

[Excerpt from “A Guide to the Deposit Insurance System – Outline of the System and Q&A”]

5. Financial Crisis Management

(1) Outline

The Prime Minister may, when deeming that an extremely serious threat is posed to the maintenance of financial stability all over Japan or a region where financial institutions are conducting operations, confirm the need to implement exceptional measures, as stipulated in Article 102 of the Deposit Insurance Law, following discussions in a meeting of the Financial System Management Council.

a. Measures against Financial Crisis

The following 3 measures may be instituted as counter measures to financial crisis, in accordance with various categories of financial institution.

Article 102, para. 1	Category of Financial Institution	Details of Measures	Remarks
Item 1 Measures	All financial institutions (except those under Item 2 Measures)	Capital injection (subscription of shares, etc., by DICJ to recover the capital adequacy ratio of financial institutions)	<ul style="list-style-type: none"> o DICJ subscribes shares, etc., on receiving an application from a financial institution that has been authorized for Item 1 Measures. o When applying, the financial institution submits a plan for improved business viability.
Item 2 Measures	Failed or insolvent financial institutions	Financial assistance exceeding the pay-out cost	<ul style="list-style-type: none"> o Financial institutions authorized for Item 2 Measures are immediately made subject to an order for management by a financial administrator.
Item 3 Measures	Insolvent banks, categorized as failed financial institutions	Acquisition of all shares by DICJ (special crisis management)	<ul style="list-style-type: none"> o Item 3 Measures may only be authorized when it is deemed that a very serious threat to the maintenance of financial stability in Japan or a region where financial institutions are conducting operations cannot be

			avoided using Item 2 Measures.
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b. **Financial System Management Council**

The Financial System Management Council is to be set up to follow up inquiries by the Prime Minister. It deliberates on guidelines for response to financial crisis (such as large-scale and sequential failures or systemic failures of financial institutions) and other serious matters, and promotes the implementation of measures by relevant government bodies based on this deliberation. The Council is chaired by the Prime Minister and consists of the Chief Cabinet Secretary, the Minister for Financial Services, the Commissioner of the Financial Services Agency, the Minister of Finance, and the Governor of the Bank of Japan.

(2) Capital Injections to Financial Institutions

When the DICJ receives an application from a financial institution that has received authorization of the need for capital injection (subscription of shares, etc.) to recover its capital adequacy ratio, the DICJ may make capital injections (subscription of shares, etc.) in accordance with decisions by the Commissioner of the Financial Services Agency (Note) (subject to the consent of the Minister of Finance). Shares and other forms of capital subject to the subscription by the DICJ include common shares, preferred shares, subordinated bonds, and other forms of capital.

(Note) When the financial institution subject to the measure is a labor bank or the Rokinren Bank, the decision must be made by both the Commissioner of the Financial Services Agency and the Minister of Health, Labor and Welfare.

(3) Financial Assistance Exceeding the Pay-Out Cost

When financial assistance exceeding the pay-out cost is needed, the Commissioner of the Financial Services Agency (Note) immediately decides to issue an order for management by financial administrators to such financial institution. When there is a qualified exit scheme to complete financial crisis management, the DICJ may provide financial assistance exceeding the pay-out cost. In such cases, deposits will be fully protected..

(Note) When the financial institution subject to the measure is a labor bank or the Rokinren Bank, the decision is made by both the Commissioner of the Financial Services Agency and the Minister of Health, Labor and Welfare.

(4) Special Crisis Management

When special crisis management is authorized for a failing bank, the DICJ acquires the shares of

such bank, based on the decision by the Commissioner of the Financial Services Agency. DICJ also appoints directors, auditors and/or other officers for the bank under special crisis management based on nominations by the Commissioner of the Financial Services Agency regardless of the procedures provided in the Companies Act.

As well as managing the business, the newly appointed executives are obliged to take requisite steps in accordance with civil and criminal law to clarify the failure or misconduct of the bank's former management. The special crisis management should be completed at the earliest possible time by merger with, transferring its business to, or selling its shares to other institutions. Deposits will also be fully protected in these cases by concurrently providing financial assistance exceeding the pay-out costs.