

Appendix 1

Questionnaire on Enforcement mechanisms
Question 1 – Definition and purpose of enforcement
What is the definition and purpose of enforcement of compliance with the relevant GAAP in your country? Where is this defined?
<p>The definition of enforcement is to review disclosure documents, from the viewpoint of compliance with the GAAP and etc., and to take appropriate actions when improper treatments are found in the review process, in order to ensure proper disclosures. The powers for reviewing disclosure documents and taking appropriate actions are defined in the Securities and Exchange Law (the “SEL”).</p> <p>The objective of enforcement is “to contribute to the proper operations of the national economy and protection of investors”, as stipulated in Article 1 of the SEL, by ensuring truthfulness, properness and clearness of disclosure documents.</p>
Question 2 – Responsible enforcement body
Who has (have) the ultimate responsibility for enforcement of compliance with the relevant GAAP in your country and what is the legal basis for your framework (e.g. act, executive order, other)?
<p>(FSA)</p> <ul style="list-style-type: none">- The Financial Services Agency (the “FSA”) has the ultimate responsibility for enforcement of compliance with the GAAP under the SEL, except for the following responsibilities by the SESC and the securities exchanges. <p>(SESC)</p> <ul style="list-style-type: none">- The Securities and Exchange Surveillance Commission (the “SESC”) has the powers to investigate and file complaints with public prosecutors against illegal acts such as material misstatements as criminal offenses under the SEL.- In order to strengthen the enforcement system, the powers to conduct inspections and order submission of reports and materials regarding the statutory disclosure documents such as annual reports will be transferred from the Kanto Local Finance Bureau to the SESC in July 2005. <p>(Securities exchanges)</p> <ul style="list-style-type: none">- The securities exchanges, as market operators, have their own roles in performing self-regulatory functions such as listing examinations of applicants under their listing rules, and oversight of timely disclosures by listed companies (including releases of financial results), and delisting of listed companies in such cases of material misstatements of periodic statutory disclosure documents.
Question 3 – Delegation

In case other bodies carry out enforcement on behalf of the body with the ultimate responsibility – what are the names of these 'delegated' bodies, what part of the enforcement has been delegated to them and how is the delegated body supervised?

(LFBs)

- The FSA delegates its enforcement powers under the SEL to the Local Finance Bureaus (the “LFBs”).
- Under this delegation, the LFBs shall accept and review disclosure documents, which are filed pursuant to the provisions of the SEL, and take appropriate actions if necessary. The LFBs, as delegated bodies, conduct their enforcement under the directions of the FSA.

Question 4 – Interrelationship

In case there is more than one enforcer with regard to compliance with your GAAP, what agreements have been made concerning the interrelationship between the enforcers?

The provisions for interrelationship among the FSA, the LFBs and the SESC, especially those for powers given to each enforcer are provided in the SEL.

Also, in practice, the FSA (including the delegated LFBs), the SESC, and the securities exchanges work in close cooperation with each other, including exchanges of relevant information.

When disclosure documents or their corrected documents are submitted to the LFBs, copies of the documents shall be submitted to the securities exchanges pursuant to the provisions of the SEL.

If inappropriate accounting treatments are found in the review process by the LFBs, and they may fall within the scope of criminal offenses to be investigated by the SESC, relevant information are provided to the SESC.

Question 5 – Independence

Is (are) your enforcement body (bodies) designed in a way that ensures an adequate independence from the government? Please provide details of any independence arrangements that are in place.

(LFBs)

- The LFBs are bodies to which the enforcement powers are delegated by the FSA. Enforcement is conducted by the LFBs on their own judgements and responsibilities under the directions of the FSA.

(SESC)

- The chairperson and the commissioners shall perform their duties in an independent manner under the law. The SESC is composed of a chairperson and two commissioners who are all appointed by the Prime Minister with the consents of both Houses. To secure their independence, they cannot be dismissed against their will during their three-year term.

(Securities exchanges)

- From the viewpoint of public interest and investor protection, listing rules, which state essential authorities for enforcement by the securities exchanges, are required to be approved by the FSA. However, enforcement itself is conducted by the securities exchanges on their own judgements and responsibilities under their listing rules. In addition, the

government does not have authority over appointments of managements and budgetary matters. Therefore, the independence of the securities exchanges is secured. Furthermore, the Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, and JASDAQ Securities Exchange are all joint-stock companies.

Is (are) your enforcement body (bodies) designed in a way that ensures an adequate independence from market participants, issuers, auditors and other stakeholders? Please describe how.

(LFBs, SESC)

- The staff of the LFBs and the SESC are national government officials, and their independence from market participants, issuers, auditors and other stakeholders is required, pursuant to the National Public Employee Ethics Rules.

(Securities exchanges)

- Enforcement by the securities exchanges is conducted under the listing rules approved by the FSA. In addition, if appropriate actions under the listing rules are not conducted, the FSA can take administrative actions against the securities exchanges. Therefore, independence of the securities exchanges from market participants, issuers, auditors, and other stakeholders is ensured.

Question 6 – Powers

What powers (investigative powers and powers to take action) does your enforcement system have, and which body (bodies) has (have) these powers? Please describe as far as possible, how and when you use each power. If relevant please also state what powers have been delegated and to whom.

(LFBs)

- The LFBs have powers to review disclosure documents, order any parties involved in public offering or public selling including auditors to report or submit written materials, and inspect financial records and other documents. If material misstatements are found, the LFBs have the powers under the SEL to require issuers to file the corrected disclosure documents or to suspend effect of the registration documents at any time as necessary.

(SESC)

- The SESC has powers of interrogations and inspections, in order to investigate criminal offenses such as material misstatements. In addition, staff of the SESC may conduct spot inspections, investigations, and seizures, with written permission issued by a judge. Furthermore, if existence of criminal offenses are confirmed during their investigation, the SESC shall file complaints with public prosecutors.
- In order to strengthen the enforcement system, powers to conduct inspections and order submission of reports and materials regarding the statutory disclosure documents such as annual reports will be transferred from the Kanto Local Finance Bureau to the SESC in July 2005.

(Securities exchanges)

Pursuant to the listing rules, the securities exchanges have the following powers in listing

examinations, timely disclosures, and delisting listed companies from the securities exchanges:

- To approve listing on exchanges, when companies applying for listings are confirmed to meet the listing criteria approved by the FSA.
- To receive prior explanation from listed companies, and make inquiries to them for necessary information of timely disclosure.
- To take actions, such as ordering submission of reports which explain how to improve their disclosure (“improvement reports”), if timely disclosures made are inappropriate.
- To delist listed companies, if necessary, when periodic reports have been materially corrected.

Question 7 – Organisation

What are the number of issuers and number of staff working with enforcement in your country and how do you ensure that sufficient resources are granted to your enforcement bodies?

- The number of issuers in Japan is approximately 4,500 (as of 31 December 2003).
- The number of staff working for enforcement in Japan is as follows;
The LFBs: 56 (as of 30 November 2004)
The SESC: 148 (as of 31 March 2004)
The securities exchanges: 163 (as of 30 November 2004)

(FSA)

- The FSA requested the Council for the Advancement of the EDINET, which is composed of the relevant parties involved in the system, to discuss and finalise the work-plan for the enhancement of the Electronic Disclosure for Investors’ NETwork (“EDINET”) by the spring in 2005, especially focusing on the introductions of Extensible Business Reporting Language (“XBRL”), which will help the enforcement bodies in analysing statutory disclosure documents.

(LFBs , SESC,)

- In order to ensure that sufficient resources are provided to the enforcement bodies, the LFBs and the SESC provide continuing professional education and training for their staff. In addition, the LFBs and the SESC have accounting and legal experts, such as CPAs and lawyers.

(SESC)

- In the fiscal year 2003 and 2004 ended 31 March, the number of staff working for the SESC was increased considerably, in order to strengthen surveillance systems to investigate criminal offences such as violation of disclosure rules.
- The Office of Investigation for Administrative Civil Money Penalties and Examinations for Disclosure Documents with staff of 40 people is to be established in the Executive Bureau of the SESC, in April 2005.
- The SESC promotes development and research of more meaningful analytical skills in analyzing information of disclosure documents and their related documents, in order to prepare for efficient and more focused examinations of misstatements in disclosure

documents which will start immediately after July 2005.

(Securities exchanges)

- Sufficient numbers of staff for enforcement are provided by human resource rotations, considering the updated situation of their sufficiency.

Question 8 – The scope of enforcement (documents and issuers)

What kind of financial information is subject to enforcement in your country? (annual and interim financial statements, individual and consolidated accounts, prospectuses¹, other)

(LFBs, SESC)

- Financial statements included in annual reports, semi-annual reports, and registration statements are subject to enforcement. It is ensured by the SEL that the contents of prospectuses shall be consistent with those of the corresponding registration statements.
- Both non-consolidated and consolidated financial statements are subject to enforcement.

(Securities exchanges)

- Financial information that is subject to enforcement by the securities exchanges is as follows:
 - For listing examination: Financial statements included in listing application documents.
 - For timely disclosure: Financial statements included in released documents, that are made public prior to issuance of statutory disclosure documents such as annual reports and semi-annual reports.
- In addition, if annual reports, semi-annual reports or registration statements have been materially corrected, the securities exchanges may delist the companies, if necessary.

What kind of issuers are subject to enforcement in your country? (e.g. listed issuers, issuers applying for admission to trading of their securities on a regulated market, other)

(LFBs, SESC)

- Issuers, who make public offerings, or public selling of issued securities, are subject to enforcement. In addition, companies whose securities are listed or owned by 500 or more people are also subject to enforcement.

(Securities exchanges)

- Listed companies and companies applying for listing are within the scope of enforcement by the securities exchanges.

Question 9 – Methods of enforcement : Ex-ante or ex-post approach

Is the normal procedure of enforcement of compliance with relevant GAAP ex-ante (before statement is published) or ex-post (after statement has been published) or both? Please state if you use different approaches for different types of financial information (e.g. annual statements

vs. prospectuses).

(LFB)

- For annual reports, semi-annual reports, and registration statements, ex-post enforcement (i.e. after a statement has been published) is the normal procedure. For registration statements, enforcement is normally ex-ante (i.e. before a statement is published), since registrations are normally effective fifteen days after the day at which the LFB accepts registration statements.

(SESC)

- Enforcement procedure by the SESC is ex-post.

(Securities exchanges)

- Examination of registration documents of companies applying for listing is ex-ante, and the normal procedures to determine whether timely disclosures are made appropriately is both ex-ante and ex-post. Actions taken by the securities exchange, when annual reports, semi-annual reports or registration statements have been materially corrected, are ex-post.

Please also state if your enforcement body offer issuers a possibility to obtain a pre-clearance, as to whether a certain treatment complies with your GAAP or not. To what extent is this facility used by issuers?

No enforcement bodies offer pre-clearances to issuers, as to whether specific accounting treatments are in compliance with our GAAP or not.

Question 10 – Selection

How does your enforcement body select the issuers, whose documents containing financial information, are to be examined (risk based, random, rotation basis or other)? In case you make use of a risk based approach, please give a short description of the types of risks you include in your assessment and the inputs/criteria that you take into consideration.

(LFBs)

- For registration statements, the LFBs mainly examine those of new issuers (i.e. issuers who file registration statements for the first time).
- For periodic filing statements, the LFBs select disclosure documents to be examined based on their risks and timings of rotations. When the LFBs adopt a risk-based approach, the financial conditions of issuers, auditors' opinions, and other factors are considered. In addition, selected items, which are chosen in accordance with the policies set in advance for each reporting period, such as newly introduced accounting standards and disclosure items are examined with intensive carefulness (“intensive review”).
- In the process of examinations above, the LFBs confirm whether disclosure documents are appropriate by examining written information and requiring explanations from issuers or auditors as necessary.

(SESC)

- The SESC actively makes use of information collected through telephone calls, mails, personal visits, news reports, contents of disclosure documents, and information

communicated from the LFBs; and if such information implies possible misstatements in disclosure documents, detailed investigation is conducted as necessary.

(Securities exchanges)

- The Securities exchanges examine all issuers applying for listing. Examinations of whether listing requirements are met are based on listing application documents.
- In relation to timely disclosures of listed companies, in-charge staff at the securities exchanges receive prior explanations of the disclosure contents from all listed companies, and understand them in advance. These staff also check the timing and completeness of such disclosures, to ensure their appropriateness.
- In addition, if annual reports, semi-annual reports or registration statements have been materially corrected, the disclosure documents of all such listed companies are subject to examinations by the securities exchanges. The contents of corrections are understood by in-charge staff at the securities exchanges by reviewing such corrected filing statements, and requiring explanations for the reason and the process of the corrections from the issuers as necessary.

Question 11 – Spectrum of checking procedures

How does your review process work? What kind of checking procedures does your enforcement body use (formal checks, in-depth substantive in-nature checking etc.) and in which situations do you use which procedures?

Please see our responses to Question 10.

Question 12 – Actions

What actions can your enforcement body take, in order to make sure that the market gets timely relevant and reliable information, when misstatements have been discovered (e.g. require supplementary information, public correction, reconciliation or corrective note, restatement, suspension from trading, delisting)? Please also state if the actions available differ depending on materiality of the misstatement, the frequency at which a certain issuer publishes misstatements or on other elements.

(LFBs)

- If material misstatements are found, the LFBs have the powers to require issuers to file corrected disclosure documents and suspend the effects of the registration statements, if considered necessary.
- If inappropriate accounting treatments are found in the review process of the LFBs, and they may fall within the scope of criminal offenses to be investigated by the SESC, the relevant information are provided to the SESC.

(SESC)

- The SESC shall file complaints with public prosecutors, when the SESC confirms possible criminal offenses (i.e. cases within the purview of Article 197 of the SEL) in their investigation.

(Securities exchanges)

- The securities exchanges require the issuers to disclose the content of the corrections, when corrections of timely disclosure documents are necessary.
- The securities exchanges order submissions of improvement reports, and make such reports public, if timely disclosures made by listed companies are inappropriate, and if necessary.
- If annual reports, semi-annual reports or registration statements have been materially corrected, the securities exchanges require the listed companies to disclose the contents and the reasons of the corrections to the public. The securities exchanges assign stocks of such companies to the “supervision post”, where investors are warned that companies might fall under the delisting criteria, and the securities exchanges examine the necessity of delisting. If the effects of the corrections made are considered material, the securities exchanges delist such companies.

If certain actions can be taken only in case of material misstatements, please state your definition of materiality with regard to the financial information examined.

“Material misstatements” are considered to be the case where misstatements will have significant impact on investors’ decision making.

Please also state how many cases of enforcement you have conducted in the last two years and which actions have been used in these cases.

(LFBs)

- As a result of intensive review by the LFBs (Please see our responses to Question 10), the LFB required 141 cases in semi-annual reports and 17 cases in annual reports to be corrected for the fiscal year ended 31 March, and 5 cases in annual reports to be corrected for the fiscal year ended 31 March 2004.

(SESC)

- The SESC filed complaints with public prosecutors regarding three issuers for material misstatements in the year ended in June 2003, and two issuers in the year ended in June 2004.

(Securities exchanges)

- The Tokyo Stock Exchange delisted two issuers in the last two years (January 2003-December 2004).
- The securities exchanges assigned ten issuers to the “supervision post” in the last two years (January 2003 -December 2004).

Question 13 – Consistent decisions and actions

How do you ensure a consistent application of the standards (are decisions submitted to a (central) database)? What is the extent of any relationship between the enforcement body and the standard setter? Does the enforcement body issue interpretation guidance – what is its status?

- The FSA, the LFBs, the SESC, and the securities exchanges work in close cooperation

with each other, including exchanges of relevant information, and therefore the consistent applications of the standards are ensured.

- To ensure consistent applications of the standards, the LFBs and the SESC provide continuing education and training for their staff.
- With respect to relationship with the standard setter, representatives from the FSA participate in the Board and its Technical Committees of the Accounting Standards Board of Japan (“ASBJ”) as observers, and the FSA issues notices that accounting standards developed by the ASBJ shall be treated as part of generally accepted accounting principles.
- The LFBs shall report enforcement cases including controversial ones to the FSA, as delegated bodies. The LFBs shall consult with the FSA which directs the LFBs, when the interpretation of accounting standards is ambiguous. Therefore, consistent applications of the standards among each LFB is maintained.
- Enforcement bodies do not issue general interpretation guidance on the accounting standards.

If you have different enforcement bodies please also describe how you ensure coordination between them.

- The FSA, the LFBs, the SESC, and the securities exchanges work in close cooperation, including exchanges of relevant information, so that consistency in applications of the standards is ensured.
- Issuers shall file copies of corrected documents to the securities exchanges where the issuers are listed pursuant to the provisions of the SEL, when the issuers are required to file corrected periodic filing statements or corrected registration statements by the LFBs pursuant to the provisions of the SEL. In addition, when inappropriate accounting treatments found in the review process may fall within the scope of the criminal offenses to be investigated by the SESC, the LFBs provide the SESC with relevant information.

What does your enforcement body do to secure consistency with regard to the actions taken? (similar actions to similar infringements even if different enforcement bodies are involved)?

(Consistency among the LFBs, the SESC, and the securities exchanges)

- The LFBs have the powers to require issuers to file corrected filing statements and to suspend the effects of such statements for inappropriate accounting treatments, if considered necessary.
- The SESC has the powers to file complaints with public prosecutors against illegal acts such as material misstatements, as criminal offenses.
- The securities exchanges have the powers to delist listed companies, if necessary, when the companies have made material corrections to their periodic reports.
- Since the powers granted to each body are clearly distinguishable as stated above, consistency with regard to the actions taken is ensured.

(Consistency among each LFB)

The LFBs shall report enforcement cases including controversial ones, to the FSA. The LFBs

shall consult with the FSA which directs LFBs, when questions about what actions should be taken arises. Therefore, consistent applications of disciplinary actions among LFBs is secured.

Question 14 – Public reporting

Does (do) your enforcement body (bodies) report to the public on its (their) activities. In this case please state what kind of information is reported to the public, how often and whether the information published is in anonymous form with regard to the issuers examined.

(LFB)

- The LFBs conduct the intensive reviews on selected items such as newly introduced accounting standards and disclosure items, and the analysed results on the reviews are reported to the public.

(SESC)

- The SESC publishes annual reports on its activities, which include outlines of each criminal investigation case as well as general information on its activities during the year.

(Securities exchanges)

- The securities exchanges release the number of warnings given to inappropriate timely disclosures and the contents of improvement reports to the public. If delisting of issuers is under examination by the securities exchanges, or delisting is determined by the securities exchanges, names of issuers and facts of examination with their reasons are also made public.

(Provisional Translation)

November 16, 2004

Financial Services Agency

Measures for Ensuring Confidence in the Disclosure System

Since the middle of October, it has been discovered that some issuers have engaged in improper treatment of the disclosure requirements stipulated in the Securities and Exchange Law ("SEL"). The Financial Services Agency ("FSA") recognized that these incidents could shake public confidence in the Japanese disclosure system. Thus, in order to ensure confidence in the Japanese disclosure system, the FSA is to actively carry out the following measures:

1. Framework for Reviewing Statutory Disclosure Documents

- (1) The authority to carry out inspection and demand submission of reports regarding the statutory disclosure documents such as annual reports will be transferred from the Kanto Local Finance Bureau to the Securities and Exchange Surveillance Commission ("SESC") effective in July 2005. Details of the entire framework for reviewing statutory disclosure documents are to be discussed as a part of the "FSA Overall Review Project," the main purpose of which is to comprehensively review and improve the overall organization and practices of the FSA.

(Note) Through the revision of the SEL which was passed by the Diet in June 2004, the functions of inspecting securities companies will be integrated into the SESC, and the authority to carry out inspection of investment trust companies and investment advisers will also be transferred from the FSA to the SESC, effective in July 2005.

(Note) The Kanto Local Finance Bureau covers the Tokyo area.

- (2) The FSA is to open the "Disclosure Hotline" available to the public on November 16, 2004, in order to enhance information gathering regarding possible violations of disclosure requirements.

- (3) The FSA is to accelerate the enhancement of the Electronic Disclosure for Investors' NETwork ("EDINET"), especially the introduction of the Extensible Business Reporting Language ("XBRL"), in order to improve the FSA's ability to analyze statutory disclosure documents. For this purpose, the FSA is to establish the "Council for the Advancement of the EDINET" on November 24, which is to be composed of the relevant parties involved in the EDINET system.

(Note) Through EDINET, issuers can make disclosures to meet the disclosure requirements stipulated in the SEL. The EDINET is expected to reduce the administrative cost of issuers and to allow investors fair and fast access to corporate information. The XBRL is a computer language which enables efficient processing of financial information.

- (4) The FSA, through the local financial bureaus, is to instruct on November 17 all the issuers with continuous disclosure requirements to voluntarily review the information on major shareholders and related information in their disclosure documents, and to submit correction reports as soon as possible if necessary.

2. Enhancing Auditor Oversight

- (1) The FSA is to consider the following additional disclosure requirements for issuers:
- a disclosure of information concerning their auditor lineup
 - a disclosure of the length of time that their auditors have been auditing them on a consecutive basis.
- (2) The Certified Public Accountants and Auditing Oversight Board ("CPAFOB") is to pay special attention to the following considerations when monitoring the quality control review of each auditor by the Japanese Institute of Certified Public Accountants ("JICPA");
- whether individual accountants are conducting thorough and proper audits in accordance with the relevant laws and standards from the viewpoint of audit quality control
 - whether auditors that audit the same issuers on a consecutive basis for a long period are conducting independent and proper audits.

For this purpose, the CPAFOB is to request the JICPA to give special attention to the above considerations in its quality control review of each auditor.

(Note) The CPAFOB was established in April 2004 as the new independent

auditor oversight body, through the comprehensive revision of the Certified Public Accountants Law in Japan.

3. Further Development of the Disclosure System

The FSA is to ask the Disclosure Working Group of the First Subcommittee of the Financial System Council, the third party advisory body to the FSA, to consider the following issues as a part of its current discussions from this October on the further development of the disclosure system:

- (1) the introduction of the following requirements regarding internal control over financial reporting;
 - an assessment by management of the effectiveness of internal control over financial reporting
 - an auditing by CPAs or audit firms of the above assessment by management
- (2) an expansion of the scope of the administrative civil money penalty system to include breaches of the continuous disclosure requirements

(Note) Through the revision of the SEL which was passed by the Diet in June 2004, the introduction of the administrative civil money penalty system for breaches of the disclosure requirements for registration statements will take effect in April 2005.

- (3) an enhancement of disclosure of governance-related information (e.g. the organization, staff and procedures for conducting internal audits; the auditor lineup; the consecutive periods of auditing by the same auditor)

(Note) The disclosure of governance-related information has been required since FY 2003.

- (4) an enhancement of disclosure about a parent company by a public subsidiary, in cases in which the parent company is not under the continuous disclosure requirements

4. Request to Stock Exchanges and the Japan Securities Dealers

Association

The FSA is to request the stock exchanges and the Japan Securities Dealers Association, which operates the OTC market called "JASDAQ", on November 16 to take necessary measures, such as the amendment of listing rules, to ensure appropriate and timely disclosure of corporate information.

(Note) The JASDAQ has submitted an application for licensing as a stock exchange to the FSA.

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Financial Services Agency

Further Measures for Ensuring Confidence in the Disclosure System

The Financial Services Agency (“FSA”) announced the “Measures for Ensuring Confidence in the Disclosure System” on November 16, 2004, as some issuers had been found to be engaged in improper handling of the disclosure requirements stipulated in the Securities and Exchange Law (“SEL”) since the middle of October 2004. Considering that approximately one month has passed since the announcement of the first measures, the FSA has decided to announce the “Further Measures for Ensuring Confidence in the Disclosure System” in order to actively carry out the following measures continuously.

1. Measures to Address the Results of Voluntary Reviews of the Disclosure Documents by All Issuers with Continuous Disclosure Requirements

- (1) The FSA, through the local finance bureaus, is to inquire about the results of the voluntary reviews of the disclosure documents of any issuer who have not submitted correction reports or have not reported that corrections are not necessary in their disclosure documents. Based on the facts of inquiries and referring to the information sent through the “Disclosure Hotline”, the FSA is to require submission of reports or to conduct on-site inspections etc., if necessary.

(Note) The “Disclosure Hotline” was established on November 16, 2004, in line with the “Measures for Ensuring Confidence in the Disclosure System”.

- (2) The FSA is to analyze corrected disclosure information in the correction reports. Based on the analysis, the FSA is to take necessary measures, such as clarification of “notes to statement” stipulated in the relevant cabinet ordinance, etc.
- (3) Based on the analysis above, the FSA is to send a letter to all the issuers with

continuous disclosure requirements to remind them to ensure necessary points on disclosure and to request the management of each issuer to take continuous measures for proper disclosure.

- (4) The FSA is to strengthen publicity activities and to promote training programs for proper disclosure documents. For this purpose, the FSA, in cooperation with relevant parties, is to hold seminars for preparation of disclosure documents, in time for when disclosure documents of FY2004 ending March 2005 are prepared.

2. Framework for Reviewing Statutory Disclosure Documents

- (1) The Office of Investigation for Administrative Civil Money Penalties and Examinations for Disclosure Documents with a staff of 40 is to be established in the Executive Bureau of the Securities and Exchange Surveillance Commission (“SESC”) in April 2005, and the Corporate Accounting and Disclosure Division of the FSA is to be established for further enhancement of the current Office for Corporate Accounting and Disclosure.
- (2) The SESC is to promote development and research of analytical skills in analysis of materials and information regarding disclosure documents, in order to carry out efficient and focused examinations of false statements in disclosure documents from July 2005.
- (3) The FSA is to request the “Council for the Advancement of the EDINET”, which is composed of the relevant parties involved in the EDINET system, to discuss and conclude, by about spring 2005, the schedule for the enhancement of the Electronic Disclosure for Investors’ NETwork (“EDINET”), especially the introduction of the Extensible Business Reporting Language (“XBRL”), in order to improve the FSA’s abilities to analyze statutory disclosure documents.

(Note) The “Council for the Advancement of the EDINET” was established on November 24, 2004, in line with the “Measures for Ensuring Confidence in the Disclosure System”.

3. Further Development of the Disclosure System

Based on the report of the First Subcommittee of the Financial System Council, an important third-party advisory council to the FSA, which was announced today, the following measures are to be taken.

- (1) Introduction of the following requirements regarding internal control over financial reporting:
- an assessment by management of the effectiveness of internal control over financial reporting, and
 - auditing by CPA or audit firm of the above assessment by management.

The FSA is to encourage practical use of the certification system by management, which is currently voluntary, and to request the Business Accounting Council, which is also an important third-party advisory council to the FSA, to clarify standards of assessment by management and of its verification by CPAs. The FSA is to consider whether assessment and verification should be mandatory, looking into practical effectiveness of assessment and verification based on the standards.

- (2) Introduction of an administrative civil money penalty system against breaches of the continuous disclosure requirements

After considering legal issues regarding an administrative civil money penalty system against breaches of the continuous disclosure requirements, the FSA is to aim at submitting a necessary bill to revise the SEL to the next regular session of the Diet, which will start in January 2005.

(Note) The administrative civil money penalty system against registration statements is to be introduced in April 2005 after the amendment of the SEL in June 2004.

- (3) Enhancement of disclosure of governance-related information

The FSA is to revise the relevant cabinet ordinance to require disclosure of the following items in annual reports from FY 2004 ending March 2005:

- (i) organization, number of staff and procedures of internal audits and audits by corporate statutory auditors (or audit committees), and any co-operation among internal audits, audits by corporate statutory auditors (or audit committees) and financial auditing by external financial auditors,
- (ii) personal, capital, transactional or other interests between outside directors/outside corporate statutory auditors and the issuers, and
- (iii) names of CPAs involved in external financial auditing, audit firms to which such CPAs belong, and their consecutive periods of audits of issuers; number of assistants involved in audits; reviewing process in the case that individual CPAs are involved in auditing

- (4) Enhancement of disclosure about a parent company by a public subsidiary, in cases in which the parent company is not under the continuous disclosure requirements

The FSA is to revise the relevant cabinet ordinance and to require disclosure of the following information on the parent company in annual reports of the public subsidiary with continuous disclosure requirements:

- (i) information about shareholders and major shareholders,
- (ii) information about officers and directors, and
- (iii) balance sheet, profit and loss statement, business reports and supplementary statement based on the Commercial Code (and audit report, if audited by the external financial auditor)

4. Enhancing Auditor Oversight

- (1) Considering recent improper financial auditing, the Certified Public Accountants and Auditing Oversight Board (“CPAAOB”) is to monitor the quality control review by the Japanese Institute of Certified Public Accountants (“JICPA”) and to conduct on-site inspections, paying special attention to internal controls of audit firms.

Furthermore, the CPAAOB is to pay special attention to the following aspects when monitoring:

- whether individual accountants are conducting thorough and proper audits in accordance with the relevant laws and standards from the viewpoint of audit quality control, and
- whether auditors that audit the same issuers on a consecutive basis for a long period are conducting independent and proper audits.

(Note) The CPAAOB was established in April 2004 as the new independent auditor oversight body, through the comprehensive revision of the Certified Public Accountants Law in Japan.

- (2) Considering the result of monitoring and recent improper financial auditing, the FSA is to request the Business Accounting Council and the JICPA to consider necessary measures, such as revision of auditing standards and practical statements and guidelines, etc., in order to strengthen internal controls and improve quality controls of audit firms.

5. Request to Stock Exchanges

Based on the request by the FSA, each stock exchange is to amend listing rules, etc. to ensure appropriate and timely disclosure of corporate information. The FSA is to request stock exchanges to ensure steady implementation of such measures and to take further appropriate measures, as necessary.

(Note) The Tokyo Stock Exchange amended listing rules on January 1, 2005. JASDAQ is to amend them in January 2005 and other stock exchanges, such as those in Osaka, Nagoya, Sapporo and Fukuoka, are to amend them in February 2005.

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Program for Further Financial Reform

— Japan's challenge:

Moving toward a Financial Services Nation —

December 2004

Financial Services Agency

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1. Introduction

Japan's financial system is entering a new forward-looking phase aiming at establishing a desirable financial system for the future, having now moved beyond the emergency reaction against the non-performing loans problem by implementing the "Program for Financial Revival" and other measures. This new phase could be described as one in which the attitude of Japan's financial administration toward the financial system changes from an emphasis on "financial system stability" to an emphasis on "financial system vitality." Additionally, as the use of IT in the financial industry progresses, the volume of internet transactions is increasing throughout the entire economy. Based on the changing outlook of the financial environment described above, it is necessary to create a concrete program for financial reform as part of overall structural reform, in order to contribute to sustainable economic growth, and to take accurate steps in response to both Japan's aging population with a falling birthrate, and the further globalization of the economy.

As a vision of a future desirable financial system, we could imagine a system in which any user of financial products and services has access to options for diversified and good-quality financial products and services at anytime, from anywhere, at an appropriate price. Additionally, for financial institutions offering financial products and services, an ideal financial system would be one that is convenient but less costly, and in which they can satisfy users' needs and raise their profitability by fully demonstrating their abilities. In other words, it would be a financial system that is superior in its convenience, price advantage, diversification, international aspect, and reliability, and in which users easily and safely can get the financial products and services they want.

In the process of establishing such a financial system, IT plays an extremely large role. There is significant room to improve users' satisfaction through the use of IT, which means convenient access to financial products and services through new channels such as the internet, a prompt and efficient offering of service and settlement, and a prompt offering of accurate and reliable information, etc. In the future, it is expected that, through the strategic use of IT, a desirable financial system will come to be realized, bringing with it increased convenience due to the diversification of distribution channels, and improved profitability for financial institutions resulting from the reduction of office expenses and other costs.

Taking the change in phase from "stability" to "vitality" into consideration, the financial administration must aim to establish a financial system in which the level of users' satisfaction is high, which is evaluated well internationally, and which is not led by the "public sector," but by the effort of the "private sector." We named this set of financial goals "Japan's challenge: Moving toward a financial services nation," and formulated this program for it. The purpose of this program is to point out a road map for reform which the financial administration should enact over the next two years, the "Concentrated Consolidation Period," in order to create a "financial services nation."

The shift "from savings to investment" will be accelerated through this reform, leading to diversification and efficiency in the means of asset management based on the following two conditions: 1) our financial markets become attractive internationally, and 2) money-flow, which has been too centered on indirect finance, changes to one which can offer options for diversified and high-quality financial products and services to people by utilizing direct and market-based indirect financing. This change can be thought of as contributing to the establishment of an economic structure with flexibility in dealing with risks, and as correcting the financial structure in which risks are concentrated excessively in banks.

In this program, we organized the contents of reform that we should develop in the future in terms of the five following points:

1. Institution building to enhance users' convenience drawing out private-sector vitality, and development and thorough implementation of user protection rules (Emphasis on users' needs and thorough implementation of user protection rules)
2. Strategic use of IT for strengthening the competitiveness of financial institutions and further developing financial infrastructure
3. Further development of a financial system which is internationally open and a financial administration with an international perspective
4. Establishment of a financial system which contributes to the realization of vibrant regional economies (Contribution to regional economies)
5. Establishment of a reliable financial administration that complements market discipline

As the phase of the financial system changes, it is necessary to clarify the basic principles of future financial administration to bring about a "Financial Services Nation" through the effort of the "private sector."

The following points are required as the basic principles of the future financial administration:

1. Thorough implementation of playing a financial administration's role as judge that complements market discipline
2. Establishment of a "Code of Conduct" for financial administration along with a full check of current regulations and repeal of unnecessary regulations
3. Development and thorough implementation of user protection rules so that users do not suffer unexpected losses

Additionally, the financial administration is required to become more transparent and take a leading role in enhancing convenience and efficiency through the promotion of e-government with the use of IT.

Regarding the implementation of this program, the FSA aims to draw up and publish "a work schedule" as a concrete schedule as soon as possible within this fiscal year. Additionally, we will undertake follow-up activity to establish a desirable financial system for users of financial products and services, through a steady implementation of the concrete measures included in this program. In the follow-up activity, we will, for instance, monitor whether indicators like diversification of individual financial assets are increasing or whether people's level of satisfaction with financial products and services is increasing as a result of the increase in the choices available for people's asset management.

2. Concrete measures

I. Creation of a vibrant financial system

(1) Emphasis on users' needs and thorough implementation of user protection rules

- ◇ **Establishment of a regulatory framework that promotes the offering of diverse and high quality financial products and services**
 - The FSA will promote new entrants into the financial industry and sound competition under fair rules so that diverse and high quality financial products and services will be offered timely and appropriately, responding to users' needs. Additionally, the FSA will strive to enhance users' convenience 1) by making it easier for financial institutions to separate providers/retailers and to expand distribution channels, and 2) by making it possible for users to purchase diverse and high quality financial products and services in a convenient and timely one-stop fashion.
 - Enhancement of the provision and distribution framework for financial products and services
 - ✓ Expansion of distribution channels of financial products and services and promoting diversification and price flexibility in insurance products
 - ✓ Approval of proper comparative advertising to promote fair competition
 - Diversification of the method of entry for banks and other financial institutions
 - Effective utilization of the premises and other facilities of financial institutions
 - Expansion of financing methods that do not rely excessively on real estate collateral and guarantees
 - Promotion of both a full check of current regulations and deregulation, in order to meet market participants' needs and promote sound competition as well as the cultivation of new business (Review of the regulations for financial products and services as well as for financial institutions and non-bank financial institutions)

- ◇ **Development and thorough implementation of user protection rules reflecting actual financial conditions**
 - The FSA will strive to establish overall uniform rules for transactions regarding financial products and services, protect personal information, and prevent financial crimes, etc., in order to develop financial rules for user protection reflecting actual financial conditions.
 - Enactment of the "Investment Services Law (tentative name)"
 - Development of rules for insurance transactions
 - ✓ Introduction of protection rules for policyholders of unregulated Kyosai, observance of the suitability principle for insurance contracts, strengthened monitoring of insurance advertisements
 - ✓ Review of the insurance policyholder protection program
 - Clarification of the responsibility for sales and explanations in relation to the separation of providers and retailers
 - Clarification of concrete protection rules for personal information aiming at the appropriate

protection of information, taking the usefulness of information regarding financial products and services into consideration

- Strengthening and thorough implementation of measures for the prevention of financial crimes such as crimes with counterfeit cards

◇ **Strengthening the framework for providing information and counseling in order to protect users**

- The FSA will strive to develop a framework which reduces the information gap between users and providers of financial products and services through strengthening information services for users so that users can conduct transactions with understanding and satisfaction.
 - Development of a counseling and complaint processing system and a dispute-settlement system in financial institutions and administration taking users' points of view into consideration
 - ✓ Establishment of the "Counseling Office for Financial Services Users"
 - ✓ Strengthening an alternative dispute resolution system
 - Expansion of financial and economic education making use of familiar examples, responding to the user's life cycle
 - Enrichment of public outreach by the government taking users' points of view into consideration
 - Establishment of financial institutions management that emphasizes user satisfaction

◇ **Smooth implementation of the scheduled removal of the remaining blanket deposit insurance**

- In order to implement the scheduled removal of the remaining blanket deposit insurance smoothly in April 2005, the FSA will take the following measures to ensure depositors' confidence.
 - Public relations activity for deeper understanding of the system and for penetration of information services
 - Further enhancement of disclosure by financial institutions
 - Ensuring financial institutions' measures for aggregating deposits held by the same party, etc. through inspection and supervision

(2) Strategic use of IT for strengthening the competitiveness of financial institutions and further developing financial infrastructure

◇ **Strategic use of IT**

- The FSA aims at promoting strategic use of IT, taking into consideration the fact that the relative importance of internet transactions has increased while, compared to other countries, Japanese financial institutions have fallen behind in IT investment and IT costs remain high. Additionally, the FSA aims at creating a financial environment in which financial products and services are provided immediately and at reasonable prices responding to users' needs.
 - Study toward legislation concerning e-banking in order to enjoy actively the results of technological

innovation, and to enhance the convenience of financial infrastructure and cost competitiveness

- ✓ Study toward legislation concerning electronic fund settlement and payment, and online financial transactions
- Study of measures to ensure the transparency of the IT investment process of financial institutions, and to encourage improved cost performance and risk management abilities.
 - ✓ Fact finding on both the current status of IT use and the execution of information exchange about system development among financial institutions (implementation of the IT caravan, etc.)
 - ✓ Promotion of low-cost operations through the application of market competition principles, such as introducing assessments by outside experts concerning IT investment, etc.
 - ✓ Establishing a system which contributes to enhancing customer convenience, such as a channel and outlet (branch) strategy that makes use of IT

◇ **Enhancing market functions and improving confidence in markets**

- In order to build a financial system that maximizes the potential of markets operating under the market competition principle, and to meet the wide range of users' needs, such as requests for asset formation based on self-responsibilities, the FSA will encourage the development of financial intermediation and capital distribution that utilizes market functions, improving users' confidence in direct and market-based indirect financing through the enhancement of disclosure.
 - Enactment of the "Investment Services Law (tentative name)"(written again)
 - Development of collective investment schemes
 - Vitalization of private offering markets, including reviewing the definition of qualified institutional investors, etc.
 - Further promotion of financial tax reform contributing to the effective utilization of financial assets, such as reviewing the securities taxation system in order to promote long-term investment
 - Further enhancement of the corporate disclosure system
 - ✓ Strengthening internal control in regard to financial reporting, enhancing the disclosure of governance information, and implementing quarterly disclosure, etc.
 - Strengthening internal control in audit firms, promotion of measures toward preventing conflicts of interest with non-audit operations, and checks by the Japanese government and the Japanese Institute of Certified Public Accountants (including inspections of audit firms by the Certified Public Accountants and Auditing Oversight Board)
 - Further strengthening of market supervision and surveillance authorities
 - ✓ Strengthening the surcharge system and the enforcement system, unification of market surveillance systems, and appropriate partnerships with self-regulatory organizations

◇ **Enhancing governance of financial institutions and promoting sound competition through highly-developed risk management**

- In order to enhance sound competition and new entry and exit of financial institutions, it is essential to promote the strengthening of the management ability of financial institutions based on their voluntary and sustainable efforts through ensuring self-clearing functions, expanding information disclosure, and ensuring the effectiveness of external audits. Additionally, it is necessary to develop an administrative framework that complements such market disciplines and to establish an incentive structure.

- Clarifying management's responsibility regarding the accuracy of financial statements and the effectiveness of internal audits
 - Clarifying criteria to evaluate the qualifications for directors of financial institutions (Fit and Proper principle)
 - Ensuring effectiveness of governance utilizing the functions of outside directors, auditors and actuaries, etc.
 - Further enhancement of financial institutions' disclosure to strengthen market discipline
 - Promotion of measures of financial institutions responding to corporate social responsibility (CSR)
 - Study toward establishing a "Code of Conduct" by the financial industry itself
 - Motivation to improve management of financial institutions through inspection and supervision
 - ✓ Sharp, effective and selective administrative response through introduction of a rating system into inspections that is not only based on the financial situation, but also on various viewpoints of inspected institutions
 - Implementation of off-site monitoring to enhance the internal audit of financial institutions
 - Clarifying supervisory points concerning the governance of financial institutions
 - Examining the way of thinking on retirement or disposal of public funds (preferred shares, etc.)
 - Securing and training financial experts from strategic points of view (including the governance of capital injected banks), such as by establishing a "human resource pool" through coordination between the government and private sector
- Along with promoting enhanced risk management by financial institutions, the FSA will strive to develop rules to prevent the recurrence of the non-performing loans (NPLs) problem and to require major banks to make their best efforts to keep the NPL ratio under the level as of the end of March 2005. Additionally, the FSA aims to further upgrade financial institutions' indicators related to profitability and soundness and their external ratings.
- Developing rules and frameworks for financial institutions for advanced risk management and strengthening the Inspection and Supervision Bureaus, aiming at the implementation of Basel II (the new capital adequacy framework)
 - Further utilization of the early warning system framework
 - ✓ Proper monitoring of risks which are not included in the capital adequacy ratio, such as interest rate risk in the banking book
 - Early recognition and treatment for NPLs
 - ✓ Implementation of effective monitoring by the Inspection and Supervisory Bureaus (further strengthening of cooperation between the Inspection and Supervision Bureaus, etc.)
 - ✓ Vitalization of loan markets (Enhancing the pricing function for NPLs)
 - ✓ Strengthening measures for early business revitalization (early assessment of the possibility for business revitalization)
 - ✓ Study toward charge-off rules and measures responding to new financial tools, such as Debt-Equity Swaps (DES)
 - Enhancing risk management of major banks
 - ✓ Request major banks to make plans toward enhancing risk management, in preparation for the implementation of Basel II
 - ✓ Verification of bank's credit risk management system for large borrowers and revitalization plans for borrowers

- ✓ Issue business improvement orders when the gap between major banks' self-assessment and the result of the FSA's inspections is wide
- ✓ Study of the introduction of proper regulatory treatment of deferred tax assets in calculating capital adequacy ratios
- Enhancing risk management of securities and insurance companies
 - ✓ Review of the method of calculating the net capital regulation ratio of securities companies
 - ✓ Review of the solvency margin standard and enhancement of other rules related to financial soundness of insurance companies, such as the technical provision for newly introduced insurance products and performance monitoring
- Development of rules for the soundness of trust businesses

(3) Further development of a financial system which is internationally open and the financial administration with an international perspective

◇ Institution building responding to the internationalization and structural change of finance

- The FSA will develop a financial administrative and regulatory framework in response to 1) differentiation and specialization of various functions of financial institutions along with the deregulation of international finance; 2) conglomeratization and internationalization, and 3) structural changes, such as diversification of financial services through the emergence of new forms of transactions and products.
 - Study toward financial legislation for financial conglomerates and study of issues of hedge funds
 - Establishment of an inspection and supervision system that can address the inspection and supervision of financial conglomerates, the treatment of cross-sectoral problems, and the emergence of new forms of transactions and products
 - Development of infrastructure to promote liquidation and securitization of loans
 - Measures to activate derivative markets based on the needs of markets participants
 - Strengthening the functions of securities markets for small- and medium-sized enterprises
 - ✓ Development of a system and thorough publicity for the green sheet market
 - Promotion of the development of accounting rules which are able to respond to the emergence of new financial and economic transactions

◇ Efforts to raise the international position of Japanese financial markets

- In response to the increase in international competition among financial markets, the FSA will strive to strengthen the competitiveness of Japanese financial markets and raise their international position.
 - Shortening the time from contract to settlement and payment in securities transactions, etc.
 - Joint research with concerned parties for measures to make Japanese markets a financial base for Asia

◇ Implementation of a financial administration with an international perspective and active participation in international standard-setting activities

- As internationalization and financial conglomeratization progresses, the necessity of strengthening partnerships with overseas regulatory authorities is increasing, and the movement towards the convergence of regulation and standards is accelerating. Taking this situation into consideration, the FSA will strive to adhere to the equal treatment principle of domestic and foreign financial institutions; make the Japanese financial system and financial markets universal based on a clear philosophy and rules; and at the same time play a leading role in international standard-setting activities regarding financial services, participating actively, not passively, from a strategic standpoint.
 - Active actions toward international convergence of accounting standards
 - Active participation in drawing up trading rules for international financial products and services
 - Ensuring appropriate regulation, inspection and supervision of international financial conglomerates
 - Strengthening cooperation with overseas supervisory authorities
 - Promoting dialogues among financial regulators in Asia through active participation in negotiations of Economic Partnership Agreements (EPA)
 - Active participation in negotiations for the liberalization of financial services at the WTO

II. Contribution to regional economies

◇ Revitalization and activation of regional economies, facilitation of small- and medium-sized enterprises (SMEs) financing

- The FSA will strive to further promote region-based relationship banking, with a view to promoting, under a competitive environment, revitalization and activation of regional economies, facilitation of SME financing such as by encouraging new businesses in the region, and strengthening of management functions of regional financial institutions, thereby ultimately realizing active and vital regional societies. In this context, the FSA will design a new action program inheriting the existing “Action Program concerning enhancement of Relationship Banking Functions,” by building on the assessment of its progress and paying due attention to the points listed below.

The FSA will study the role of public financing in regional SME financing, while striving to bring about a tax system that will promote further efforts by financial institutions toward their borrowers’ business revitalization, and to develop corporate disclosure and other frameworks. The FSA will also strive to activate direct financing markets in the regions.

- Overall evaluation of the existing “Action Program concerning enhancement of Relationship Banking Functions”
- Based on the new action program, the FSA requests that each financial institution draw up individual plans, taking unique characteristics of respective regions into account, to achieve 1) business revitalization and facilitation of SME financing, 2) strengthening of management functions, and 3) enhancement of convenience for regional users. The FSA also requests that each financial institution carry out the measures with “selection and concentration” under voluntary management decisions and discipline imposed by disclosure.
- Development of a database regarding the state of SME financing

- Further promotion of enhanced information disclosure concerning results of assistance for corporate restructuring and the sharing of know-how underlying such achievements
- Review of the RCC's corporate revival function aimed at the intensive revival of SMEs, promotion of the liquidation of loans held, further utilization of business revival funds, and appropriate use of Debt-Debt Swaps (DDS)
- Utilization of experts and know-how regarding financial business practices
- Expansion of exit finance for revitalized enterprises through utilization of syndicated loans and other measures, and promotion of DIP finance which is truly useful for enterprises that take on business revival
- Promotion of efforts towards lending via methods such as non-recourse loans and project finance

◇ **Strengthening management functions of regional and small- and medium- sized financial institutions**

- The FSA will introduce a framework that emphasizes incentives so that regional financial institutions, while making use of their characteristics as region-based entities, will enhance their governance under discipline imposed by disclosure, thereby voluntarily ensuring soundness and improving profitability through enhancing their ability of risk management and business assessment and improving their earnings management system. The FSA will also promote sound competition by pushing forward diversification of regional financial institutions' businesses in response to various needs in the region as well as entry of new players.

- Promotion of efforts to enhance risk management and governance of regional financial institutions
 - ✓ Implementation of Basel II and selective adoption of the Internal Ratings-Based Approach
- Permeation of new business models of regional financial institutions and promotion of entry of new players
- Enhancement of disclosure to improve convenience for regional users

III. Establishment of a reliable financial administration

◇ **Improving the transparency and predictability of the financial administration**

- The FSA will strive to develop a framework to improve the transparency and predictability of financial administration and to achieve full accountability.
 - Establishment of the FSA's "Code of Conduct" (including further enhancement of the transparency and rules of administrative directives, and ensuring further transparency of administrative actions) and reconfirmation of the equal treatment principle of domestic and foreign financial institutions
 - Enhancement of the feedback system regarding the results of inspections of financial institutions
 - Promotion of the utilization of the no action letter system, publicizing the opinion regarding the interpretation of general laws and regulations in response to outside inquiries
 - Case studies of failed financial institutions and feedback for a future financial administration
 - Ensuring transparency and objectivity as seen from the outside through active utilization of the FSA Compliance Relations Office

- Enhancement of public relations activities for policies through the use of local finance bureaus as well

◇ **Promotion of a convenient and efficient financial administration through e-government, etc.**

- Through e-government, etc., the FSA aims to lower administrative costs and to promote convenient and efficient financial administration for participants and users of financial markets.
 - Implementation of an efficient and sound administration and the enhancement of convenience for participants and users of financial markets through e-government, etc.
 - Study toward an effective inspection method for both the supervisory authority and financial institutions, responding accurately to the actual management conditions of financial institutions.
 - Full internal check and review of the FSA's organization and frameworks based on the "FSA's Full Check Project" (including the use of its research and study functions, etc.)
 - Measures to enhance the human resources of the financial services authority

<Provisional Translation>

Summary of the “Program for Further Financial Reform”

- Japan’s challenge:
Moving toward a Financial Services Nation -

December 2004

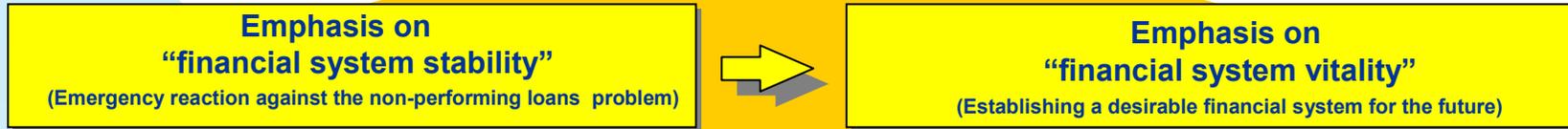


Financial Services Agency

1. Basic Concepts for Designing the Program

◇ Change of phases surrounding the financial environment

- From the emergency reaction phase to a desirable financial situation -



◇ Desirable financial system

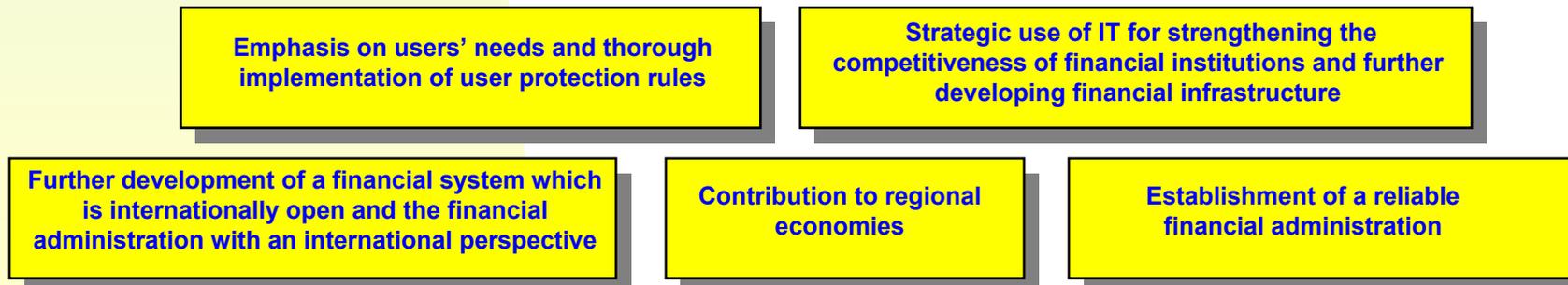
by the effort of the "private sector," not led by the "public sector"

Any user of financial products and services has access to options for diversified and good-quality financial products and services at anytime, from anywhere, at an appropriate price.

(a financial system superior in its convenience, price advantage, diversification, international aspect and reliability)



◇ Five points in the challenge moving toward a "Financial Services Nation"



2. Concrete Measures

I. Creation of a vibrant financial system

Emphasis on users' needs and thorough implementation of user protection rules

- Enhancement of the provision and distribution framework for financial products and services
- Enactment of the “Investment Services Law (tentative name)”
- Prevention of financial crimes such as crimes with counterfeit cards
- Smooth implementation of the scheduled removal of the remaining blanket deposit insurance
- Expansion of financing methods that do not rely excessively on real estate collateral and guarantees
- Establishment of the “Counseling Office for Financial Services Users”
- Expansion of financial and economic education

Strategic use of IT for strengthening the competitiveness of financial institutions and further developing financial infrastructure

- Study toward legislation concerning electronic fund settlement and online financial transaction
- Further enhancement of the corporate disclosure system
 - Introduction of a rating system into inspection
- Improvement in the management (governance) of financial institutions
- Vitalization of private offering markets, including reviewing the definition of qualified institutional investors, etc.
- Further strengthening of market supervision and surveillance authorities
- Enhancement of risk management of financial institutions
 - Implementation of Basel II (the new capital adequacy framework), and early recognition and treatment for non-performing loans

Further development of a financial system which is internationally open and the financial administration with an international perspective

- Study toward financial legislation for financial conglomerates
- Promoting dialogues among financial regulators in Asia through active participation in negotiations of Economic Partnership Agreements (EPA)
- Active participation in international standard-setting activities

II. Contribution to regional economies

Revitalization and activation of regional economies, facilitation of small- and medium-sized enterprises (SMEs) financing

- Further promotion of region-based relationship banking by designing a new action program inheriting the existing “Action Program concerning enhancement of Relationship Banking Functions” with the view to promoting revitalization and activation of regional economies, facilitation of SME financing, and strengthening of management functions of regional financial institutions. The new action program will be built on the assessment of the existing one.

Strengthening management functions of regional and small- and medium-sized financial institutions

- Promotion of efforts to enhance abilities of risk management and business assessment and improving earnings management system and governance.

III. Establishment of a reliable financial administration

Improving the transparency and predictability of the financial administration

- Establishment of the FSA’s “Code of Conduct,” reconfirmation of the equal treatment principle of domestic and foreign financial institutions

Promotion of a convenient and efficient financial administration through e-government, etc.

- Implementation of an efficient and sound administration through e-government, etc.
- Full internal check and review of FSA’s organization and frameworks based on the “FSA’s Full Check Project”

Summary of “Amendments to Listing Rules to Improve Trust in Corporate Information”

December 29, 2004
Tokyo Stock Exchange, Inc.

I . Purpose of Rule Amendments

Timely and appropriate disclosure of corporate information is indispensable in order to ensure fair price formation and the smooth distribution of listed securities, and it constitutes a basis for investors’ trust in the securities market. However, recently there has been a number of incidents where the disclosure of corporate information was inappropriate which potentially undermined the trust of many investors. We have been faced with a situation where we could lose the public’s trust in listed companies as well as the securities markets.

Therefore Tokyo Stock Exchange, Inc. has decided to amend the listing supervision system as a whole to maintain and improve investors’ trust in the market.

II . Outline of the Amendments

1. Improvement of Trust in Disclosure Documents

(1) Fundamental Principle Regarding the Carrying-Out of Operations in Good Faith by Listed Companies

As a basic principle regarding the carrying-out of operations in good faith by an issuer of listed securities, TSE prescribes in its Timely Disclosure Rules a provision stating that an issuer of listed securities must fully acknowledge that the disclosure of corporate information to investors in a timely and appropriate manner constitutes a basis for a sound securities market and that they must make an effort to carry out their operations in good faith. Considering the standpoint of investors, the issuer should include being thorough about making prompt, accurate and fair disclosure of corporate information at all times.

(2) Written Oath Concerning Timely Disclosure

If a representative of a listed company changes, or five years have elapsed since the last submission of a written oath, the listed company must promptly submit a written oath to TSE concerning timely disclosure that TSE designates and attach the relevant document (document describing the corporate structure and procedures with regard to timely disclosure). The listed company shall agree that TSE will make the written oath and the attached document available for public inspection.

(3) Written Confirmation Regarding the Appropriateness and Accuracy of a Securities Report (Interim Report)

In the event that a listed company submits a Securities Report or Interim Report, the listed company shall submit to TSE without delay a document stating that the representative

of the listed company acknowledges that there are no false statements in the documents at the time of the submission, and a written document explaining the reasons why he/she acknowledges so (the content that the representative has confirmed with respect to producing a Securities Report or Interim Report) (in the event that the listed company has attached a written document prescribed by (6), Item 1, Paragraph 1 of Article 17 of Cabinet Ordinance Regarding Disclosure of Corporate Information, a copy of such document). The listed company shall agree that TSE makes such documents available for public inspection.

2. Amendments to Timely Disclosure Rules Regarding Corporate Information of Parent Company

(1) Enlargement of Scope of Listed Companies that Are Subject to Timely Disclosure Rules and Regulations Regarding Parent Companies.

In the case where companies were listed on TSE before 1995 and foreign companies which have a non-public parent company, such companies shall also disclose facts of decisions, facts of occurrences, and account settlements of the parent company.

※ “Parent company” refers to parent companies and any other companies affiliated with the listed company.

(2) Enlargement of Scope of Parent Companies that are Subject to Timely Disclosure Rules and Regulations with respect to Mothers

TSE shall enlarge the scope of parent companies that are subject to timely disclosure rules and regulations with respect to Mothers to refer to parent companies and other companies affiliated with a Mothers-listed company. The same shall apply to the scope of parent companies subject to listing examinations with respect to Mothers.

(3) Disclosure of Matters regarding the Parent Company

A listed company that has a parent company shall promptly disclose the following matters regarding such a parent company in when the listed company discloses results of its account settlement of the business year.

- ① Name of the parent company, ratio of voting rights held by the parent company, and name(s) of stock exchange(s) that list the parent company.
- ② In the event the listed company has two or more parent companies, the name of the parent company would be recognized as having the most influence on the listed company.
- ③ In the event that a listed company is exempted from disclosing corporate information of its parent company, the company needs to clarify the reason to TSE for such an exemption.
- ④ Positioning of the listed company in the corporate group of the parent company, and the relationship with the parent company.
- ⑤ Matters regarding transactions with the parent company.

3. Amendment to Criteria related to False Descriptions in Financial Statements

Currently a ‘false description’ in financial statements is considered a breach of listing rules and regulations. From now on, ‘false descriptions’ in sections other than financial

statements in a Securities Report shall also be considered a breach of listing rules and regulations.

4. Setting-up of an agency to transfer share ownership

With respect to the companies listed before July 1st 1971, TSE will abolish the current exemption treatment of not having to set-up an agency to transfer share ownership. .

In the event that a listed company has come to not entrust a shareholder transfer agency (in the case of a foreign listed company, which has come to not to designate a dividend payment bank or a shareholder service agent), such a listed company shall be delisted.

III. Effective Date

Amended listing rules and regulations shall come into effect on January 1, 2005

However, TSE has set grace periods for implementing the new rules and regulations. The major amendments are as follows:

- Written Oath Concerning Timely Disclosure (1.(2))
The domestic companies listed as of the effective date shall submit the written oath by the end of February, 2005. (In the case of foreign companies, they shall do so by the end of March, 2005.)

- Written Confirmation Regarding the Appropriateness and Accuracy of a Securities Report (Interim Report) (1.(3))
The new rules shall apply to a Securities Report or Interim Report regarding the business year or interim accounting period which ends on or after the effective date.

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IASB_ASBJ Joint Press Release 050121

International Accounting Standards Board
Press Release

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FOR IMMEDIATE RELEASE 21 January 2005

IASB and Accounting Standards Board of Japan

agree to next steps in launching joint project for convergence

The International Accounting Standards Board (IASB) and the Accounting Standards Board

of Japan (ASBJ) today announced their agreement to launch a joint project to reduce

differences between International Financial Reporting Standards (IFRSs) and Japanese

accounting standards. Phase 1 of this project is the first step towards the final goal of

convergence of their standards. Today's agreement follows the announcement of 12 October

2004, when both boards agreed to examine differences between IFRSs and Japanese accounting standards. Both boards believe that this effort will promote further international

convergence to high quality accounting standards and will contribute to the development of

global capital markets.

Specific elements of the agreement include:

1. The boards will identify and assess differences in their existing standards on the basis of

their respective conceptual frameworks or basic philosophies with the aim of reducing

those differences where economic substance or market environments such as legal systems are equivalent.

2. The boards will address the differences in their respective conceptual frameworks. This

will take place later in the project, as a separate subproject, at a time agreed by the boards.

3. The boards will consider their respective due process requirements in arriving at

agreement.

4. The ASBJ will undertake a study to get an overall picture of major differences between

Japanese accounting standards and IFRSs and will identify topics to be discussed.

5. The boards will adopt a phased approach to the comparative reviews of differences in individual standards.

6. The scope of the first phase is standards in place as of 31 March 2004, with the following

exceptions:

. standards under review or intended to be reviewed in the joint projects between the

IASB and the US Financial Accounting Standards Board (FASB)

. standards that are divergent owing to differences in the respective conceptual

frameworks or basic philosophies

. standards recently developed

. standards whose requirements are subject to legal restrictions or those currently

considered inapplicable in Japan.

Topics excluded from the first phase will be addressed in subsequent phases.

The ASBJ will identify topics for the first phase of the project by early 2005. Based on the

above agreement, an initial meeting between representatives of the two boards will take place

in Tokyo in the first quarter of 2005.

END

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NOTES TO EDITORS

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from

nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia,

New Zealand, the Philippines and Singapore, base their national practices on international standards.

In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board,

reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards

Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards.