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THE DEPOSIT INSURANCE SYSTEM IN JAPAN

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INTRODUCTION

1. Japan's deposit insurance system was originally designed to be limited-coverage, initially with the ceiling of ¥ 1 million per depositor, which was subsequently raised to ¥ 10 million. However, in 1996, following the failure of several credit cooperatives, the deposit insurance law was amended to fully protect depositors as a temporary special measure. Now, Japan is in the process of return to a limited-coverage deposit insurance system. This paper is to explain the transition processes of Japan's deposit insurance system, from limited coverage to temporary full coverage, and now from full coverage to limited coverage.

1. Background situation

- 1) Japan's deposit insurance system was established with the enactment of the Deposit Insurance Law in 1971, which prescribed a method to pay off depositors (deposit payoffs) for the purpose of protecting depositors. In 1986, the law was amended and a method of providing financial assistance from the Deposit Insurance Corporation to financial institutions assuming all businesses of a failed financial institution was introduced, within the limit of the payoff cost (the financial assistance scheme). Thus, two methods are now available for resolving failed financial institutions: deposit payoffs and financial assistance.
- 2) As liberalization of the financial sector proceeded, the problem of non-performing loans emerged in the 90s, which resulted in the failures of certain major financial institutions, and dealing with these problems became an urgent issue. In this context, the Financial System Research Council (an advisory body of the Finance Minister) set about discussing various measures to rapidly resolve the problem of non-performing loans of financial institutions. This Council issued a report in December 1995, including proposals concerning the framework of resolving failed financial institutions. The report stated: "At the moment, it may be concluded that the Japanese financial system is not ready for deposit payoffs since: 1) the financial sector is still in the process of improving disclosure, thus to ask depositors to assume responsibility is not appropriate; and 2) the present situation in which financial institutions are greatly burdened by non-performing assets may cause financial unrest. Steps must be taken to resolve the problems pointed out in 1) and 2) above as soon as possible within the next five years."
- 3) It was on this basis that the Deposit Insurance Law was amended in June 1996. With regard to the resolution of failed financial institutions, temporary special measures effective until the end of March 2001 were introduced to fully protect deposits. This was to be implemented through, *inter alia*, authorizing the Deposit Insurance Corporation (DIC) to extend special financial assistance exceeding the payoff cost (i.e. the estimated cost to be incurred by the DIC to pay off insured deposits (maximum ¥ 10 million per depositor)) in order to stabilize the financial system. The Diet then enacted the Law concerning Emergency Measures for the Revitalization of the Functions of the Financial System (Financial Revitalization Law) and the Law concerning Emergency Measures for the Early Strengthening of Financial Functions (Early Strengthening Law) in October 1998, as temporary special measures effective until the end of March 2001. The purpose of those Laws was to establish a robust financial system by completing the disposal of non-performing loans of financial institutions and cleaning up their balance sheets while deposits were fully protected. In order to promote this task, the DIC was provided with budgetary support such as grants of government bonds and government guarantees.

2. Framework of the deposit insurance system after the termination of special measures and discussions on the timing of the termination of special measures

- 1) The special measures to fully protect deposits were scheduled to be terminated at the end of March 2001 under the former legislation. Therefore, on the assumption that part of the deposits might be cut down after the termination of those special measures, the Financial System Council (an advisory body of the Finance Minister) held discussions on the framework of the deposit insurance system after the termination of special measures. On December 21, 1999, the Council issued a report entitled "Report on the Framework of the Deposit Insurance System and Resolution of Failed Financial Institutions after the Termination of Special Measures".
- 2) On the other hand, some observers expressed the view that the special measures should be extended. The ruling parties discussed this matter and decided on December 29, 1999, to postpone the termination of special measures by one year (until the end of March 2002). The extension was mainly to ensure the stability and soundness of small credit co-operatives through capital injection and thorough inspection. The supervisory responsibilities for those institutions were transferred from local authorities to the Financial Supervisory Agency in April 2000 (the Financial Services Agency from July of the same year).
- 3) The Ministry of Finance submitted a bill to amend the Deposit Insurance Law and other related laws to the Diet, based on the report of the Financial System Council and the agreement among the ruling parties. This bill passed the Diet on May 24, 2000. According to this legislation, the special measures to fully protect deposits will be terminated at the end of March 2002. As a transitional arrangement, liquid deposits such as current deposits and ordinary deposits will be fully protected until the end of March 2003.

3. The report of the Financial System Council

2. The "Report on the framework of the Deposit Insurance System and Resolution of Failed Financial Institutions after the Termination of Special Measures" shows the basic thinking behind the recent amendment of the Deposit Insurance Law. The excerpts of the report are attached as Annex 1.

ANNEX 1

Excerpts from the Report by the Financial System Council “Report on the Framework of the Deposit Insurance System and Resolution of Failed Financial Institutions after the Termination of Special Measures”

(1) Basic principles

- The deposit insurance system aims to protect the depositors of a failed financial institution and it is, as it were, an *ex post* measure. The protection of depositors should be achieved primarily by ensuring sound and profitable management of financial institutions.
- After the termination of the temporary blanket coverage, it is crucial in terms of the protection of depositors to prevent the failure of financial institutions. Thus, it is important to identify troubled financial institutions at an early stage and to effect prompt corrective action.
- With respect to the early identification and correction of troubled financial institutions, financial institutions should establish a more effective external audit system utilizing certified public accountants coupled with enhanced disclosure of information, so that monitoring through market mechanisms will work effectively.
- At the same time, the supervisory authority should intensify its inspection and monitoring activities and carry out prompt corrective action in an appropriate and timely manner.
- After the termination of the blanket coverage, the perception that deposits are risk-free needs to be altered. Thus, in creating various means of investment, funding and payment, the present market practices should be reviewed and made compatible with a financial system that is based on market discipline and the principle of self-responsibility.

(2) Framework of Methods for Resolution

- The inherent purpose of the deposit insurance system is to protect small depositors and thereby maintain the stability of the financial system. To reduce insurance premiums and prevent moral hazard, the deposit insurance system should aim at a “small system” following the termination of special measures.
- However, in past failures, the value of assets has often been substantially outstripped by liabilities as a result of resolution. While the early identification of troubled financial institutions and prompt correction through the use of market discipline are the primary objective, in the event of a failure of a financial institution, it is important to minimize depositors’ losses and thus the cost to the deposit insurance fund. A financial institution that is not viable should be resolved at the earliest stage possible where the degree of insolvency is minimal.

- When a financial institution that is not allowed to continue to exist because of failure is resolved through the use of the deposit insurance system, the least expensive resolution method should be chosen within the limit of the payoff cost. At the same time, financial functions of the failed institution such as payment and lending should be continued to minimize the disruption caused by the failure.
- In choosing a resolution method, financial assistance in which an assuming financial institution takes over the financial functions of a failed financial institution should be favored. Direct payoff in which such financial functions are diminished should be avoided to the extent possible, although both methods involve the trimming of a portion of deposits due to the loss incurred by the failure. Thus, it is necessary to introduce measures that serve to expedite the resolution process as well as to provide for various resolution methods in accordance with the circumstances of the failure.
- The above consideration suggests that the deposit insurance system must consider maintaining payment functions and protecting borrowers, as they contribute to minimizing resolution costs and lead to the protection of depositors.

(3) Accelerating the transfer of business with financial assistance (assisted merger)

- As a general principle, bankruptcy proceedings that may deprive a party of private legal rights, for instance, trimming a portion of a deposit, must be ultimately subject to judicial proceedings. However, in order to expedite the resolution process, the transfer of business should be allowed prior to judicial proceedings. To enable such exceptional arrangements, several prior preparation measures should be put in place.
- The resolution of a financial institution involves various legal procedures. With respect to a financial institution that has managerial problems, in order to expedite the resolution process, the supervisory authority and the DIC should work closely together. In preparation for a possible failure, they should take preparatory action to the extent possible, such as to work on grouping of deposits held by the same depositor and evaluate assets prior to closure of the failing financial institution.
- Under the present deposit insurance system, under which deposits are protected per depositor up to a certain amount (at present ¥ 10 million), deposits held by the same depositor must be grouped before resolving failed financial institutions. In order to do so, the DIC should build a computer system to group deposits based on data transferred from financial institutions¹. It is also desirable to ask financial institutions during normal times to prepare deposit data that are needed for the grouping of deposits and the calculation of insured amounts, as well as develop an interface through which to transfer deposit data smoothly to the DIC. In addition, it is also necessary to allow the DIC to review the preparedness of financial institutions' computer systems.
- In evaluating the assets of financial institutions, in addition to utilizing the existing data and information gathered by the supervisory authority via inspection and monitoring, the supervisory authority and the DIC should be authorized to obtain additional information necessary to implement speedy resolution via data requirements and on-site inspections.

(4) Preservation of financial functions

- The direct payoff method should be avoided as much as possible since it diminishes the financial functions of failed institutions. However, if it is to be chosen, it should be implemented speedily to minimize disruption. Hence, it is quite important that preparations are sufficiently made prior to

payoff. In addition, the DIC should consider ways to improve its operation such as entrusting the repayment of deposits to a third financial institution.

(5) Ensuring depositors' convenience

- In ensuring depositors' convenience (repayment of deposits and access to payment services), depositors should be able to have their deposits repaid up to a certain amount before the transfer of business, as it may take time after the failure is publicly announced. Thus, the DIC should be authorized to make advance payments and repay deposits up to the insured amount, as well as to lend necessary funds to the failed financial institution even when bankruptcy proceedings have commenced. As for the portion of deposits exceeding the insured amount, the power of the DIC to purchase excess deposits², allowed in the case of payoffs, should also be made applicable in the above case.

(6) Full coverage of liquid deposits until April 2003

- There are concerns regarding the extent to which speedy resolution can mitigate a disruption in the repayment of deposits when a portion of deposits is subject to trimming at the time of failure. The Financial System Council has considered many viewpoints on this issue as demonstrated below.
- Some argue that the deposit insurance system is aimed at protecting small depositors, and the issue of payment should be addressed through speedy resolution and various payment services provided by the private sector.
- Others argue that when the transfer of business of a failed financial institution takes time, individuals and corporations may be significantly affected. In particular, small and medium-sized corporations may find it difficult to switch from a financial institution that has been providing payment services to another. Thus, they are of the view that liquid deposits that are used for immediate living expenses and business operations should be completely protected.
- In response to this view, it has been pointed out that complete protection would increase moral hazard.
- Some also question whether liquid deposits can be specified and technically demarcated from other deposits.
- Others propose that if complete protection of liquid deposit is necessary, it should be achieved by a means other than the deposit insurance system.
- In addition, as a means to relieve the impact on payment services while avoiding moral hazard, some argue that the DIC should also make speedy repayment of deposits exceeding the insured amount, up to a certain amount at a pre-determined fixed rate.
- And some propose granting preferred status to all liquid deposits because such money can be considered to be in the process of transfer until the payment is completed.
- Based on the discussions above, the Council determined that, as a transitional measure, liquid deposits should be protected in order to avoid any disruptive impact on the economy as a whole and on the financial system caused by interruption of payments for individuals and corporations.

(7) Measures applicable to cases in which a crisis situation is foreseeable (systemic risk exception)

- After the termination of the special measures to fully protect deposits, the cost of resolving failed financial institutions is not allowed to exceed the payoff cost. However, when a failure could disrupt overall financial stability and affect the stability of the national and local economies (*i.e.* if there is “systemic risk”), the standard resolution methods may not be adequate.
- In Japan, the possibility of systemic risk cannot be denied even after the financial system stabilizes as a result of the present special temporary measures. Thus, it is necessary to prepare exceptional measures for the rarest of cases, while avoiding moral hazard by establishing rigorous procedures.
- Since financial and payment systems are the infrastructure of the economy, not only financial institutions and depositors but also the national economy as a whole depend upon the stability of these systems. Therefore, in cases where the stability of the financial system could be disrupted unless exceptional measures are taken, the government may need to provide appropriate fiscal measures. Those measure may, in effect, tap taxpayers who are the indirect beneficiaries of the systems, as the cost of ensuring the stability of the economy as a whole, on the condition that financial institutions make special contributions.

(8) Expanding the definition of insured deposits

- To date, deposits have been considered eligible for deposit insurance when they satisfied the following criteria³:
 - i) widely used by the public as a basic savings instrument
 - ii) repayment of the principal is guaranteed
 - iii) holders are identifiable and deposits are non-negotiable
- In terms of preventing depositor panic and speeding the resolution process, the following instruments should also be eligible while abiding by the above criteria. Financial institutions are required to inform depositors whether individual instruments are insured or not.

a) Bank debentures

Bank debentures have not been treated as eligible for deposit insurance on the grounds that they are negotiable securities and are technically difficult to group by the holder’s name. However, bank debentures which fulfill the above three criteria can be considered as virtually equivalent to time deposits. In the case where bank debentures are marketed to individuals as saving instruments, they should be made eligible for deposit insurance.

b) Deposits of public funds and similar deposits

Deposits of public funds and similar deposits (including deposits held by institutions engaged in treasury receipts and disbursements of the national government) are not eligible for deposit insurance on the grounds that holders are not ordinary depositors and the protection of up to ¥ 10 million is virtually meaningless for those deposits. However, since it is illogical to differentiate deposits of

public funds from those of private corporations and others, deposits of public funds should also be made eligible for deposit insurance.

c) Interest on deposits

Interest on deposits is not eligible for deposit insurance on the grounds that such protection may create moral hazard on the part of financial institutions as well as depositors, and make the determination of insured amounts a complicated task. However, protecting interest could make small depositors feel safe, thus preventing the unnecessary shift of funds. Moreover, it would contribute to enabling prompt bankruptcy proceedings, and would bring bank deposits in line with postal savings. For these reasons, interest on deposits should be made eligible for deposit insurance. As for moral hazard, a certain degree of discipline should be imposed within the framework of prompt corrective action, by prohibiting or restricting the solicitation of deposits by offering high interest rates⁴.

(9) Maintaining the current insurance limit (¥10 million)

In light of the current level of per capita savings in Japan, the limits of depositor protection in other countries, and the burden of premium payments on insured institutions, it does not seem necessary to increase the insurance limit from the present level.

(10) Environment to be created before the termination of blanket coverage

The Financial System Research Council stated in its report published on December 22, 1995⁵: “At the moment, the Japanese financial system is not ready for payoff since 1) the financial sector is in the process of improving disclosure, thus to ask depositors to assume responsibility is not appropriate, and 2) the present situation in which financial institutions are greatly burdened by non-performing assets may cause financial unrest.” Since then, preparation for the termination of the special temporary measures has been made as follows.

a) Disclosure by financial institutions

- The enhancement of disclosure by financial institutions is critically important because: it increases the transparency of their management, financial institutions are urged to correct their behavior through market discipline, and it will provide a basis for self-responsibility on the part of depositors.
- Based on this philosophy, information disclosure by financial institutions has been enhanced in a number of ways. In the accounting period ending March 1998⁶, financial institutions started disclosing information on their non-performing assets according to standards equivalent to those set by the Securities and Exchange Commission of the United States. Since the accounting period ending March 1999, financial institutions are legally required to disclose information concerning their activities and assets on a consolidated basis, as specifically prescribed by laws and regulations, with possible penalties for non-compliance.
- As the importance of market discipline increases, it would be appropriate for financial institutions to disclose information concerning their management and financial conditions in a timely manner (“timely disclosure”) regardless of accounting period.

- Individual financial institutions are expected not only to disclose legally required information on their activities and assets as well as the deposit insurance eligibility of financial instruments, but also to provide depositors with an understandable explanation of their financial and managerial conditions as well as accurate information on the deposit insurance system as a whole.

b) Financial system stability

- The temporary instability of the financial system in Japan is being dissolved by the adequate application of the legal framework. The Financial Revitalization Law and the Early Strengthening Law, in addition to the Deposit Insurance Law, are the pillars of this legal framework.
- Until March 2001⁷, the administrative authorities as well as the financial industry are expected to continue efforts to ensure the stability of the financial system by using this framework and other available means. Moreover, individual financial institutions are urged to strengthen their competitive positions by increasing profitability and reinforcing their capital base.

(c) Public notification of the deposit insurance system

In order to avoid misunderstanding that deposits exceeding the insurance limit of ¥ 10 million will be always lost under the pay-off system after the termination of blanket coverage, it is crucial to deepen the general public's understanding of the deposit insurance system. The Government, the DIC, the financial industry, and all relevant parties are expected to take further steps to enhance public understanding of the deposit insurance system⁸.

¹ The system already exists as of now.

² "Purchase of deposits" is a means to ensure depositors' liquidity and smooth judicial proceedings by empowering the DIC to purchase a portion of insured deposits exceeding the insured amount (at present those in excess of 10 million yen) at a certain ratio (calculated on the basis of estimated liquidation value).

³ To date, insured deposits were only limited to those a) deposits, b) installment savings, c) installments, and d) money in trust of which the principal is guaranteed.

⁴ Foreign currency deposits should continue to be ineligible for deposit insurance since they are exposed to foreign exchange risks and are not widely used by the public as basic saving instruments.

⁵ This report is stating the precondition why Japan moved to temporary blanket coverage of deposit insurance in 1996.

⁶ Co-operative financial institutions started such disclosure in the accounting period ending March 1999.

⁷ After this report, the ruling parties decided to continue temporary blanket coverage for one more year; until March 2002.

⁸ The Government has issued several publications explaining the deposit insurance system.

ANNEX 2

Unofficial and Provisional Translation
Readers are advised to refer to the original
Japanese
text before quoting from this document.

OUTLINE OF THE AMENDMENT OF THE DEPOSIT INSURANCE LAW

The amended Law stipulates the deposit insurance system and the system for resolving failed financial institutions after April 2001. At the same time, the amount of government bond subsidy is to be increased, and the special measure to fully protect deposits are to be extended by a one-year period.

As part of the efforts to create an environment suitable for the termination of the special measures, steps are to be taken to strengthen the management base of cooperative financial institutions. The steps to be taken include allowing cooperative financial institutions to issue preferred subscription certificates and extending by one year the scheme to recapitalize cooperative financial institutions pursuant to the Law concerning Emergency Measures for the Early Strengthening of Financial Functions (Early Strengthening Law).

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I. Framework of the Deposit Insurance System and System for Resolving Failed Financial Institutions after April 2001

1. Amendment of the Deposit Insurance Law

(1) Expedition of the resolution of failed financial institutions

1) Prior preparation

Require each financial institution to prepare the necessary data on depositors for grouping of deposits held by the same person (*nayose*), and to develop a system that enables swift transfer of the data to the Deposit Insurance Corporation (DIC). Require financial institutions to submit materials using media such as magnetic tape, when the DIC requires the submission of such materials, in order to enable the DIC to ascertain the amounts of deposits rapidly.

- 2) Expedition and simplification of business transfer procedures
Introduce systems allowing provisional resolutions (of shareholders meetings) on transfer of business, and court subrogation authorization in lieu of special resolutions. In addition, introduce special procedures for the proceedings for convening general meetings of cooperative financial institutions.
- 3) Special procedures to protect creditors on transfer of business
Introduce a system for effecting *ex post facto* procedures to protect creditors in case of transfer of business, and devise special procedures for the proceedings for the replacement of trustees in case of assumption of trust business. In addition, in business transfers from financial institutions managed by financial administrators, devise special procedures to allow maximal-hypothec (mortgage that secure unspecific claims up to a certain amount) to be transferred together with collateralized assets.
Note: Since steps to expedite the resolution of failed financial institutions will be taken, such as those in 1) to 3) above, emergency procedures are to be abolished.

(2) *Diversification of the methods to resolve failed financial institutions*

- 1) Financial administrators
Introduce a system where public administrators ("financial administrators") take control of the management of failed financial institutions.

Under this system, the prime minister may direct the financial administrators to manage the business and assets of a financial institution, (a) if it is judged that the institution is insolvent, (b) if it is judged that there is a risk that the repayment of deposits will be halted, (c) if the repayment of deposits has been halted, or (d) if, upon receipt of a notice from a financial institution, it is judged that there is a risk that it will become insolvent. Financial institutions will be required to file notifications (a) if they are insolvent, or (b) if there is a risk that the repayment of deposits will be halted.

In addition, to clarify the responsibility of the managers and ex-managers of those institutions managed by financial administrators for the failures of those institutions, the financial administrators will take necessary civil and criminal legal measures.

Management by financial administrators is to be completed within one year (with a possible one-year extension).

- 2) Bridge bank scheme
Establish a bridge bank scheme, to deal with cases in which no assuming financial institution can be immediately found.
A bridge bank will be established as a subsidiary of the DIC, allowing the DIC to guarantee debts and lend the funds necessary for the operation of the bridge bank to be conducted smoothly, and compensate for a portion of the losses arising from its operation. The DIC will also be allowed to provide financial assistance to the bridge bank.
The operations of the bridge banks are to be completed within two years (with a possible one-year extension).
- 3) Enlarging the scope for the DIC where financial assistance is allowed
(a) Allow DIC to provide financial assistance to the assuming institutions not only when all the business is transferred, but even when only a portion of the business (including insured deposits) is transferred, (b) allow supplementary financial assistance following

the transfer of business and/or merger, and (c) allow financial assistance to failed financial institutions for the purpose of ensuring equity among creditors.

In addition, introduce measures to enhance the capital of the assuming institutions and to share a portion of the losses incurred after the transfer of business ("loss sharing") as ways to extend financial assistance. Also, include companies other than banks and bank holding companies to institutions eligible for financial assistance by means of share acquisition.

(3) *Addressing financial crises*

1) Where systemic risk is anticipated, the Prime Minister may, following deliberation by the Conference for Financial Crises, acknowledge the necessity of adopting exceptional measures for financial institutions according to the following categories.

a) Solvent financial institutions: Share subscription by the DIC (capital enhancement)

Applications for share subscription by the DIC may only be filed by acknowledged financial institutions. When filing applications, financial institutions must submit plans for strengthening their management, and the prime minister makes the decision regarding the capital enhancement. The prime minister requires reports on the status of implementation of these plans, and makes them public.

b) Failed financial institutions or insolvent financial institutions: Financial assistance in excess of the payoff costs (the estimation of the cost incurred by the DIC to pay off insured deposits)

Acknowledged financial institutions will, immediately following acknowledgement, be placed under the management of financial administrators, and financial assistance in excess of the payoff costs will be possible.

c) Banks failed as a result of insolvency: Acquisition of the banks' entire stock by the DIC (special crisis management banks [provisional name])

Simultaneously with the acknowledgement, the DIC will decide to acquire the stock of the acknowledged bank, and upon gazetting this, the DIC will acquire the relevant stock. In addition, the new directors of special crisis management banks will take necessary civil and criminal legal measures for the purpose of clarifying the responsibility of the former managers, and financial assistance to the assuming institution in excess of the payoff costs will also be possible. These measures are to be terminated as soon as possible by transferring business to the assuming institution.

Note: The measures in c) can only be taken if a crisis situation cannot be avoided by the measures in b).

2) The Crisis Management Account (provisional name) is to be set up as an account for the operations related to dealing with financial crises. Government guarantees can be provided for borrowing by the DIC of funds necessary for the operations, and the issuance of bonds.

3) *Ex post facto* contributions will be made by financial institutions to fund exceptional measures. In addition, in cases where it is feared that contributions by financial institutions alone would not be sufficient to avoid critical disruption of the financial stability, fiscal measures may be taken.

Note: The amount of the contributions of each financial institution is to be calculated on the basis of its balance of all outstanding liabilities at the end of the fiscal year, preceding the year when the contributions must be made.

(4) *Revision of the scope of deposit insurance coverage*

- 1) Expand the scope of insured deposits to include bank debentures (limited to those for which the title-holder can be identified), deposits of public funds, deposits of corporations established under special laws, and interests on deposits.

Note: The insured amount for each individual depositor will be the principal up to the insurance limit plus the interest on that principal. The insurance limit will be maintained at its current level (\10 million per depositor; stipulated by government ordinance).

- 2) Expand the range of insured financial institutions to include federations of cooperative financial institutions.
- 3) Enable the purchase of deposits not only upon deposit payoffs, but also when financial assistance is provided.
- 4) Change the basis of calculating insurance premiums from the balance of insured deposits at the end of each fiscal year, to the average balance during each fiscal year.
Note: Premium rates corresponding to the soundness of the management of financial institutions can be introduced.

(5) *Other items*

- 1) Enable the DIC to lend necessary funds to failed financial institutions, in order to make possible, (a) withdrawal of deposits from failed financial institutions up to the insured amount, and (b) lending by failed financial institutions to prevent the decline of asset values.
- 2) Lay down stipulations for reporting requirements and on-site inspections of financial institutions by the DIC, in order to ensure the smooth implementation of the resolution of failed financial institutions.
- 3) Continue, for the time being, the role of the Resolution and Collection Corporation (RCC) as an assuming institution and the scheme in which the DIC entrusts the RCC with purchasing assets of failed financial institutions.

2. Amendments of Other Laws

(1) *Amendment of the Special Law concerning Reorganization of Financial Institutions*

- 1) Stipulate special procedures for civil reconstruction proceedings (initiation of reconstruction proceedings by the supervisory authorities, empowerment of the DIC to act as proxy for depositors in reconstruction proceedings, etc.).
- 2) Enable withdrawal of deposits held at financial institutions after the commencement of reorganization proceedings and civil reconstruction proceedings, up to an amount equivalent to the insured amount.

- (2) *Amendment of the Trust Business Law*
 - From the standpoint of protecting the beneficiaries of trust assets, simplify the conditions necessary to obtain perfection against third parties with regard to registered corporate bonds and registered government bonds held by trust companies as trust assets.
- (3) *Amendment of laws concerning cooperative financial institutions including the Shinkin Bank Law*
 - In order to diversify the methods of resolving failed cooperative financial institutions, enable the reconstruction procedures under the Commercial Code to be applied to cooperative financial institutions.

II. Increase of Government Bond Subsidy

- **Amendment of the Deposit Insurance Law (Temporary Measure)**
The government bonds granted to the DIC will be increased by ¥6 trillion, in addition to the ¥7 trillion already granted.

III. Extension of Special Measures to Fully Protect Deposits

- **Amendment of the Deposit Insurance Law (Temporary Measure)**
 - (1) The temporary special measures enabling provision of application of financial assistance in excess of the payoff costs, and purchasing of deposits, will be extended by one year, until the end of March 2002.
Note: The period for payment of special insurance premiums will be extended by one year, and the discontinuance of the Special Operations Account will also be postponed for one year, until the end of March 2003.
 - (2) Liquid deposits such as current deposits and ordinary deposits will be fully protected for another year following the termination of the special measures to fully protect deposits (until the end of March 2003).
Note: During that time, higher insurance premiums will be charged for the fully protected liquid deposits than for other deposits (the insurance premium will be determined by the DIC's Policy Board), and interest rates will be controlled under the Temporary Interest Rates Adjustment Law.

IV. Strengthening of the Management Base of Cooperative Financial Institutions

1. Amendment of the Law concerning Preferred Subscription by Cooperative Financial Institutions

The issuance of preferred subscription certificates not only by federations with nationwide coverage, but also by individual credit cooperatives, *shinkin* banks, labor cooperatives, and other cooperative financial institutions, will be newly permitted.

2. Amendment of the Law concerning Emergency Measures for the Early Strengthening of the Financial Functions (Temporary Measure)

With regard to cooperative financial institutions that are currently eligible for capital enhancement based on the Early Strengthening Law and will become able to issue preferred subscription

certificates in accordance with the amendment mentioned in the preceding item 1, (1) the conditions for the application of the law will be revised to facilitate capital enhancement, and (2) the application period will be extended by one year, until the end of March 2002.

3. Amendment of the Deposit Insurance Law (Temporary Measure)

The collection of non-performing loans conducted by the Society of Credit Cooperatives accompanying the resolution of credit cooperatives having failed prior to the partial amendment of the Deposit Insurance Law in 1996, will be centralized in the RCC.

Specifically, the DIC will be able to purchase the non-performing loans of previously failed credit cooperatives which the Society of Credit Cooperatives has been collecting, and which has transferred to the financial institutions as payment in substitution. The DIC will be able to compensate for losses within the amount of losses arising from the sale.

Note: The DIC will be able to entrust the purchasing of assets to the RCC.

V. Other Matters

1. Enforcement dates

- (1) The measures relating to the permanent deposit insurance system and the system for resolving failed financial institutions, and the extension of the special measures to fully protect deposits will be put into effect on April 1, 2001.
- (2) The measures relating to the expansion of the range of insured financial institutions to newly include federations of cooperative financial institutions, the increase in subsidy government bonds, and the measures relating to the strengthening of the management base of cooperative financial institutions will be put into effect as prescribed by government ordinance, on a date no later than one month after the date of promulgation.

2. Other matters

Stipulations regarding other necessary transitional measures will be laid down.