

# Reference: Composition of Supervisory Policy (Regional Financial Institutions)

## 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

### 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 the 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 administration integrated with Local Financial Bureaus (strengthen supervision by solid data analysis and provision of observation information, business analysis using reports from Local Finance Bureaus, etc.)
- \* 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 status of various responses after the earthquake (including measures to finance facilitation)
- Focus on status of handling the overlapping debt problem
- Check status of response to funding demand for recovery and reconstruction
- Promote consideration of active use of the Act on Special Measures for Strengthening Financial Functions (earthquake special measures)
- Closer coordination with central organizations of cooperative financial institutions

#### (2) Further Promotion of Region-based Relationship Banking

- Ongoing initiatives by entire organization, from a medium and long term perspective

#### (3) Perform Financial Intermediary Function for Small and Medium-sized Enterprises & Loans to Individuals (Housing loans, etc.)

- Demonstrate active consulting function for borrowing enterprises (active support for creation of thorough and highly realizable business rehabilitation plans and business recovery, etc.)
- Prohibit in principle third party joint and several guarantee, except managers
- Understand the actual situation regarding active efforts for loans to consumers

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

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

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

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

- Effects of the Great East Japan Earthquake, Emerging markets, Europe and U.S. fiscal conditions
- Market risks of stocks etc., interest rate risks of bonds, etc.
- Credit risks of large borrowers (actively support fundamental business recovery or business reorganization), etc.

##### 2) Improved Risk Management Techniques

- Awareness of risk effects under management leadership, investigation of stress tests

##### 3) Enhancement of financial foundations

- Promotion of initiatives to enhance capital, including obtaining solid profits
- Promote consideration of active use of the Act on Special Measures for Strengthening Financial Functions, considering the extension of the application deadline for central government's capital participation

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

- Solid earnings foundation from a medium and long term perspective (practice of region-based relationship banking, including support for entry to Asia, etc.)
- Risk management, including non-Japanese credits and overseas locations
- Examine the understanding of risks which accompany new business development
- Maximize the demonstration of financial intermediation functions considering the basic characteristics of cooperative organization financial institutions.

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

#### (1) Ensuring Business Continuity

- Voluntary inspection and priority examination of IT systems
- Validation 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 the status of compliance with the suitability principle concerning currency derivatives and other risky products, internal incentives, compliance with regulation of unsolicited offers, after sale follow-up system
- Investigate the explanation system when selling mutual funds, etc.

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

- Focus on the status of handling 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.