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Notice Regarding Recording of Valuation Loss in Money Held in Trust (Aircraft for Arrangement)

Financial Partners Group Co., Ltd. (FPG) announces that it has recorded a valuation loss in money held in trust (aircraft for arrangement) in the fiscal year ending September 30, 2023.

1. Reason for Recording of Valuation Loss in Money Held in Trust (Aircraft for Arrangement)

In order to transfer to investors the trust beneficiary rights of a specified fund trust agreement pertaining to an operating lease project targeted at U.S. aircraft trust beneficiary rights (hereinafter ‘the Project’), said trust beneficiary rights are recorded on the balance sheet as commodity in “Money held in trust (aircraft for arrangement)” under current assets (Note); however, after reviewing the accounting valuation at the end of September 2023, FPG has decided to record a valuation loss on “Money held in trust (aircraft for arrangement)” as cost of sales in the financial statements for the fiscal year ending September 30, 2023, which is scheduled to be announced on October 31, 2023.

The Project was arranged as investment product aimed at large-scale investors and for sale in non-JPY currencies; however, due to adverse effects on the aviation industry’s operating environment triggered by COVID-19 post the arrangement, and the impact of the recent depreciation of the Japanese yen against the United States dollar, which increased the amount of funds required by investors, these factors, in part, have been extending FPG’s holding period, and we recognized a valuation loss in the fiscal year ending September 30, 2022, as well.

It is considered that there are no problems with the merchantability of the Project, as it has not posed any concerns with the creditworthiness of the airline, and stable lease income has been received since the arrangement up to this date. However, considering the prolonged extension of the holding period, FPG has decided to devalue the net sale value of the Project, which has been valued as commodity for accounting purposes, as the net sale value of the Project is considered to be declining.

As a result, FPG will record a valuation loss of JPY 1,695 million yen in both its non-consolidated and consolidated financial statements.

(Note) The aircraft operating lease projects using the trust beneficiary rights arranged by FPG, including the said Project, will be transferred to investors its trust beneficiary rights of the specified non-monetary trust agreement, which was set up for the purpose of carrying out the operation related to the operating lease projects. Considering this legal reality, FPG has recorded the amount equivalent to such beneficiary rights that have not yet been sold in the money held in trust (aircraft for arrangement). Under the trust agreement, FPG trusts money to FPG Trust Co., Ltd. (FPG Trust), which is the trustee, and FPG Trust uses the money to purchase the aircraft (including trust beneficiary rights of the aircraft as a trust asset) based on the instructions of FPG, the initial settlor, and then leases or sells the aircraft to airline companies. By transferring the trust beneficiary rights of the specified non-monetary trust agreement to investors, the position of the settlor will also be transferred to them. Profits and losses from the trust property also belong to investors after the transfer. In this project, since the owners of the aircraft leased to U.S. airlines are required to be U.S. citizens under U.S. regulations, FPG Trust is not the owner of the aircraft. The U.S. aircraft trust beneficiary rights have a U.S. trust company as trustee and a U.S. trust company is registered as the owner of the aircraft.

2. Impact on Financial Results

The above information is reflected in the earnings forecasts for the fiscal year ending September 30, 2023 as disclosed today in the “Notification of Revisions to Earnings Forecasts and Dividend Forecast for the Fiscal Year Ending September 30, 2023”, and will also be reflected in the “Consolidated Financial Results for the Fiscal Year ended September 30, 2023 (Japanese GAAP)” to be announced on October 31, 2023.