Summary points of *JFSA's Approach to Compliance Risk Management*

Provisional translation
As of September 30, 2019

- The Japan Financial Services Agency (JFSA) published a discussion paper (DP), *JFSA's Approach to Compliance Risk Management*, on October 15, 2018.
- The DP is in line with the basic concepts presented in the paper, "*JFSA's supervisory approaches – replacing checklists with engagement –*" published on June 29, 2018. These include, in particular, expanding the scope of JFSA's supervisory approaches from a backward-looking, element-by-element compliance check, into substantive, forward-looking and holistic analysis and judgment.
- The primary aim of the DP is to facilitate dialogues between financial institutions and JFSA to enhance their compliance risk management.

Financial Institutions' Main Attitudes

Past

- **Rule-based approaches** (e.g. compliance check with literal requirements of regulations and superficial prevention measures without root-cause analysis).
- **Backward-looking and ad-hoc, one-by-one response** to the problems which have already materialized.
- Problems addressed mainly by compliance divisions, but **not considered as the entire management issue.**

JFSA's nitpicking inspection on minor flaws may have contributed to these practices.

Basic direction for manage-ment

- Take firm initiatives to develop an internal control system as part of risk management, bearing in mind that **compliance risk is closely related to business model/strategy and corporate culture**.
- Develop corporate governance by which **feedback from the outside of the financial institution can be obtained**.
- **Identify any potential compliance issues ex-ante** in a forward-looking manner to prevent the actual incidents.
- Put in place **effective risk-based management commensurate with size, complexity and risk profiles of each financial institution**.

JFSA's Approach

- Engage in **constructive dialogues with the management** of financial institutions to evaluate actions taken by the management.
- Conduct **risk-based monitoring, focusing on the significant issues**.
- **Take into due consideration the burden on the financial institutions**, reflecting their size, complexity and risk profiles.