

# Reference: Composition of Supervisory Policy (Major Banks)

## 1. Overview

### 1. Environment Surrounding the Financial System

- Effects on the domestic economy due to the Great East Japan Earthquake (constraints of electric power supply, nuclear accident, downside risk of overseas economies, volatile fluctuations in exchange rates & stock prices, etc.)
- Effects of the global economy on the financial system (inflation concerns in emerging economies, European & U.S. fiscal conditions, etc.)

### 2. Approach Taken by Supervisory Authority

- Under the basic policy to have Better Regulation become further embedded and enhanced, the FSA will take the following approaches as the supervisory authority. It will especially take the approach under the awareness that this is “a year where the true value of financial intermediary functions by financial institutions is tested” for recovery and reconstruction from the Great East Japan Earthquake
  - 1) Financial administration with high risk sensitivity (identify and understand the risks which accumulate in each financial institution and in the financial system with a forward looking perspective, re-inspect IT system and business continuity system)
  - 2) Financial administration from a citizen’s and user’s point of view (further improve customer protection and convenience for users)
  - 3) Supervisory response with a forward-looking perspective (thoroughly determine the progression of international discussions, outlook for environmental changes, consider common structural issues faced by Japanese financial institutions)
  - 4) Supervisory response which contributes to financial institutions autonomously improving management and making better business judgments (frank and deep discussions with financial institutions, introduce the innovative initiatives of each bank, etc. to other banks.)
- \* Closer cooperation with the Inspection Bureau, SESC and Bank of Japan (especially to implement and strengthen monitoring with seamless inspections and supervision)
- \* Supervisory response which considers reducing burdens on financial institutions (periodically review reporting, etc. once a year)

## 2. Areas Emphasized in Supervision

### 1. Performing a Smooth Financial Intermediary Function

#### (1) Response to the Great East Japan Earthquake from Financial Aspects

Check the status of various responses after the earthquake (including measures to finance facilitation), focus on the status of handling the overlapping debt problem, check the status of response to funding demand for recovery and reconstruction, etc.

#### (2) Promote Initiatives of Financial Institutions which Emphasize Growth Potential

Encourage actions which meet customer needs while considering the actual state of the local economy, use of diverse financial techniques to support enterprise activities, support Japanese enterprises when they go overseas into Asia, strengthen project finance, etc.

#### (3) Perform Financial Intermediary Functions for SME Finance, and Loans to Individuals (Housing Loans, etc.)

##### 1) Facilitate loans to SMEs, and housing loans

Demonstrate active consulting function for borrowing enterprises, investigate status of creating drastic and highly realizable business rehabilitation plans, prohibit in principle third party joint and several guarantee, except managers, etc.

##### 2) Understand the actual situation regarding active efforts for loans to consumers

### 2. Risk Management and Stability of Financial System

#### (1) Supervision based on the Viewpoint of Macro-Prudence

##### 1) Risk Areas to be Focused On

Emerging markets, Europe and U.S. fiscal conditions, effects of the Great East Japan Earthquake, market risks of stocks etc., interest rate risks of bonds, etc.

##### 2) Improved Risk Management Techniques

Awareness of risk effects under management leadership, investigation of stress tests, development of Recovery and Resolution Plans (RRPs) in some financial institutions

##### 3) Enhancement of financial foundations

Enhance capital

#### (2) Enhanced Risk Management Systems to Support Initiatives for Stronger Profitability

##### 1) Strengthening of Risk Governance in the Entire Group

Risk management for entire group by holding company

##### 2) Responding to International Developments

Risk management, including non-Japanese credits, overseas offices, and overseas subsidiaries

##### 3) Development of Risk and Liquidity Management System to Support Stronger Profitability

Examine the understanding of risks which accompany new business development, and appropriateness of liquidity management (including among central branches and other branches across international borders)

#### (3) Newcoming Banks, Foreign Bank Branches, etc.

### 3. Improving Customer Protection and Convenience for Users

#### (1) Ensuring Business Continuity

Voluntary inspection and priority investigation of IT systems  
Re-investigation of business continuity system

#### (2) Thorough Management of Information Security

Thorough and strict management of customer information

#### (3) Enhancement of the Framework for Providing Explanations to Customers

Investigate status of compliance with the suitability principle concerning currency derivatives and other risky products, internal incentives, compliance with the regulation of unsolicited offers, after-sale follow-up system, explanation system when selling investment trusts, etc.

#### (4) Enhancement of the Framework for Processing Consultations and Complaints from Customers

Focus on the status of responding to the financial ADR system

#### (5) Preventing Abuse of Financial Functions

Response to Furikome Fraud misusing disaster donations, initiatives to cut relations with antisocial groups, etc.