

## Citibank Japan Ltd. in hot water again

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### Speedread

The Japanese Financial Services Agency has taken administrative action against Citibank Japan Ltd. after finding fundamental problems with its compliance and governance systems, as well as discovering numerous customer accounts suspected of being used for illegal activities. Such actions are expected to become more widespread as the Japanese authorities take a stricter attitude on enforcement and in an effort to improve transparency in financial activities.

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On 26 June 2009, the Financial Services Agency of Japan (FSA) once again took administrative action against Citibank Japan Ltd. (CJL) by ordering it to:

Suspend all sales operations pertaining to products sold by its Retail Banking Division during the period from 15 July 2009 to 14 August 2009 (subject to limited exceptions).

Fundamentally review and restructure its current governance, internal control and business management systems.

The reason given by the FSA for taking the above actions was that, according to reports submitted voluntarily by CJL, a report prepared by the FSA and a subsequent on-site inspection, it was found that there are fundamental problems with CJL's compliance and governance systems from the perspectives of sound and appropriate business management. It was also reported that the FSA identified a few hundred customer accounts suspected of being used for illegal activities.

This is not the first time that CJL has found itself the subject of administrative action by the FSA. As a result of certain failures to comply with Japanese bank regulations by its Private Banking Division, the FSA cancelled a business approval of the division in September 2004.

It has sometimes been said that Japanese authorities apply a "light-touch" approach to restrictions aimed at mitigating the impact of anti-social activities. However, in recent years, such restrictions have become stricter. For example, in June 2007, the Japanese Government released the Guidelines for Private Companies to Prevent the Damages Caused by Anti-Social Organisations. Further, the tenth principal of the Principals in the Financial Services Industry, which the FSA published in April 2008, is "to establish mechanisms so as to avoid being exploited by financial crimes, including by way of blocking the anti-social parties' access". In addition, the Securities and Exchange Surveillance Commission of Japan added "a governance system to properly cope with anti-social organisations" as one of the checkpoints under the new Inspection Manual for Financial Instruments Business in July 2008.

The administrative actions taken against CJL could be seen as indicative of a stricter attitude being taken by Japanese authorities regarding anti-social organisations. However, such actions are

expected to contribute to the transparency of the financial activities and facilitate economic growth in Japan so in all probability, they will become more prevalent.

For the details of the administrative actions of the FSA against CJL, see the FSA's official release (English version).

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