loan terms and conditions.

When modifying loan terms and conditions, financial institutions are requested to take a positive stance, such as making proposals on concrete modifications while giving due consideration to customers' needs.

- Financial companies are also requested to proactively disseminate information about the dedicated telephone service and consultation desks available on holidays.
- They are also requested to respond proactively to customers' consultations on other personal loans and flexibly modify loan terms and conditions based on customer needs.

○ **May 28: The government's TV ads began making an announcement on consultation about funds, disseminating information on effectively interest-free and unsecured loans provided by private-sector financial institutions and changes in housing loan terms and conditions such as deferred repayment.**

○ **June 2: FSA began streaming YouTube videos on its announcement for businesses facing cash flow problems, disseminating information on effectively interest-free and unsecured loans provided by private-sector financial institutions and examples of good practices.**

○ **June 8: Request concerning the payment of Emergency Student Support Handout**

- Requested financial institutions to give special consideration to circumstances surrounding borrowers when making decisions on establishment of security rights and/or foreclosures to avoid disrupting the continuation of their study even if their revenue recovery is not expected in the immediate future or if terms and conditions have been modified.
- **June 10: Cash flow support for businesses in consideration of the spread and prolongation of the impact of COVID-19 outbreak**
(Requests to government-affiliated and private-sector financial institutions)
 - Businesses to which the financial institution has already provided loans may make further consultations on new loans due to the prolonged impact of the COVID-19 crisis. Handle such consultations with respect based on the supplementary budget that helps expand countermeasures against the pandemic.
 - Offer prompt and proactive support to businesses according to their circumstances, including loans for funds that are needed before the payment of various benefits such as subsidies for sustaining businesses, rent assistance subsidy, and employment adjustment subsidy.

Measures for corporate financial reporting, audit, etc.

- **Published a statement “Our Responses to Financial Reporting and Audit of Listed Companies in Consideration of the COVID-19 Infection (Main Points)”**
(This statement summarizes the main points discussed and reviewed by the members of the Networking Group on the Corporate Disclosure, Financial Reporting and Audit of Listed Companies in Consideration of the Impact of the COVID-19 Infection and was published under the name of the Group on July 2 after the it held nine meetings since the first meeting held on April 3.)
 - Extended the deadline across the board for submission of Annual Securities Reports etc. (to the end of September) [FSA: published April 14; the revised Cabinet Office ordinance promulgated and enacted April 17]
 - Published a summary of discussions concerning consideration of the effects of the COVID-19 pandemic in preparing accounting estimates given the difficulty in predicting when the pandemic will end [Accounting Standard Board of Japan (ASBJ) (April 10)]
 - Published audit considerations related to COVID-19 to address the following matters: (1) Accounting estimates, (2) Accounting treatment of fixed costs,

- and considerations for financial institutions regarding self-assessment and allowance for credit losses [Japanese Institute of Certified Public Accountants (JICPA) (March 18, April 10, April 15, April 22, May 8, and June 30)]
- Annual general meetings of shareholders
 - Published a statement suggesting companies consider a flexible schedule and procedures such as postponing annual general meetings of shareholders or holding following meetings [Networking Group on the Corporate Disclosure, Financial Reporting and Audit of Listed Companies in Consideration of the Impact of the COVID-19 Infection (April 15)]
 - Clarified consideration points for holding following meetings [FSA; Ministry of Justice; and Ministry of Economy, Trade and Industry (April 28)]
 - Disclosure of corporate information regarding the impact of the COVID-19 epidemic
 - Published a request document showing a strong expectation for companies' disclosure of concrete and valuable corporate information regarding the impact of the COVID-19 epidemic [FSA (May 29); ASBJ (May 11), JICPA (May 12); and Securities Analysts Association of Japan (May 14)]
 - Indicated expectation for companies' continual timely and appropriate disclosure including quarterly securities reports [FSA (July 1); ASBJ (June 26); and JICPA (June 30)]
 - Other major initiatives conducted by the Networking Group members regarding year-end closing and auditing in response to the impact of the COVID-19 epidemic
 - Requested listed companies to reconsider their schedule for earnings releases [Tokyo Stock Exchange (April 14)]
 - Published samples of convocation notice for an annual general meeting of shareholders taking into consideration the impact of the COVID-19 epidemic [Japan Business Foundation (April 28)]
 - It is appreciated that companies completed their year-end account closing and auditing with no major disruption, avoiding occurrence of clusters even during the epidemic peak period.
 - We will continue to discuss with related parties practical responses to medium to long-term challenges, including digitalization as it relates to year-end account closing and auditing and supporting companies in considering a change of their record date.
 - The first round of the Networking Group's meetings ended at the meeting held on July 2; its meetings might resume when circumstances change.