

Reference: Composition of Supervisory Policy (Financial Instruments Business Operators, etc.)

1. Overview

1. Environment Surrounding Financial and Capital Markets

- Effects on the domestic economy due to the Great East Japan Earthquake, etc. (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.
 - 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, check responses by financial instruments business operators for victims of the Great East Japan Earthquake)
 - 3) Supervisory response with a forward-looking perspective (thoroughly determine the progression of international discussions and the outlook for environmental changes, and consider common structural issues faced by Japanese financial institutions)
 - 4) Supervisory response which contributes to financial institutions autonomous improvement of management and making of better business judgments (frank and deep discussions with financial institutions, introduce the innovative initiatives by each financial institution, etc. to other financial institutions)
- * Closer cooperation with SESC, self-regulatory organizations and the Bank of Japan, etc.
- * Supervisory response which considers reducing burdens on financial institutions (periodically review reporting, etc. once a year)

2. Areas Emphasized in Supervision

1. Appropriate Performance of Market Intermediary Functions

- (1) Verification of Situation of Actions for Appropriate Demonstration of Market Intermediary Functions
Examine the development of internal controls systems, especially the screening systems for underwriting IPOs
- (2) Thorough Management of Customer Information and Corporate Information
Examine maintenance of systems of internal controls on corporate related information such as public offerings by listed companies, and enhancement of rules of professional conduct to prevent inappropriate actions of officers
- (3) Thorough elimination of antisocial forces
In cooperation with the National Police Agency, urge construction of antisocial forces database

2. Promotion of High Quality Risk Management

- (1) Encouragement of Integrated Risk Management of the Entire Securities Company Group
 - 1) Accurate operation of an early warning system. Performance of cross-industry and time series analyses.
 - 2) Based on the introduction of consolidated supervision and regulation of securities company groups, the FSA will conduct investigations while placing priority on the timely and accurate understanding of the business status and integrated risk management systems of entire groups, as well as have some financial institutions create Recovery and Resolution Plans (RRPs).
- (2) Initiatives for Various Funds
Understanding of the status of various funds, including hedge funds

3. Improvement of Customer Protection and Convenience for Users

- (1) Development of systems for provision of explanations to customers when selling risky products such as derivatives
- (2) Customer management after product sale (after care)
- (3) Complaint and consultation handling systems
- (4) Business continuity
- (5) Responses of FX business operators to introduction and strengthening of margin regulations
- (6) Efforts for investor protection involving Type II financial instruments business
- (7) Development of systems in ratings agencies
Development of systems for explanation by securities companies in cases where they don't use registered ratings
- (8) Initiatives against financial crimes