(Provisional translation)

＊This translation is provisionally prepared and subject to change without notice.

Inspection Manual for Deposit-Taking Institutions

February 2007

【Points of Attention for Inspections with Use of This Manual】

1. Interpretations and applications of this manual should be in accordance with "The Financial Inspection Basic Guidelines," issued on July 1, 2005, that specifies the basic concepts of financial inspections.

2. This manual is intended as a guidance for inspectors in their inspections of deposit-taking financial institutions (See 3. below. Hereinafter referred to as "financial institutions."). Financial institutions, for their part, should endeavor to ensure the soundness and appropriateness of their business based on the principle of self-responsibility and under the leadership of the management by exploiting resourcefulness and creativity to develop policies and internal rules suited to their own scale and nature.

   Meanwhile, financial institutions are not necessarily required to meet all of the criteria set forth in the check items of this manual. When using this manual, inspectors should take care not to apply this criteria in a mechanical and undistinguishing manner.

   Even a case where a financial institution does not literally meet the requirement of a check item should not be regarded as inappropriate if the arrangements and procedures put in place by the institution are reasonable from the viewpoint of securing of the soundness and appropriateness of its business and are thus deemed as effectively meeting the requirement or as sufficient in light of the institution's scale and nature. For example, if a financial institution does not have a division described in the checklists of each system, the inspector should review, with due consideration for the institution's scale and nature, whether its organization is structured in a way to enable the execution of necessary functions and a check-and-balance system.

   In this regard, it is necessary for inspectors to sufficiently conduct hearings from and exchange opinions with financial institutions on the occasion of on-site inspections.

3. This manual shall apply to all deposit-taking financial institutions. "Deposit-taking financial institutions" refer to the institutions listed below and other institutions that take deposits. Insurance and securities companies are not included therein.
   - Banks
   - Shinkin Banks and Federations of Credit Associations
   - Credit Cooperatives and Federations of Credit Cooperatives
   - Labor Credit Associations and Federations of Labor Credit Associations
   - Agricultural Cooperatives and Federations of Agricultural Cooperatives
   - Fishery Cooperatives and Federations of Fishery Cooperatives
   - Marine Product Processing Cooperatives and Federations of Marine Product Cooperatives
   - NorinChukin Bank
   - Overseas branches of the above financial institutions (including overseas offices,

subsidiaries and representative offices. However, whether they are subject to inspections under this manual shall be decided on a case-by-case basis in light of the applicable laws and regulations, including local laws, and the like)

- Japanese branches of foreign banks

It should be noted that when inspecting financial institutions that have obtained approval under Paragraph 1, Article 1 of the Law concerning Financial Institutions' Concurrent Undertaking of Banking and Trust Business （hereinafter referred to as "Concurrent Business Law"), inspectors should conduct examination of banking business in accordance with this manual and examination of trust business and issues specific to banking-trust institutions in accordance with the Inspection Manual for Trust and Banking Companies (Supplement of the Financial Inspection Manual for Trust Business) , while considering the purpose of the approval of concurrent undertaking of banking and trust business by financial institutions under the Concurrent Business Law and clearly bearing in mind the separation of the banking and trust business.

Also, when inspecting parties conducting transactions with financial institutions or inspecting the holding companies that are the parents of financial institutions, inspectors should make a necessary examination in light of the relevant parts of this manual.

4. The descriptions in this manual are in principle based on the assumption that the manual shall be applied to banks that appoint corporate auditors (establish a board of auditors) under the Company Law. Inspectors should bear it in mind that with regard to some of the check items, certain types of financial institutions may not be legally obligated to conform with the criteria and requirements specified therein.

(1) In the case of a financial institution that has established nominating, audit and compensation committees under the Company Law, inspectors should review with due consideration for the following points, whether the Board of Directors, the committees and executive officers are exercising their authority appropriately.

(i) The authority over business execution rests with executive officers, but not with directors in principle.

(ii) The Board of Directors may delegate the decision-making authority concerning business operations to executive officers by adopting a relevant determination.

(iii) The Board of Directors is responsible for supervising the execution of duties by directors and executive officers.

(iv) The ultimate auditing authority rests with the auditing committee, not with individual auditing committee members. (Auditing committee members appointed by the auditing committee execute the auditing authority on behalf of the committee.)

(2) The cooperative type of financial institutions are required to appoint accounting auditors only in

limited cases.

(3) In the case where an executive director (non-director) assumes the roles and responsibilities that would normally be assumed by a director in charge of a specific business operation, it is necessary to conduct a comprehensive review as to whether the Board of Directors has assigned the officer authority similar in effect to that which would be granted to a director in charge, whether the focus of the responsibility is made clear and whether the Board of Directors sufficiently monitors the execution of the relevant business operation. Based on the findings thereof, the inspector should determine whether the executive officer is performing the roles and responsibilities required for a director in charge as specified in the checklists of this manual.

5. Unless specified otherwise, items expressed in the question form such as "does the institution…" or "is the institution…" refer to requirements that must be met by financial institutions. Meanwhile, items preceded by "It is desirable…" refer to best practices recommended for financial institutions unless specified otherwise. With regard to items accompanied by "for example," financial institutions are not required to fully comply letter-by-letter with the criteria and requirements specified therein. They are merely examples of items that may be useful for checking whether financial institutions are meeting certain criteria and requirements in a manner befitting the scale and nature of their business.

6. Following are the definitions and use of some of the key terms in this manual

(1) Decisions concerning items specified as the prerogatives of the "Board of Directors" must be made based on substantive debate by the Board of Directors itself. However, this shall not preclude another deliberative body, division or department from discussing draft proposals for decision.

(2) The "Board of Directors or equivalent organization to the Board of Directors" includes, in addition to the Board of Directors, other entities that decide matters concerning corporate management with the participation of senior managers such as a council of managing directors and a corporate management council (hereinafter referred to as the "Council of Managing Directors, etc.") It is desirable that decisions concerning items specified as the prerogatives of the Board of Directors or equivalent organization to the Board of Directors be made by the Board of Directors itself. In the case where the decision-making authority is delegated to the Council of Managing Directors, etc., it is necessary to make sure that the delegation has been made in a clear manner, that a follow-up review is provided for through the compilation of the minutes of meetings of the Council of Managing Directors, etc. and that a sufficient check-and-balance system is ensured through arrangements such as requiring reports to be made to the Board of Directors and allowing corporate auditors to attend meetings of the Council of Managing Directors, etc.

(3) The "manager" of a division is the senior management officer (including a director) in charge of

that division. The “manager” of a sales branch, etc. is the head of that branch or a senior management officer (including a director) who assumes the same level of work responsibilities as or higher responsibilities than those of the branch head.

(4) “Internal rules” are rules that specify arrangements on a financial institution’s business in accordance with its corporate management policy, etc. that are applicable within the institution. It should be noted that internal rules do not necessarily have to specify detailed procedures.

(5) The “marketing and sales division” refers to a division, department, or sales office engaged in sales business. For example, a division involved directly or indirectly in sales or engaged in sales promotion planning is a marketing and sales division.

(6) The “office (trading, banking) division” is a division or a department engaged in market transactions.

(7) The “legal checks, etc.,” which includes a compliance check, means, for example, a validation of the consistency and compatibility of internal rules and the legality of transactions and business operations by personnel in charge of legal affairs, a division in charge thereof and in-house or outside lawyers and other experts.

(8) “Monitoring” refers to not only surveillance but also implementation of specific pre-emptive measures such as issuing warnings.

(9) The “risk profile” of a financial institution refers to the sum of features of various risks to which the institution is exposed.

Checklist for Business Management (Governance) (for Basic Elements)

【Checkpoints】

- For a financial institution to ensure the soundness and appropriateness of its business, maintain its credibility, protect depositors and facilitate finance, the institution must ensure full legal compliance and customer protection as well as precise management of various risks under an appropriate business management (governance) system.

- In order to enable a financial institution to conduct business management (governance) effectively, officers and employees as well as organizations within the institution must perform their respective roles and responsibilities. To be more specific, directors and other executives are responsible for nurturing work ethics and cultivating an institution-wide culture that attaches importance to internal control. The representative directors, non-representative directors and corporate auditors must understand their own roles in the various processes of internal control and fully involve themselves in the processes. Also, it is important that the Board of Directors and the Board of Auditors function effectively and that the functions of a check-and-balance system among divisions and departments and internal audits by the Internal Audit Division function are executed appropriately.

- The inspector should determine whether the financial institution's business management (governance) system is functioning effectively throughout the institution and whether the management is performing their roles and responsibilities appropriately by way of reviewing, with the use of the check items listed in this checklist, the effectiveness of the functions of four basic elements, namely (1) a system of business management (governance) by the representative directors, non-representative directors and the Board of Directors, (2) a system of internal audits, (3) a system of audits by corporate auditors and (4) a system of external audits.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

I. Development and Establishment of Business Management (Governance) System by Representative Directors, Non-Representative Directors and Board of Directors

1. Development of Corporate Management Policies

(1) Establishment and Development of Corporate Ethics

Do directors and the Board of Directors regard the establishment of corporate ethics with emphasis on the social responsibilities and the public duties of financial institutions as an important task and provide a system to develop the establishment?

(2) Development and Dissemination of Corporate Management Policy and Corporate Management Plan

Does the Board of Directors clearly establish a corporate management policy for achieving the objectives set by the financial institution? Does it clearly formulate a corporate management plan in accordance with the corporate management policy and disseminate it throughout the institution?

(3) Development and Dissemination of Internal Control Basic Policy

Does the Board of Directors establish a basic policy concerning the development of a system to secure the soundness and appropriateness of the financial institution's business (hereinafter referred to as the "Internal Control Basic Policy,") in accordance with the corporate management policy and without delegating the task to the representative directors, etc. and disseminate it throughout the institution? Is [1]the Internal Control Basic Policy an appropriate one befitting the scale and nature of the institution's business?

(4) Development and Dissemination of Strategic Objectives

Does the Board of Directors clearly develop strategic objectives for the financial institution as a whole that include institution-wide profit objectives and strategies for risk-taking and allocation of human and physical resources intended to help achieve the profit objectives, in accordance with the corporate management policy and without delegating the task to the representative directors, etc.? Does the Board of Directors clearly develop strategic objectives for each operational area based on the strategic objectives for the institution as a whole and disseminate both the business-by-business and institution-wide strategic objectives throughout the institution?

(5) Verification of Compatibility and Consistency of Risk Management Policies, etc.

With regard to institution-wide risk management, does the Board of Directors establish a Comprehensive Risk Management Policy and a management policy for various risks based on the

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[1] The inspectors should review the document that includes the financial institution's basic policy for developing a system for securing the soundness and appropriateness of its business regardless of the title of the document such as "Internal Control Basic Policy," "Internal Control Policy," and "Internal Management Policy," etc.

strategic objectives for the institution as a whole after verifying their compatibility and consistency?

2. Roles and Responsibilities of Directors and Board of Directors

(1) Roles and Responsibilities of Representative Directors and Non-Representative Directors

(i) Do the directors regard legal compliance, customer protection and risk management as important corporate management tasks based on an understanding of the major points of Laws (including, but not limited to laws and regulations, etc. hereinafter referred to as the "Laws'') applicable to the financial institution, the nature of the various risks to which the institution is exposed and the importance of customer protection, improvement in customer convenience and risk management? Do they understand the importance of audits by corporate auditors, internal audits[2] and external audits in ensuring full legal compliance, customer protection and risk management?

(ii) Do the representative directors appropriately allocate human and physical resources in accordance with the corporate management policy, the corporate management plan, the Internal Control Basic Policy, the strategic objectives and the Comprehensive Risk Management Policy and appropriately exercise his/her authority so as to ensure flexible management thereof?

(iii) Do the representative directors take specific measures to have officers and employees get acquainted with his/her approach to legal compliance, customer protection and risk management? For example, do the representative directors express his/her approach to legal compliance, customer protection and risk management to officers and employees when delivering a New Year's speech and speaking at branch Managers' meetings?

(2) Check and Balance against Representative Directors

Do non-representative directors engage in substantive debate at meetings of the Board of Directors and perform their duties of making decisions concerning business execution and supervising business execution in order to ensure appropriate business execution by exercising a check-and-balance system against the representative directors and preventing autocratic management? With regard to decision-making concerning the provision of loans, for example, do non-representative directors seek to ensure a check-and-balance system to prevent arbitrary decision-making by the representative directors by taking specific measures such as requiring that important loans whose terms exceed prescribed limitations be subject to a decision by the Board of Directors or equivalent organization to the Board of Directors rather than by the representative directors alone?

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[2] "Internal audits" refer to the process of review of the appropriateness and effectiveness of the internal control system of divisions (including risk management divisions. The same shall apply hereinafter.) and sales branches, etc. (including sales branches and overseas offices. The same shall apply hereinafter.)(hereinafter referred to as the audited divisions, etc.) by a division in charge of internal audits (inspection division, operational audit division, etc.) that is independent from the audited divisions, etc. This process includes not only detecting and pointing out problems with the audited divisions' administrative processes, etc. but also evaluating the internal control system and proposing improvement measures. In principle, it does not include inspections conducted by the audited divisions, etc. themselves as part of the internal control. The same shall apply hereafter.

Also, is it ensured, for example, that under the rules governing the Board of Directors, decisions on matters concerning legal compliance, customer protection and risk management that would seriously affect the financial institution's corporate management are treated as the exclusive prerogatives of the Board of Directors and judgment as to whether or not specific cases meet the criteria of "seriously affect" is not left to the representative directors?

(3) Roles and Responsibilities of Outside Directors (in the case where outside directors have been appointed)

Are outside directors aware of the significance of their roles and actively involved in meetings of the Board of Directors in order to ensure the objectivity of corporate management decision-making? Does the Board of Directors ensure that information concerning the conditions of the financial institution is provided to outside directors on an ongoing basis so as to enable them to make appropriate judgment at meetings of the Board of Directors?

(4) Directors' Duty of Care and Duty of Loyalty

Do directors fully perform their duty of care and duty of loyalty in their execution of office, for example by engaging in substantive debate at meetings of the Board of Directors in order to ensure the soundness and appropriateness of the financial institution's business?

3. Development of Organizational Frameworks

(1) Development of Institution-wide Organizational Framework

Has the Board of Directors developed an organizational framework that enables the financial institution as a whole to conduct business and risk management appropriately and effectively, for example by establishing divisions between which conflicts of interest may arise and assigning them authority in a way to allow them to exercise a mutual check-and-balance system even as they maintain coordination?

(2) Disclosure

Does the Board of Directors provide a system to disclose information about financial conditions and other matters concerning the financial institution in an appropriate and timely manner?

(3) Collection, Analysis and Examination of Information Concerning Financial Institution as A Whole

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to obtain, from within and outside the financial institution and in a timely manner, information concerning legal compliance, customer protection and risk management that is necessary for corporate governance?

For example, does the Board of Directors or equivalent organization to the Board of Directors make sure to have access to necessary information, for example by having the Manager of each division report matters specified by it in a regular and timely manner or on an as needed basis or by installing a computer system function that enables directors and corporate auditors to survey information managed by each division?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors have in place procedures for the storage and management of information concerning the execution of business operations by directors, etc. in accordance with the Internal Control Basic Policy?

For example, does it make sure to compile, store and manage the minutes of meetings of the Board of Directors or equivalent organizations to the Board of Directors? Does it also record instructions issued by the Board of Directors or equivalent organizations to the Board of Directors and documents related to its decisions and store and manage the records as necessary?

(iii) Are the contents of the minutes of the meetings, when combined with the raw data used there, sufficient to confirm the agenda and substance of the meetings, such as matters reported to the Board of Directors or equivalent organizations to the Board of Directors (including the actual status of risk management, problems related to legal compliance and customer protection, inappropriate acts and other problems) and details of the approval given and decisions made by the Board of Directors or equivalent organization to the Board of Directors (including the process and substance of debate)? Is it ensured that the raw data used at these meetings is stored and managed for the same period of time as the minutes?

(iv) Is it ensured that corporate auditors have easy access to the minutes of the meetings of the Board of Directors or equivalent organization to the Board of Directors or other information concerning directors' execution of business operations?

(4) Handling of Screening of New Products

(i) With regard to handling of new products, start of new business and other matters specified in the Comprehensive Risk Management Policy, etc. as requiring prior screening and approval (hereinafter referred to as "New Products, etc."), does the Board of Directors or equivalent organization to the Board of Directors provide a system to have such matters priorly subject to screening and approval (hereinafter referred to as "New Products Approval)" by a division in charge of screening New Products or a committee in charge thereof (hereinafter referred to as the "New Product Committee, etc.")?[3]

(ii) Has the Board of Directors or equivalent organization to the Board of Directors clearly specified the criteria for judgment as to whether specific matters are subject to the New Products Screening and the focus of the judgment authority and disseminated them to all of the officers and employees?

(iii) On the occasion of the New Products Screening, do the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that information concerning the

[3]This shall not preclude the Comprehensive Risk Management Division or other entities from conducting the New Products Screening.

validity and legality of New Products, etc. is collected and sufficient examination is conducted?

For example, is a system in place to ensure that:

- The Comprehensive Risk Management Division and divisions in charge of managing various risks identify the risks inherent in New Products, etc. and report them to the New Product Committee, etc. in a timely manner?
- The Managers in charge of various customer protection management examine issues related to customer protection management and report their findings to the Board of Directors or equivalent organization to the Board of Directors in a timely manner?
- Legal issues related to New Products, etc. are subjected to legal checks, etc. beforehand?

(5) Management System of Subsidiaries, etc.

Does the Board of Directors or equivalent organization to the Board of Directors appropriately manage the business of subsidiaries, etc.[4] in a manner befitting the scale and nature of their business and provide for measures to ensure that their business is appropriate from the viewpoint of legal compliance, customer protection and risk management? Does the Board of Directors or equivalent organization to the Board of Directors provide for measures to ensure that transactions between the financial institution and its subsidiaries, etc. are in compliance with the rules concerning the prevention of inappropriate practices and the “arms’ length rules”?

(6) Emphasis on Legal Compliance, Customer Protection and Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors instead of placing too much emphasis on boosting Sales and Profits Division, implement specific measures that attach importance to legal compliance, customer protection, comprehensive risk management, management of various risks and internal audits? For example, does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that staff members engaged in operations related to legal compliance, customer protection, comprehensive risk management, management of various risks and internal audits are fairly treated in performance assessment and personnel evaluation and receive appropriate evaluation in light of the strategic importance of those operations?

(7) Crisis Management System

Does the Board of Directors or equivalent organization to the Board of Directors appropriately understand what constitutes a crisis for the financial institution and provide a system even in normal times to have an appropriate crisis management system in place so as to enable the management to respond immediately in the event of a crisis and take risk mitigation measures?

For example, does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that a crisis management manual and a business continuity plan

[4] See Paragraph 2, Article 13, the Banking Law.

(BCP) are formulated and that procedures for collecting information and responding to unfounded rumors in the event of a crisis are established?

4. Monitoring and Revision

Does the Board of Directors receive a report with regard to the status of business operations and the risks faced by the financial institution in a regular and timely manner or on an as needed basis and order an investigation as necessary to review the effectiveness and validity of the corporate management policy, the corporate management plan, the Internal Control Basic Policy, the strategic objectives, the Comprehensive Risk Management Policy, the policies concerning management of various risks, the Legal Compliance Policy, the Customer Protection Management Policy and other policies as well as the effectiveness of the financial institution’s governance system based on these policies and revise them as necessary?

II. Development and Establishment of Internal Audit System

1. Development and Establishment of Internal Audit System by Board of Directors or equivalent organization to Board of Directors

1) Policy Development

(1) Roles and Responsibilities of Directors

Do directors fully understand that the development of an effective internal audit system suited to the scale and nature of the financial institution's business and its risk profile as well as the Laws applicable to the business are vital for an appropriate legal compliance, customer protection and risk management? In particular, does the director in charge of internal audits examine a policy and specific measures necessary for the development and establishment of an appropriate internal audit system based on an accurate understanding of the status of the institution's internal audits?

(2) Development and Dissemination of Internal Audit Policy

Has the Board of Directors established a policy for securing the effectiveness of internal audits (hereinafter referred to as the "Internal Audit Policy") in accordance with the corporate management policy and the Internal Control Basic Policy and disseminated it throughout the institution?

2) Development of Rules and Organizational Framework

(1) Development of Internal Audit Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division or the chief of the division establish rules concerning internal audits (hereinafter referred to as the "Internal Audit Rules") and approve them after confirming their consistency with the Internal Audit Policy?

Do the Internal Audit Rules specify the following items in particular?

- Purpose of internal audits
- Organizational independence of the Internal Audit Division
- Scope of the Internal Audit Division's operations, authority and responsibilities
- Arrangements for the Internal Audit Division to obtain information
- Arrangements for implementation of internal audits
- Arrangements for reporting by the Internal Audit Division

(2) Development of Internal Audit Implementation Guidelines

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division or the chief of the division establish a guideline that specifies the items subject to internal audits and the procedures for the implementation thereof (hereinafter referred to as the Internal Audit Implementation Guidelines) and approve it? Does the Internal Audit Implementation Guidelines reflect the actual status of operations at the divisions audited and enable the implementation of effective audits suited to the divisions' operations? Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division establish operational procedures that specify details of the items subject to internal audits and the audit procedures where necessary?

(3) Development of Internal Audit Plan

(i) Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division or the chief of the division grasp the status of legal compliance, customer protection and risk management at the divisions audited and formulate a plan for implementing internal audits in an efficient and effective manner with due consideration for the frequency and depth of necessary audits (hereinafter referred to as the "Internal Audit Plan") and approve basic matters concerning the plan, including its key priority items? Does the Board of Directors or equivalent organization to the Board of Directors approve it after making sure that the Internal Audit Plan provides for additional audits as and when necessary?

(ii) Does the Internal Audit Plan subject the operations of subsidiaries, etc. to internal audits within the limitations allowed under law? With regard to the operations of subsidiaries and operations commissioned to outsourcing contractors not subject to internal audits, does the plan subject the status of the management of those operations by divisions with the supervisory responsibilities thereof to internal audits?

(4) Establishment of System of Internal Audit Division

(i) Has the Board of Directors established an Internal Audit Division in charge of reviewing the appropriateness and effectiveness of the internal control system in accordance with the Internal Audit Policy and the Internal Audit Rules and does the Board provide a system to enable the division to perform its functions fully?

(ii) Has the Board of Directors allocated in the Internal Audit Division a division chief with the necessary knowledge and experience to supervise the division and enabled the division chief to implement his/her operation by assigning him/her the necessary authority therefor? In the case where the chief of the Internal Audit Division concurrently takes charge of an operation subject to audits, is there an arrangement to secure the independence of the Internal Audit Division?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated in the Internal Audit Division an adequate number of staff members with the necessary knowledge and experience as well as the expertise to sufficiently review the operations and assigned such staff the authority necessary for implementing the operations? Does the Board of Directors or equivalent organization to the Board of Directors make sure to provide in-house and outside training to enhance the expertise of staff members that conduct internal audits? It is desirable that there be a system to provide such training on an ongoing basis and that the relevant staff members regularly utilize it.

(iv) Does the Board of Directors keep the Internal Audit Division independent from divisions subject to audits and secure the function of a check-and-balance system? Does the Board of Directors provide a system to enable the Internal Audit Division to implement audits without being unduly restricted by divisions audited, etc.? Does the Board of Directors provide a system to prevent the Internal Audit Division from engaging in business activities or operations that should be conducted by divisions subject to audits, such as compilation of information concerning financial conditions and other matters?

(v) Does the Board of Directors provide a system to implement extraordinary audits aside from ordinary ones with regard to operations and computer systems susceptible to violation of Laws and practices? In the case where outside experts are employed to complement the audits of operations for which internal audits alone would not be sufficient, does the Board of Directors also assume responsibility for the audit process and results?

(vi) Does the Board of Directors, in accordance with the Internal Audit Rules, assign staff members engaged in internal audits the authority to obtain any documents necessary for their execution of operations and interview or question any officer or employee when necessary for their execution of operations?

(vii) Does the Board of Directors provide a system to disseminate the scope of the Internal Audit Division's operations, authority and responsibilities to all of the officers and employees?

(viii) Does the Board of Directors or equivalent organization to the Board of Directors allocate to overseas offices determined as being exposed to higher risk than a certain level internal auditors who are independent from the Managers of the offices and directly linked with the Internal Audit Division?

(ix) Does the Board of Directors provide a system to have the results of internal audits reported in a timely and appropriate manner?

3) Systems for Follow-up

(1) Improvement Steps by Board of Directors

With regard to problems included in internal audit reports that are determined as likely to seriously affect the corporate management or impossible for an audited division alone to handle, does the Board of Directors promptly take appropriate measures? Does it provide arrangements to have the Internal Audit Division conduct necessary follow-up audits on such cases, check the status of improvement and ensure that cases in which improvement is insufficient are reported to it?

2. Roles and Responsibilities of Internal Audit Division

(1) Development of Internal Audit Implementation Guidelines

Does the Internal Audit Division appropriately identify the items subject to audits, formulate an Internal Audit Implementation Guidelines that specifies the items subject to audits and the procedures for audit implementation and seek approval thereof from the Board of Directors or equivalent organization to the Board of Directors? Does the Internal Audit Implementation Guidelines exhaustively cover the items included in this checklist so as to enable effective audits?

Where necessary, does the Internal Audit Division establish operational procedures that specify details concerning the items subject to internal audits and the audit procedures?

(2) Development of Internal Audit Plan

Does the Internal Audit Division formulate a plan for implementing internal audits in an efficient and effective manner with due consideration for the frequency and depth of necessary audits based on its understanding of the status of legal compliance, customer protection and risk management at the divisions audited and obtain approval by the Board of Directors or equivalent organization to the Board of Directors of basic matters concerning the plan, including its key priority items? Does the division subject the operations of subsidiaries, etc. to internal audits within the legal limitations? With regard to the operations of subsidiaries not subject to internal audits and operations commissioned to outsourcing contractors, does the division subject the status of the management of those operations by divisions with the supervisory responsibilities thereof to internal audits?

(3) Implementation of Internal Audits

(i) Does the Internal Audit Division implement internal audits of divisions subject to audits in an efficient and effective manner (by implementing an unannounced audit, for example) in accordance with the Internal Audit Implementation Guidelines and the Internal Audit Plan?

(ii) Does the Internal Audit Division, in accordance with the Internal Audit Rules, etc. seek to ensure fair audits, for example by preventing the same auditing staff member from continuing to audit the same division or preventing an auditing staff member from auditing the division in which he worked immediately before moving to the Internal Audit Division?

(iii) Do auditing staff members accurately record the procedures followed in internal audits and problems detected therein? Do they compile, in accordance with the Internal Audit Implementation Guidelines and the Internal Audit Plan and without delay, internal audit reports that accurately reflect problems detected in internal audits?

(iv) Does the chief of the Internal Audit Division check the contents of internal audit reports, analyze the frequency and the degree of importance, etc. of problems pointed out therein and report his/her findings to the Board of Directors without delay? In particular, does the chief of the Internal Audit Division report problems deemed likely to seriously affect the corporate management or significantly undermine customer interests to the Board of Directors without delay? Does the chief attend meetings concerning internal control (e.g. a meeting of a legal compliance committee) as necessary in order to report the status of internal audits and collect information?

(v) In the case where the Internal Audit Division detects an obvious or suspected illegal act during the process of internal audits, does the division immediately report it to the Compliance Control

Division?[5] Does the Internal Audit Division accurately identify problems based on the analysis of internal audits and disseminate its findings to the Compliance Control Division, operational divisions and sales branches, etc. in a regular and timely manner or on an as needed basis?

(4) Systems for Follow-Up

Do divisions subject to internal audits take improvement measures without delay with regard to problems pointed out in internal audit reports with due consideration for the degree of their importance and formulate plans for improvement as necessary? Does the Internal Audit Division appropriately check the status of improvement at divisions subject to internal audits and reflect its findings in subsequent Internal Audit Plans?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Effectiveness of Internal Audits

Does the Board of Directors appropriately determine whether there are any weaknesses or problems in the internal audit system and the particulars thereof, and appropriately examine their causes by precisely grasping the status of internal audits and analyzing and assessing the effectiveness of internal audits, based on all information available regarding the status of internal audits (including the status of compliance with the Internal Audit Implementation Guidelines and the Internal Audit Plan), such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions?

In addition, if necessary, does it take all possible measures to find the causes by way of, for example, establishing fact findings committees, etc. consisting of non-interested persons?

Does the chief of the Internal Audit Division analyze and assess the effectiveness of the Internal Audit Implementation Guidelines and the Internal Audit Plan in a regular and timely manner or on an as needed basis and report his/her findings to the Board of Directors?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of internal audits in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Improvement Activities Concerning Internal Audit System

Does the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the internal audit system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on

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[5] See Checklist for Legal Compliance.

the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of Improvement Process

Does the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of internal audits in a regular and timely manner or on an as needed basis?

III. Development and Establishment of Auditing System by Corporate Auditors and Board of Auditors

1. Development of Environment for Auditing by Corporate Auditors

(1) Development of Auditing Environment

Do auditors endeavor to develop a favorable environment for collecting information and conducting audits in order to execute their operations appropriately, for example by maintaining close coordination with directors, accounting auditors, the Internal Audit Division, the Manager of the Compliance Control Division and directors of subsidiaries, etc. and seeking reports from them regularly?

(2) Functions of Board of Auditors

In the case where there is a board of auditors, does it hold consultations and make decisions based on reports obtained from individual auditors and other relevant parties within limitations that would not prevent the individual auditors' execution of authority?

(3) Systems for Supporting Auditing Operation

Do corporate auditors secure an adequate number of staff members suited to support auditors and the board of auditors? Is it ensured that staff members supporting auditors and the board of auditors are kept outside the line of command from directors and the Board of Directors in their execution of auditor support operations?

(4) Securing of Independence

Is it ensured that the independence of corporate auditors and the board of auditors is secured in terms of execution of operations and organizational framework? In particular, moves to obstruct the investigative and reporting authority of auditors and restrict audit-related expenses in an unreasonable manner must be excluded in order to secure the independence of auditors.

2. Implementation of Audits

(1) Development of Audit Policy and Audit Plan

Do corporate auditors identify the items subject to audits and develop an audit policy and an audit plan from the viewpoint of reviewing whether directors have developed an appropriate internal control system and are operating it appropriately?

(2) Effective Implementation of Audits

Do corporate auditors and the board of auditors audit operations in addition to conducting accounting audits by appropriately executing the wide-ranging authority assigned to them? Even when there is a board of auditors, does each individual auditor actively conduct audits on their own responsibility as an independent agent?

(3) Investigations of Subsidiaries

Do corporate auditors pay attention to whether there is an appropriate internal control system within the corporate group of the financial institution and check the status of corporate governance and internal control at subsidiaries as necessary from the viewpoint of examining the status of directors' execution of business operations for the purpose of securing the soundness of the business operations of the corporate group?

(4) Attendance at Board of Directors' Meetings

Do corporate auditors appropriately examine the status of directors' execution of business operations , for example, by attending meetings of the Board of Directors and expressing opinions as necessary? Do they also attend meetings of the Board of Directors or equivalent organization to the Board of Directors other than meetings of the Board of Directors and express their opinions, thus appropriately executing their auditing authority?

(5) Employment of Outside Experts

Do corporate auditors and the board of auditors employ lawyers, certified public accountants and other outside experts as necessary in order to supplement their functions?

(6) Review of Audit Results

Do corporate auditors and the board of auditors check whether the process of accounting audits by accounting auditors and the results thereof are reasonable and, if necessary, take measures such as making an appropriate proposal with regard to the replacement of an accounting auditor, for example?

(7) Prevention of Illegal Acts

When detecting an obvious or possible inappropriate act by a director, or when detecting a fact that violates laws or the articles of incorporation or a markedly unreasonable fact, do corporate auditors report it to the Board of Directors without delay? When they determine that a director's act that violates laws or the articles of incorporation may significantly damage the financial institution, do corporate auditors take appropriate measures to halt the act?

(8) Outside Auditors

Do outside auditors fully perform their auditing functions by taking advantage of their positions? When an outside auditor serves on a non-permanent basis in particular, does he/she make sufficient efforts to maintain communications and coordination with permanent auditors so as to perform his/her functions?

IV. Development and Establishment of External Audit System

(1) External Audit of Internal Control System by Accounting Auditors, Lawyers, etc.

Does the institution undergo an external audit[6] by an outside expert such as an accounting auditor and a lawyer at least once a year in order to review the effectiveness of the internal control system?[7] In the case of a financial institution subject to international standards, Does the institution check whether the institution subjects each of its overseas offices to an external audit suited to the circumstances of the relevant country.

Does the Board of Directors or the board of auditors receive the audit results in a timely manner?

(2) Cooperation to Effective Audits

Does the Board of Directors provide for measures to have operational divisions and departments cooperate with external auditors to enable effective audits?

(3) Analysis and Assessment of Effectiveness of External Audits

Do the Board of Directors and the board of auditors regularly check whether external audits are functioning effectively?

Do the Board of Directors and the board of auditors also make sure that external audits of subsidiaries are functioning effectively, for example by receiving reports concerning the results of external audits of subsidiaries, etc. so as to grasp any problem thereof?

(4) Improvements and Follow-up

Does the Board of Directors provide a system to implement improvements within a certain period of time with regard to problems pointed out by external auditors? Do divisions subject to audits implement improvements according to the level of the importance of the problems pointed out and formulate plans for improvements as necessary? Does the Internal Audit Division check the progress status of improvements appropriately?

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[6] External audits as mentioned here shall not be limited to audits of financial statements by accounting auditors, but the inspector should bear it in mind that audits other than the audit of financial statements required under the rules and the verification of the internal control system conducted as part of the procedures of this audit are not obligatory. In the case where the institution inspected undergoes an external audit other than the audit of financial statements in order to secure the effectiveness of the internal control system, the inspector should review the effectiveness of the internal control system by examining the audit results in a comprehensive manner.

[7] It should be noted that the co-operative type of financial institutions are required to appoint accounting auditors only in limited cases.

Checklist for Legal Compliance

I. Development and Establishment of Legal Compliance System by Management

【Checkpoints】

- The development and establishment of a legal compliance system is one of the most important tasks for a financial institution in order to secure the soundness and appropriateness of its business. Therefore, the institution’s management is charged with and responsible for taking the initiative in developing and establishing the legal compliance system that covers the institution’s entire business by deciding a basic policy on legal compliance and developing an organizational framework, etc..

- The inspector should determine whether the legal compliance system is functioning effectively and whether the roles and responsibilities of the institution’s Board of Directors are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later in this checklist, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution’s management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to legal compliance based on a full recognition that full legal compliance throughout the financial institution is vital for maintaining public confidence in the institution and securing the soundness and appropriateness of the institution’s business? In particular, are directors aware of legal problems concerning the business operations they are in charge of that need special attention and do they make absolutely sure to conduct business operations legally?

Does the director in charge of legal compliance understand not only all of the Laws (including but not limited to laws and regulations, etc.; hereinafter referred to as the "Laws'') applicable to the financial institution's business but also how to monitor the status of legal compliance and fully enforce compliance throughout the institution? Based on such understanding, does the director appropriately grasp the status of legal compliance at the institution and consider a policy and specific measures necessary for developing and establishing an appropriate legal compliance system?

(2) Development and Dissemination of Legal Compliance Policy

Has the Board of Directors established a basic policy regarding legal compliance (hereinafter referred to as the "Legal Compliance Policy" in accordance with the institution's corporate management policy and disseminated it throughout the institution?

(3) Revision of the Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Manager (hereinafter simply referred to as the "Manager" in this checklist) of the division in charge of overseeing matters related to legal compliance in an integrated manner (hereinafter referred to as the "Compliance Control Division") develop internal rules that clearly specify the arrangements on legal compliance（hereinafter referred to as the "Legal Compliance Rules"）and disseminate them throughout the institution in accordance with the Legal Compliance Policy?[1] Has the Board of Directors or equivalent organization to the Board of Directors approved the Legal Compliance Rules after determining if they comply with the Legal Compliance Policy and after legal checks, etc.?

(2) Establishment of System of the Compliance Control Division

(i) In order to fully enforce legal compliance throughout the institution, it is essential to collect, manage, analyze and examine in an integrated manner information concerning legal compliance (hereinafter referred to as the "Compliance-related Information") scattered across the institution's divisions and departments and, based on the results of the analysis and examination, take appropriate steps and measures. From such a point of view, does the Board of Directors or equivalent organization to the Board of Directors have the Compliance Control Division, established in accordance with the Legal Compliance Policy and the Legal Compliance Rules, clarify its areas of responsibilities and assign it the necessary authority so as to enable the division to perform its roles and functions appropriately?[1]

(ii) Has the Board of Directors allocated to the Compliance Control Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management operations by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Compliance Control Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing the operations?[2]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to keep the Compliance Control Division independent from the Marketing and Sales Division and secure a check-and-balance system of the Compliance Control Division? In the case where the Compliance Control Division also takes charge of another business, the inspector should give consideration in particular to whether there is a system to prevent interference from the Marketing and Sales Division, etc.

(3) Development of Legal Compliance System in Operation Divisions and Sales Branches

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures[3] to operation divisions and sales branches, etc.? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager or the Compliance Control Division to identify the Laws, internal rules and operational procedures to be observed by the operation divisions and to regularly carry out specific measures for ensuring observance such as providing effective training suited to the nature and responsibilities of the operations ?

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[1] When the Compliance Control Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of compliance control or when a Manager or Managers take charge of compliance control instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[2] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Compliance Control Division is reasonable in terms of a check-and-balance system and other aspects.

[3] Operational procedures are rules established, revised and abolished by a person or a division empowered by the Board of Directors or equivalent organization to the Board of Directors to do so and are subsidiary to internal rules.

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of the compliance control system in operation divisions and sales branches, etc. through the Manager or the Compliance Control Division?

(iii) Does the Board of Directors or equivalent organization to the Board of Directors allocate a person in charge of compliance to each operation division and sales branch for coordination with the Compliance Control Division? With regard to operation divisions and sales branches for which it is especially necessary to secure the effectiveness of the legal compliance system, for example because it is difficult to monitor their operations (e.g. overseas branches), does the Board of Directors allocate a compliance officer responsible for securing legal compliance at such divisions and branches and ensure that coordination with the Compliance Control Division is maintained through the coordination between the compliance officer and the Manager while keeping independence from the Marketing and Sales Division?

(iv) Does the Board of Directors provide a system to establish firewalls and take other measures to block the flow of information when necessary from the viewpoint of legal compliance according to the scale and nature of the institution’s business? Cases that require such measures include when the prevention of insider trading and conflicts of interest in investment banking operations is necessary, for example.

(4) Development and Dissemination of Compliance Manual

Does the Board of Directors have the Manager establish, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, a manual that explains the Laws that officers and employees must comply with (hereinafter referred to as the Compliance Manual) and provides specific instructions as to what measures should be taken when illegal acts are detected and disseminate the manual throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors? Is an important revision of the Compliance Manual subject to approval by the Board of Directors?

(5) Development and Dissemination of Compliance Program

Does the Board of Directors have the Manager formulate, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, a program for implementing specific measures to ensure compliance (including the development of internal rules and planning of employee training. Hereinafter referred to as the “Compliance Program”) at least once a year and disseminate it throughout the institution upon approval by the Board of Directors?

Do the representative directors and the Board of Directors regularly and accurately grasp the progress and achievement status of the Compliance Program? Do they provide a system to reflect the implementation status of the Compliance Program in the performance assessment and personnel evaluation?

(6) Arrangement for the System of Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status of legal compliance to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors without delay any matters that would seriously affect corporate management or significantly undermine customer interests?

(7) Arrangement for System of Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and does it provide a system to have the Manager directly report such matters to the auditor?[4]

(8) Development of Internal Audit Guidelines and Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to legal compliance, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and approve such guidelines and plan?[5]

(9) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing its effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Legal Compliance System

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[4] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

[5] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the legal compliance system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of legal compliance and assessing the effectiveness of the legal compliance system, based on all information available regarding the status of legal compliance, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by way of, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the Customer Protection Management system that are identified through the analysis, assessment and review referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Legal Compliance System by Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Compliance Control Division.

- If any problem is recognized as a result of a review conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

1) Development of Internal Rules

(1) Development and Dissemination of Legal Compliance Rules

Has the Manager, in accordance with the Legal Compliance Policy, developed the Legal Compliance Rules based on a full understanding of the Laws that officers and employees must comply with according to the nature of their operations? Have the Legal Compliance Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Legal Compliance Rules

Do the Legal Compliance Rules exhaustively cover the arrangements with regard to compliance with the Laws that officers and employees must observe according to the nature of their operations and specify the arrangements appropriately? Do the rules specify the following items, for example?

- Arrangements on the roles, responsibilities and organizational framework of the Compliance Control Division
- Arrangements on the collection, management, analysis and examination of Compliance-

related Information

- Arrangements on monitoring of legal compliance
- Arrangements on legal checks, etc. (For example, which of the internal rules, contract documents and advertising documents compiled by each division and transactions and operations in which it is involved are subject to legal checks, etc.？）
- Arrangements on implementation of training and guidance
- Arrangements on the storage and management of records on investigations conducted by the Compliance Control Division
- Arrangements on approval and screening of New Products
- Arrangements on reporting to the Board of Directors and corporate auditor, etc.

(3) Development and Dissemination of Compliance Manual

Has the Manager, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, developed the Compliance Manual based on a full understanding of the importance of legal compliance in the business of financial institutions? After developing the Compliance Manual or conducting an important revision of the manual, does the Manager disseminate it throughout the institution upon approval by the Board of Directors?

(4) Compliance Manual

Does the Compliance Manual, in light of the social responsibilities and public duties of financial institutions, explain the Laws that officers and employees must comply with according to the nature of the relevant institution’s business and exhaustively cover and specify in an easy-to-understand way measures to be taken when illegal acts are detected? Does the manual clearly specify the following items, for example?

- Explanation of Laws that officers and employees must comply with
- Specific and detailed notes with regard to Laws that must be complied with in relation to each operation
- Divisions and departments to be contacted when officers and employees detect suspected violation of Laws (Compliance Division, “help line,” “compliance hot line,” etc.)

(5) Development of Compliance Program

Does the Manager formulate a reasonable Compliance Program at least once a year in accordance with the Legal Compliance Policy and the Legal Compliance Rules and based on a full understanding of the importance of legal compliance in the business of financial institutions? After developing a new Compliance Program or conducting an important revision of the existing one, does the Manager disseminate the new program or revised one throughout the institution upon approval by the Board of Directors?

2) Development of Framework

(1) Development of System of the Compliance Control Division by Manager

(i) Does the Manager, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, provide a system to have the Legal Compliance Division prepared to exercise a check-and balance in order to make absolutely sure to pre-empt violation of Laws and prevent the recurrence of past violation of Laws ?

(ii) Does the Manager ensure the system of training and education to enhance the ability and knowledge of employees with regard to legal compliance, thus developing human resources with relevant expertise?

(2) Collection, Management, Analysis and Examination of Compliance-Related Information

Does the Manager provide for measures to collect in an efficient and timely manner Compliance-related Information scattered across the institution's divisions and departments according to the nature of the institution's business? Does the Manager provide a system to appropriately manage the Compliance-related Information collected and analyze it so as to use it to pre-empt violation of Laws and prevent the recurrence of the past violation of Laws? For example, does the Manager provide for a means of reporting by establishing a "help line," a "compliance hot line," etc.?

(3) Communication and Coordination System

(i) Does the Manager, in person or through the Compliance Control Division, maintain close communication and coordination with divisions which hold Compliance-related Information?

(ii) Does the Manager maintain coordination with a person in charge of compliance allocated to each operation division and sales branch, etc.?

(4) Monitoring System

Does the Manager, in order to ensure appropriate legal compliance at each division, make sure to monitor the status of compliance on an ongoing basis by requiring each division in a regular and timely manner or on an as needed basis to report the status of its compliance, to collect information from persons in charge of enforcing compliance on an ongoing basis or to conduct a field survey, for example?

(5) System for Handling Violation of Laws

Does the Manager provide a system to ensure that an investigation is promptly conducted in response to a report about a suspected violation of Laws if the suspicion is determined as justified as a result of analysis of Compliance-related Information and review whether or not the institution is required under law to report the case to the authorities and report it when necessary? (The Manager may have a suitable division or department other than the Compliance Control Division investigate, review and report such a case.)

Does the Manager provide a system to make an appropriate disclosure under the Securities and Exchange Law?[6]

(6) Coordination with Customer Support Manager

(i) Does the Manager, in coordination with the Customer Support Management[7], provide a system to collect information in a prompt and wide-ranging manner with regard to Consultation Requests, Complaints, etc.[8] from customers that should be recognized as legitimate complaints and that may develop into legitimate complaints?

(ii) With regard to complaints that involve information related to violation of Laws, including suspected ones, does the Manager provide a system to require and obtain reports from divisions, departments and individuals that hold the relevant information and analyze and examine it so as to provide feedback to the division in charge of processing complaints?

(iii) Does the Manager provide a system to have a non-interested party conduct appropriate and sufficient investigations to identify the cause with regard to complaints determined as requiring such action?

(7) System for Training and Guidance

Has the Manager fully disseminated the details of the Compliance Manual to all of the officers and employees? Does the Manager make sure to provide sufficient training and guidance with regard to the Laws that must be complied with in each operation? Do all of the employees get fully acquainted with the need to prevent violation of Laws through training sessions and workplace morning assemblies, etc.?

(8) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Does the Manager provide a system to report matters determined as necessary by the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

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[6] This shall apply only to financial institutions subject to timely disclosure rules under the Securities and Exchange Law.

[7] See Checklist for Customer Protection Management.

[8] See Checklist for Customer Protection Management.

(9) System for Reporting to Corporate Auditor

Does the Manager report matters specified by the Board of Directors directly to a corporate auditor?

3) Assessment and Improvement Activities

Does the Manager review the effectiveness of the Compliance Control Division's enforcement of legal compliance in a regular and timely manner or on an as needed basis based on the reports and the results of investigations concerning the status of legal compliance, including the status of compliance with the Compliance Manual and various rules, as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the various rules (including the Compliance Manual), the organizational framework, the implementation of training and guidance and the method of monitoring?

2. Roles and Responsibilities of the Compliance Control Division

(1) Implementation of Compliance Program

Does the Compliance Control Division implement specific measures of the Compliance Program in a timely and appropriate manner, conduct follow-up verification of the status of progress and achievement and report it to the Board of Directors or equivalent organization to the Board of Directors?

(2) Communication and Collection of Information

From the viewpoint of ensuring the full enforcement of legal compliance throughout the institution, does the Compliance Control Division collect, manage, analyze and examine in an integrated manner Compliance-related Information scattered across the institution's divisions and departments and, based on the results of the analysis and examination, take appropriate steps and measures? In particular, does the division collect information in close coordination with persons in charge of compliance allocated to operation divisions and sales branches, etc?

(3) Monitoring of Legal Compliance

Does the Compliance Control Division monitor the status of legal compliance at operation divisions and sales branches, etc. on an ongoing basis in order to ensure full legal compliance throughout the institution?

For example, does the division conduct monitoring by requiring reports in a regular and timely manner or on an as needed basis from persons in charge of compliance with regard to the status of legal compliance at operation divisions and sales branches, etc., or by collecting information on an ongoing basis and conducting a field survey in a timely manner?

(4) Handling of Violation of Laws

(i) When the Compliance Control Division detects a suspected case of violation of Laws as a result of the examination of Compliance-related Information or receives a report about such a case, does the division immediately conduct a fact-finding investigation or have a non-interested division or department conduct such an investigation and determine whether or not the case constitutes a violation of Laws and review whether or not there is any weakness in the legal compliance system?

(ii) Does the Compliance Control Division immediately report to the Manager an incident determined as a result of the fact-investigation mentioned in (i) above as constituting a violation of Laws or as having a high probability of constituting an illegal act and take appropriate measures in coordination with the relevant divisions and departments? Does the division at this stage consider whether or not it is necessary to report the incident as an illegal act to the authorities as required under law, whether or not to report it as a suspicious transaction and whether or not to disclose it publicly?

(iii) Does the Compliance Control Division investigate the background and cause of a violation of Laws act and the extent of its impact or have a non-interested division or department conduct such an investigation and then analyze the case and report the results of the analysis to the Manager?

(iv) Does the Compliance Control Division feed back the results of the analysis mentioned above to the Managers of the relevant divisions and sales branches in order to prevent the recurrence of the case and promptly take prevention measures or have another division do so?

(5) Coordination with Customer Support Manager

(i) Does the Compliance Control Division appropriately maintain coordination with the Customer Support Manager as required under the Customer Protection Management System and provide advice to help facilitate customer support?

(ii) Does the Compliance Control Division collect information in a prompt and wide-ranging manner with regard to requests for consultations and complaints from customers[9] that should be recognized as legitimate complaints or that are likely to develop into legitimate complaints?

(iii) With regard to requests for consultations and complaints that involve information concerning violation of Laws, does the Compliance Control Division require and obtain reports from divisions, departments and individuals that hold the relevant information in an appropriate manner, analyze and examine the information and provide feedback to the division in charge of processing complaints?

(iv) Does the Compliance Control Division have non-interested parties conduct appropriate and

[9] See Checklist for Customer Protection Management.

sufficient investigations to identify the cause with regard to requests for consultations and complaints determined as requiring such action?

(6) Roles of Persons in Charge of Compliance

Do persons in charge of compliance keep under unified control Compliance-related Information at the divisions and departments to which they are allocated, communicate the information to the Compliance Control Division in a regular and timely manner or on an as needed basis and appropriately engage in efforts to ensure compliance at the divisions and departments? Do they perform their functions fully based on the legal knowledge accumulated with regard to their operations?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of legal compliance. It should be noted that although this chapter lists points of attention concerning representative Laws, it is also necessary to review whether the financial institution inspected has in place an appropriate system to prevent violation of other Laws applicable to it and whether there is not actually any violation of Laws.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Customer Identity Verification

(1) Development of Internal Rules/Operational Procedures Concerning Customer Identity Verification

Does the Board of Directors or equivalent organization to the Board of Directors have internal rules or operational procedures concerning customer identity verification (hereinafter referred to as the "Customer Identity Verification Rules") established? Are the Customer Identity Verification Rules subject to legal checks, etc. and approval by the Board of Directors or equivalent organization to the Board of Directors? Do the Customer Identity Verification Rules specify the arrangements on the opening of customer accounts (e.g. criteria for rejecting customer requests for account opening), for example?[10]

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[10] The Customer Identity Verification Rules may not be available as a single set of rules in some cases, and they may be integrated with the Compliance Manual, etc. in other cases. The inspector should empirically review, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are fully disseminated to the personnel who should be acquainted with them, upon approval by the Board of Directors or equivalent organization to the Board of Directors, thus ensuring an

(2) Development of Customer Identity Verification System

(i) Does the Board of Directors or equivalent organization to the Board of Directors have a person in charge of customer identity verification appointed or a department in charge thereof established?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that matters concerning customer identity verification that would seriously affect corporate management are reported to the Compliance Control Division, the Internal Audit Division and the Board of Directors or equivalent organization to the Board of Directors without delay?

(iii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that records on customer identity verification and transactions are compiled and stored appropriately?

(3) Guidance and Training Concerning Customer Identity Verification

Does the person or department in charge of customer identity verification disseminate the Customer Identity Verification Rules and related operational procedures to all of the relevant employees by providing guidance and training regularly or through other means in order to ensure that customer identity verification is conducted in a timely and appropriate manner?

(4) Points of Attention Concerning Customer Identity Verification

(i) When verifying the identity of a corporate customer, does the institution verify the identity of the corporation's person in charge of transactions?

(ii) With regard to a transaction conducted through an agent, does the institution verify the identity of both the customer and the agent?

(iii) With regard to a transaction for which a customer identity verification has been already done, does the institution re-check the customer identity where required by laws and ordinances?

(iv) With regard to a case in which a customer identity verification of a customer has been done at an overseas head office, branch office, subsidiary or affiliate, does the institution re-check the identity of the customer when he or she opens an account in Japan as required by laws and ordinances?

2. Suspicious Transactions

(1) Development of Internal Rules and Operational Procedures Concerning Suspicious Transactions

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effective customer identity verification system.

Does the institution have in place internal rules concerning money laundering and other suspicious transactions (hereinafter referred to as the Suspicious Transaction Rules) or operational procedures concerning such transactions? Are the Suspicious Transaction Rules subject to legal checks, etc. and approval by the Board of Directors or equivalent organization to the Board of Directors? Do the rules specify the following items, for example?

- Arrangements on judgment with regard to suspicious transactions (e.g. judgment criteria, specific examples and the focus of the judgment authority)
- Arrangements on measures to be taken with regard to suspicious transactions (e.g. reporting to the authorities and suspension of the use of accounts for transactions and contract cancellation)
- Arrangements on communication of information when suspicious transactions are detected
- Arrangements on the storage and management of records on suspicious transactions

(2) System for Handling Suspicious Transactions

(i) Does the Board of Directors have a person in charge of handling suspicious transactions appointed or a department in charge thereof established? Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that officers and employees disseminate in a timely manner to the person or the department in charge information concerning cases that may constitute suspicious transactions?

(ii) Does the person or department in charge of handling suspicious transactions report such transactions without delay to the authorities in accordance with the Suspicious Transaction Rules? Does the person or department in charge, when a transaction is determined as a suspicious transaction, take appropriate measures as necessary in a timely manner with regard to the transaction and the relevant customer account in accordance with the Suspicious Transaction Rules or related operational procedures?

(iii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to report a suspicious transaction to the authorities in an appropriate manner based on information concerning the attributes of the party concerned, the situation at the time of the transaction and other details related to the transaction that the institution holds?

(iv) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to have the person or department in charge of handling suspicious transactions regularly report to the Board of Directors or equivalent organization to the Board of Directors the key points of reports from sales branches, etc. with regard to suspicious transactions?

(v) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that matters concerning suspicious transactions that would seriously affect corporate management are reported to the Compliance Control Division and the Internal Audit

Division as well as the Board of Directors or equivalent organization to the Board of Directors without delay?

(vi) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that all suspicious transactions are reported to the authorities?

(3) Guidance and Training Concerning Suspicious Transactions

Does the person or department in charge of handling suspicious transactions seek to ensure that suspicious transactions are reported and other appropriate measures are taken with regard to such transactions in a timely manner by regularly providing guidance and training to the relevant employees?

(4) Points of Attention in Examining Suspicious Transactions

(i) Does the institution build a database of cases of suspicious transactions and disseminate the obtained results throughout the relevant divisions by compiling reference casebook depicting examples of suspicious transactions, for example?

(ii) Does the institution fully collect and accumulate information concerning the attributes of the parties the transactions with whom should be treated as suspicious transactions and the nature of suspicious transactions?

(iii) It should be noted that in the case where the number of suspicious transactions reported by the institution is markedly small relative to the scale and nature of its business, it is necessary to carefully verify whether the institution's judgment criteria for suspicious transactions are effective.

3. Handling of Anti-Social Forces

(1) Development and Dissemination of Policy on Handling of Anti-Social Forces, Compliance Manual, etc.

(i) Do directors fully understand that prohibiting association with anti-social forces and excluding such forces firmly is vital for maintaining public confidence in the financial institution and securing the appropriateness and soundness of the institution's business?

(ii) Has the Board of Directors made clear the policy of prohibiting association with anti-social forces and excluding such forces firmly and disseminated the policy to all of the institution's officers and employees?

(iii) Does the Compliance Manual explain how to handle anti-social forces in an easy-to-understand way and clearly indicate the contact information concerning the section and person in charge of such handling? Is a similar arrangement in place at subsidiaries etc. as necessary?

(2) Development of System for Handling of Anti-Social Forces

Does the Board of Directors have such an organizational framework as mentioned below in place to handle anti-social forces systematically?[11]

(i) Does the institution have a department in charge of collecting and analyzing internal and external information concerning anti-social forces and managing such information in an integrated manner?

(ii) Is there a system for conducting prior screening to prevent transactions with anti-social forces?

(iii) Is there an arrangement for collaboration and communications across the relevant divisions?

(3) Roles of Department in Charge of Handling of Anti-Social Forces

(i) When contacted by an officer or employee with regard to how to handle anti-social forces, does the department in charge provide guidance to ensure appropriate handling while maintaining coordination with the police, administration, lawyers and bar association as necessary?

(ii) Has the department in charge disseminated the portions of the internal rules and the Compliance Manual concerning transactions with anti-social forces to all of the officers and employees through training, guidance, etc.?

4. Handling of Violation of Laws

(1) Clarification of Responsibility Concerning Violation of Laws

(i) Does the institution provide a system to have an entity independent from the department where a violation of Laws occurred investigate the case, seek to hold the person or persons involved to account and clarify the supervisory responsibility?

(ii) Does the institution appropriately clarify the responsibility of the person or persons who conducted a violation of Laws and the Manager in charge of supervision thereof and hold them to account?

(2) Reward and Punishment and Personnel Evaluation

In rewarding and punishing employees and evaluating their work performance, does the institution fully take their status of legal compliance into consideration? For example, does the institution exclude employees whose legal compliance is questionable from its in-company awards system as a way to attach importance to legal compliance?

5. Legal Checks System

(1) Development of Legal Checks System Concerning Transactions and Businesses

Does the institution provide a system to ensure appropriate legal checks, etc. from the

[11] Refer as necessary to “Manual for Implementing Charter of Corporate Code” by Nippon Keidanren, etc.

viewpoint of legal compliance in accordance with the Legal Compliance Rules? With regard to the legality of matters determined as subject to legal checks, etc. does the institution conduct careful prior examination from the legal and compliance perspective? For example, does the institution provide a system to conduct especially careful examination with regard to the legality of the following matters? Are the range of documents, transactions and businesses subject to legal checks, etc. and the focus of responsibility for the checks specified and disseminated throughout the institution?

- Legality of a new business
- Arrangements on the opening of customer accounts and other transactions at overseas head and branch offices, overseas subsidiaries, etc.
- Transactions in which abuse of a dominant position may arise
- Compliance on the occasion of a capital increase
- Legality of transactions with a complex scheme (e.g. liquidation of assets including off-balance sheet assets, non-performing loan disposals, transactions conducted for the purpose of realizing unrecognized profits, transactions that involve issuance of a special type of classified shares and corporate bonds)
- Cases that require examination of possible conflicts of interest, such as where the institution is involved in the same scheme with two or more roles such as arranger and lender
- Non-standardized transactions in the so-called private banking business, etc.
- Legality of intra-group transactions subject to the “arms’ length rules”
- Conclusion of correspondence contracts
- Disclosure as required by laws and ordinances
- Other documents, transactions, businesses, etc. that are reasonably and objectively determined as involving high legal risk

(2) Points of Attention Concerning Legal Checks, etc.

(i) When conducting legal checks, etc., does the institution ensure that background information and the underlying facts necessary for judgment on legality are provided with regard to documents such as the internal rules, contracts, and advertisements written by the relevant division as well as transactions and businesses in which the division is involved?

(ii) In the case where the legal checks, etc. is conducted by an outside lawyer, does the institution fully examine the details of the legal opinions provided before implementing transactions, etc.?

Checklist for Customer Protection Management

I. Development and Establishment of Customer Management System by the Management

【Checkpoints】

- "Customer Protection" as referred to in this checklist covers (1) to (5) below, and "Customer Protection Management" refers to management necessary for achieving (1) to (5) from the viewpoint of protecting customers of financial institutions and enhancing customer convenience.

(1) Securing the provision of appropriate and sufficient explanations to customers with regard to credit transactions (loan contracts and related collateral and guarantee contracts), deposit-taking as well as sales, brokerage and offer of products (hereinafter referred to as "Transaction")

(2) Securing appropriate processing of inquiries, consultation requests, requests in general and complaints from customers (hereinafter referred to as "Consultation Requests, Complaints, etc.")

(3) Securing appropriate management of customer information in order to prevent information leakage

(4) In the case where financial institution's business outsourced, securing the accuracy of the implementation of the outsourced operations and securing appropriate management of customer information and appropriate handling of customers

(5) Securing appropriate management of other operations determined by a financial institution as necessary for protecting customers and enhancing customer convenience

- The development and establishment of a Customer Protection Management System at a financial institution is not only important from the viewpoint of protecting users of the institution including depositors (hereinafter referred to as the "Customer") and enhancing their convenience but it is also extremely important from the viewpoint of ensuring the soundness and appropriateness of the institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- With regard to the Customer Protection Management, it is important for a financial institution's management as well as the other officers and employees to review their own business operations from the Customer's standpoint and to constantly review and improve the business operations. It is also important that they fully understand that public confidence in financial institutions is based on such constant review efforts.

- The descriptions in this checklist are based on the assumption that the roles of and responsibilities for developing a system for each business concerning Customer Protection and ensuring the effectiveness thereof rests with the Manager in charge of the relevant business. There are other various organizational frameworks for Customer Protection Management. For example, a financial institution may establish a dedicated division or department in charge of Customer Protection Management, or assign persons in charge of such management to divisions and departments which require Customer Protection, including the Marketing and Sales Division. In such cases, it is necessary to review whether the system of Customer Protection is effectively functioning based on the empirical review and analysis as to whether an adequate number of persons with the knowledge and experience necessary for implementing the relevant operation are allocated and whether they are assigned the authority necessary for implementing the operation.

- The inspector should determine whether the Customer Protection Management System is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether or not the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to Customer Protection, based on full recognition of the importance of Customer Protection and enhancement of customer convenience? In particular, does the director in charge of Customer Protection Management accurately grasp the current status of the financial institution's Customer Protection based on full understanding of the importance of Customer Protection Management and is the director considering a policy and specific measures for developing and establishing an appropriate system for Customer Protection Management?

(2) Development and Dissemination of Customer Protection Management Policy

Has the Board of Directors developed a management policy regarding Customer Protection and enhancement of customer convenience (hereinafter referred to as the "Customer Protection Management Policy." When there are two or more policies, they are also collectively referred to as the "Customer Protection Policy.") in accordance with the institution's corporate management policy and disseminated it throughout the institution? Is the Customer Protection Management Policy sufficient and appropriate for Customer Protection, with the inclusion of clear statements with regard to the following matters in particular?

(i) Management Policy concerning Following Matters Necessary for Customer Protection

- Securing appropriate and sufficient explanations and information provision for the Customer with regard to Transactions and products (hereinafter referred to as "Customer Explanation")
- Securing appropriate and sufficient handling of Consultation Requests, Complaints, etc. (hereinafter referred to as the "Customer Support")
- Securing appropriate management of information concerning the Customer (hereinafter referred to as the "Customer Information Management")
- Securing appropriate management of customer information and appropriate handling of the Customer in the case where the institution's business are outsourced (hereinafter referred to as the "Outsourcing Management")
- Securing appropriateness of other business operations determined by the Board of Directors as necessary for Customer Protection and enhancement of customer convenience.

(ii) Scope of the Customers (e.g. the Customers "include people who are users of the financial institution's business and people who are ready to become users.")

(iii) The Scope of Business Operations Requiring Customer Protection

(3) Revision of the Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Has the Board of Directors or equivalent organization to the Board of Directors had the Managers in charge of operations concerning Customer Protection Management develop internal rules that clearly specify the arrangements on the management of Customer Explanation and Customer Support as well as Customer Information Management and Outsourcing Management （hereinafter referred to as the Customer Protection Management Rules） in accordance with the Customer Protection Management Policy?[1] Has the Board of Directors or equivalent organization to the Board of Directors approved the Customer Protection Management Rules and disseminated them throughout the institution after determining if they comply with the Customer Protection Management Policy after legal checks, etc.?

(2) Assignment of Managers and Assigning of Authority

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to have the Managers specified below appointed, stipulated the responsibilities and authority of the Managers and allocated appropriate roles to them in accordance with the Customer Protection Management Policy and the Customer Protection Management Rules? Do the Managers have sufficient knowledge and experience for the business they are in charge?[2]

- The Manager in charge of supervising overall management of explanations to the Customer in order to develop and establish a system for securing appropriate explanations to the Customer (hereinafter referred to as the "Customer Explanation Manager")
- The Manager in charge of overseeing the status of progress in the processing of Consultation Requests, Complaints, etc. and the issuance of relevant instructions in an integrated manner by putting together information concerning Customer Support under

[1] The Customer Protection Management Rules may not be available as a single set of rules in some cases, and they may be integrated with the compliance manual, etc. in other cases. The inspector should empirically review, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are fully disseminated to personnel who should be acquainted with them, upon approval by the Board of Directors, thus ensuring an effective system of Customer Protection.

[2] When the Manager in charge of one of the operations concerning Customer Protection concurrently serves as the Manager in charge of another such business or in a post (including the Manager post) at a division not related to Customer Protection, the inspector should pay attention to whether such a system is reasonable in light of the scale and nature of the business operations concerned and whether an equivalent level of Customer Protection functions is secured compared with the case where a dedicated Manager is appointed. With regard to Customer Explanation, for example, two or more Customer Explanation Managers may be appointed. In such a case, the inspector should review whether the areas of responsibility are clearly defined with methods such as having the Managers jointly bear the responsibility for the overall Customer Management business operation or having one of the Managers bear this responsibility.

unified control (hereinafter referred to as the “Customer Support Manager”)

- The Manager in charge of overall supervision of Customer Information for the development and establishment of an appropriate system for Customer Information Management (hereinafter referred to as the “Customer Information Supervisory Manager”).
- The Manager in charge of supervising the management of customer information and the handling of the Customer in the case where the institution’s operations are outsourced. (hereinafter referred to as the “Outsourcing Manager”)

(3) Securing of Check-and-Balance System

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure an effective check and balance against the Managers specified above? In particular, in the case where a Manager responsible for one operation also takes charge of another operation, it is necessary to conduct a review by paying attention to whether or not there is a system to prevent interference from the Marketing and Sales Division, etc.

(4) Development of Customer Protection Management System at Marketing and Sales Division, Etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to disseminate internal rules and operational procedures to the divisions, departments and employees whose operations require Customer Protection Management, including the Marketing and Sales Division, etc., and have them observe the rules and procedures? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Managers to take concrete measures such as specifying the internal rules and operational procedures that must be observed by the Marketing and Sales Division, etc. and conducting effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure, through the Managers, appropriately and sufficiently effective Customer Protection Management at the Marketing and Sales Division, etc? With regard to Customer Explanation, for example, are there in place such useful measures as assigning a person in charge of the explanation to the Marketing and Sales Division, etc. for coordination with the Customer Explanation Manager?[3]

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[3] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or a post, whether or not this arrangement is reasonable in terms of a check-and-balance system and other aspects.

(iii) Does the Board of Directors or equivalent organization to the Board of Directors assign a person in charge of managing customer information at each division and department and specify the responsibilities and authority thereof? Does the person have sufficient knowledge and experience for the relevant business?

(5) Ensuring Customer Information Protection at Outsourcing Contractors

(i) Has the Board of Directors or equivalent organization to the Board of Directors clearly specified the rules concerning the handling of customer information by outsourcing contractors operating under outsourcing contracts (hereinafter referred to as the “Outsourcing Contractors”) in a manner suited to the nature and quantity of the customer information handled?

(ii) Has the Board of Directors or equivalent organization to the Board of Directors specified the department that is responsible for supervising the Outsourcing Contractor and assigned a person in charge of managing customer information to the department?

(iii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure verification of Customer Information Management at the Outsourcing Contractor on a regular basis?

(iv) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that measures for protecting customer information are appropriately disseminated to the Outsourcing Contractor and that accidents, etc. at the contractor are reported to the department in charge promptly and accurately?

(6) Arrangement for System of Reporting to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters to be reported and approved and does it have the relevant Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters in a regular and timely manner or on an as needed basis? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors any matters that would seriously affect corporate management or significantly undermine customer interests without delay?

(7) Arrangement for System of Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to ensure that the Managers in charge of operations concerning Customer Protection Management reports directly to the auditor? [4]

(8) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to Customer Protection, develop guidelines that specify the matters subject to internal audit procedures (hereinafter referred to as the "Internal Audit Guidelines") and internal audit plan, and approve them?[5]

(9) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Customer Protection Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the Customer Protection Management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of Customer Protection Management and assessing the effectiveness of Customer Protection Management, based on all of the information available regarding the status of Customer Protection Management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of the Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

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[4] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

[5] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the Customer Protection Management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Customer Protection Management System by Managers

【Checkpoints】

- This chapter lists the check items to be used when the inspector examines the roles and responsibilities that must be performed by the Managers in charge of business operations concerning Customer Protection Management.

- The descriptions in this checklist are based on the assumption that the roles of and responsibilities for developing a system for each business operation concerning Customer Protection and ensuring the effectiveness thereof rests with the Manager in charge of the relevant business. Given that the role that must be performed by each Manager is extensive, a dedicated division or department in charge of Customer Protection Management may be established or persons in charge of Customer Protection Management may be assigned to divisions and departments that require Customer Protection Management, including the Marketing and Sales Division, in the case where the Board of Directors determines that the Manager alone would not be sufficient to secure effective Customer Protection. In such a case, it is necessary to confirm whether the Customer Protection system is functioning effectively based on the empirical review and analysis as to whether an adequate number of persons with the knowledge and experience necessary for implementing the business are allocated and whether they are assigned the authority necessary for implementing the business.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Customer Explanation Management System

1) Development of Internal Rules

(1) Development and Dissemination of Customer Explanation Management Rules and Customer Explanation Manual

(i) Does the Customer Explanation Manager fully understand the areas and types of business which require appropriate and sufficient Customer Explanation and the management method thereof?

(ii) Has the Customer Explanation Manager, in accordance with the Customer Protection Management Policy, specified the business which require appropriate and sufficient Customer Explanation, decided the method of monitoring with regard to Customer Explanation and developed internal rules that clearly define the arrangements for managing those business(hereinafter referred to as the "Customer Explanation Management Rules")?

(iii) With regard to the procedures that must be followed by persons who provide explanations to customers, has the Customer Explanation Manager, in accordance with the Customer Protection Management Policy and the Customer Explanation Management Rules, developed operational procedures (hereinafter referred to as the " Customer Explanation Manual") that clearly define the scope of Customers to whom explanations must be provided as well as Transactions and products which must be explained, the management method thereof, the matters and procedures that must be reviewed and the judgment criteria, or has the Manager had another division developed such operational procedures, and then reviewed the appropriateness thereof?[6]

(iv) Have the Customer Explanation Management Rules been approved by the Board of Directors and disseminated throughout the institution after they have been verified through legal checks, etc. as sufficiently taking account of the Laws (including but not limited to laws and regulations, etc.; hereinafter to as the "Laws'') that concern Customer Explanation and exhaustively covering the applicable Laws?

(2) Customer Explanation Management Rules

Do the Customer Explanation Management Rules exhaustively cover the necessary arrangements for managing the business which require appropriate and sufficient Customer Explanation in a manner befitting the nature of the business and appropriately specify those

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[6] It should be noted that the Customer Explanation Management Rules and the Customer Explanation Manual should not necessarily be compiled separately. At some financial institutions, such rules and manuals are integrated into the compliance manual. At other institutions, several rules and manuals are available according to the types of products and business . The inspector should review, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are disseminated throughout persons in charge of Customer Explanation upon approval from the Board of Directors, thus ensuring effective Customer Explanation.

arrangements, for example by clearly defining the organizational framework for the management as well as the allocation of the relevant authority and roles and the management method. Do the rules clearly specify the following items in particular?

- Arrangements on the organizational framework for Customer Explanation (including the authority and roles of a division or a person in charge of managing Customer Explanation in the case where there is such a division or person).
- Arrangements on the matters that must be observed by persons who provide Customer Explanation (e.g. the arrangements on the necessary capabilities such as the knowledge level required for persons in charge of Customer Explanation, the confirmation of the Customer's attributes, the explanation of important matters to be provided after the confirmation of the Customer's attributes and before the conclusion of the contract, the follow-up after the conclusion of the contract, etc.)
- Arrangements on the representation of risks inherent in the Transactions and products handled by the financial institution
- Arrangements on the representation of important matters other than the risks mentioned above that must be explained in a manner suited to the attributes of the Customer
- Arrangements on the screening and approval of new products
- Arrangements on the sharing and use of information necessary for Customer Protection
- Arrangements on the reporting to the Board of Directors or equivalent organization to the Board of Directors
- Arrangements on coordination and communication with the Compliance Control Division
- Arrangements on the reporting from persons in charge of sales or management of Customer Explanation to the Customer Explanation Manager

(3) Customer Explanation Manuals

Does the Customer Explanation Manual exhaustively cover the procedures for Customer Explanation, including the detailed procedures concerning the explanation of important matters suited to the knowledge and experience as well as the status of assets of the Customer, in accordance with the contents and method of the financial institution's business? Are those procedures stipulated in detail in an easy-to-understand manner? For example, does the Customer Explanation Manual enable persons in charge of Customer Explanation to provide explanations to and deal with the Customer in an appropriate and sufficient manner by stipulating the following matters according to the characteristics of the relevant Transaction and product?[7]

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7 When the Customer Explanation Manual fails to stipulate necessary matters sufficiently, the inspector should review whether appropriate and sufficient explanations to the Customer are ensured by verifying the contents of the manual and training, etc. from a comprehensive perspective.

(i) Specification of Risks

- The types of Transactions and products that are handled by the financial institution and that require explanations to the Customer.
- The types and quantities of risks involved in Transactions and products (e.g. principal loss risk, interest rate risk and maximum loss amount)

(ii) Confirmation of Customer Attributes

- Procedures for the confirmation of customer attributes (which refer to the knowledge and experience as well as the status of assets, etc. of the Customer. More specifically, the attributes include the Customer’s age, presence or lack of investment experience, length of the investment experience, the level of understanding concerning risks, the composition of the current financial assets and the amount of each type of asset, risk tolerance and information concerning other necessary attributes)
- Procedures for the confirmation of the compatibility between the risks involved in the Transactions and products and the Customer’s attributes (including compilation of records on how the relevant judgment was made).

(iii) Procedures to be taken between Confirmation of Customer Attributes and Contract Conclusion

- Code of conduct concerning the solicitation of customers (e.g. code of conduct concerning abuse of a superior position, misleading explanation and prevention of Transactions with tie-in provisions)
- Explanation of important matters that must be explained to the Customer to seek the understanding thereof (e.g. explanation of details of Transactions and products and principal loss and other risks, procedures and fees necessary for the contract termination, etc.)
- Compilation and storage of records on the negotiations, etc. concerning Transactions
- Cases that require the provision of a document to the Customer and procedures for the document provision.
- Contents of the document to be provided to the Customer
- Procedures for confirming the Customer’s understanding and contents of the confirmation document to be obtained from the Customer.
- Destination of submission of records on Customer Explanation and procedures for checking the contents of the records
- Procedures for rejecting an application from the Customer

(iv) Procedures after Contract Conclusion

- Procedures for follow-up confirmation of the conclusion and implementation of the contract

- Procedures for follow-up reviews of the appropriateness and sufficiency of the Customer Explanation.
- Policy concerning coordination with persons at other divisions with regard to Consultation Requests, Complaints, etc.
- Procedures for communicating information to the Compliance Control Division
- Procedures for providing information concerning Customer Support

2) Implementation of Customer Explanation Management

(1) Development of Customer Explanation Management System

Does the Customer Explanation Manager ensure appropriate and sufficient Customer Explanation by having persons who provide Customer Explanation observe the Customer Explanation Management Rules, the Customer Explanation Manual and other rules and arrangements concerning Customer Explanation and implement specific measures for securing the effectiveness of the explanation?

Does the Customer Explanation Manager issue instructions to divisions engaged in relevant business and sales branches with regard to specific measures for securing appropriate and sufficient Customer Explanation and manage them in ways to ensure that Customer Explanation is made appropriately and sufficiently at each division?

(2) Guidance and Supervision

Does the Customer Explanation Manager appropriately manage persons in charge of Customer Explanation as well as divisions engaged in relevant business and sales branches by providing guidance and supervision to them so as to secure appropriate and sufficient Customer Explanation?

(3) Dissemination of Customer Explanation Manual via Training

Does the Customer Explanation Manager endeavor to fully disseminate the Customer Explanation Manual to employees by conducting training on a regular basis? When the Customer Explanation Manual is revised, does the Customer Explanation Manager take measures accordingly, such as disseminating the revision in a timely manner?

(4) Management Concerning Advertising

Does the Customer Explanation Manager, in accordance with internal rules concerning the representations used in materials for advertisement and solicitation (hereinafter referred to as the "Advertisements, etc."), etc., subject the Advertisements etc. of Transactions and products to legal checks, etc. in advance and verify that there is no violation of the Banking Law[8], the Securities and Exchange Law, the Act Against Unjustifiable Premiums and Misleading Representations and the notification thereof, the Act concerning Prohibition of Private Monopolization and Maintenance of Fair Trade and other relevant Laws as well as rules established by voluntary regulatory organizations and that the Advertisements etc. provide appropriate and sufficient explanations to customers, or does the Customer Explanation Manager have a person in charge of screening of Advertisements, etc. conduct such checks?

(5) Implementation of Monitoring of Customer Explanation

(i) Monitoring of Customer Explanation

Does the Customer Explanation Manager review, on an ongoing basis, whether appropriate and sufficient Customer Explanation is secured by monitoring the status of compliance with the Customer Explanation Manual at the Marketing and Sales Division, etc. and take deterrent action as necessary?

(ii) Monitoring of Compilation and Storage of Records on Customer Explanation

Does the Customer Explanation Manager enable follow-up reviews of Customer Explanation as necessary by conducting monitoring to check whether persons in charge of Customer Explanation appropriately compile and keep records on the status of explanation in a timely manner in accordance with the Customer Explanation Manual?

(iii) Monitoring of Status of Compliance with Laws in Customer Explanation

Does the Customer Explanation Manager conduct monitoring on an ongoing basis with regard to Customer Explanation so as to prevent violations of Laws?

(6) System for Reporting to Board of Directors and Approval

Does the Customer Explanation Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

(7) System for Reporting to Corporate Auditor

Does the Customer Explanation Manager report matters specified by the Board of Directors directly to a corporate auditor?

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8 Including cases where the Banking Law shall be applied mutatis mutandis

3) Assessment and Improvement Activities

Does the Customer Explanation Manager review the effectiveness of the Customer Explanation system in a regular and timely manner or on an as needed basis based on reports and findings on the status of management of Customer Explanation, including the status of compliance with the Customer Explanation Management Rules and the Customer Explanation Manual, as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Customer Explanation Management Rules and the Customer Explanation Manual, the organizational framework, the implementation of training and guidance and the method of monitoring?

2. Customer Support Management System

1) Development of Internal Rules

(1) Development and Dissemination of Customer Support Management Rules and Customer Support Manual[9]

(i) Does the Customer Support Manager fully understand the need and importance of securing appropriate and sufficient Customer Support?

(ii) Has the Customer Support Manager decided on the arrangements for securing appropriate and sufficient Customer Support and developed internal rules that clearly define the arrangements for managing the related business (hereinafter referred to as the "Customer Support Management Rules") in accordance with the Customer Protection Management Policy?

(iii) Has the Customer Support Manager developed operational procedures that specify the method of Customer Support and the procedures to be observed (hereinafter referred to as the "Customer Support Manual") in accordance with the Customer Protection Management Policy and the Customer Support Management Rules?

(iv) Have the Customer Support Management Rules been disseminated throughout the organization upon approval by the Board of Directors or equivalent organization to the Board of Directors after legal checks, etc?

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9 It should be noted that the Customer Support Management Rules and the Customer Support Manual should not necessarily be compiled separately. At some financial institutions, such rules and manuals are integrated into the compliance manual. The inspector shall verify, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are disseminated throughout all persons who should be acquainted with them, thus ensuring effective management.

(2) Customer Support Management Rules

Do the Customer Support Management Rules exhaustively cover the necessary arrangements for securing appropriate and sufficient Customer Support in a manner suited to the scale and nature of the business? Do the Customer Support Management Rules appropriately stipulate such arrangements, for example, by clearly defining the organizational framework for conducting customer support management as well as the allocation of authority and roles? More specifically, do they clearly prescribe the following points?

- Arrangements on the organizational framework for Customer Support (including whether or not to establish a division or a person in charge of Customer Support as well as the authority and roles of such a division or a person)
- Arrangements on the procedures to be observed by persons engaged in Customer Support
- Arrangements on the monitoring of the status of Customer Support
- Arrangements for dealing with pressures from anti-social forces under the guise of Consultation Requests, Complaints, etc.
- Arrangements on information sharing necessary for Customer Support
- Arrangements on the reporting to the Board of Directors or equivalent organization to the Board of Directors
- Arrangements on coordination and communication with the Compliance Control Division

(3) Customer Support Manual

Does the Customer Support Manual exhaustively cover the detailed procedures of Customer Support? Are they stipulated in detail in an easy-to-understand manner? For example, does the Customer Support Manual enable the persons engaged in Customer Support to carry out Customer Support appropriately and sufficiently and enable them to aptly disseminate information concerning Consultation Requests, Complaints, etc. to the Board of Directors or equivalent organization to the Board of Directors by stipulating the following matters?

- Procedures for compiling and keeping records of Consultation Requests, Complaints, etc.
- Procedures for confirming the details of Consultation Requests, Complaints, etc. (procedures for receipt of Consultation Requests, Complaints, etc. and procedures for confirming the details of Consultation Requests, Complaints, etc.)
- Procedures for dealing with Consultation Requests, Complaints, etc. (responses for satisfying customers with regard to Consultation Requests, Complaints, etc., progress management for resolving Consultation Requests, Complaints, etc., procedures for prevention of long-pending cases and procedures for cases where Consultation Requests, Complaints, etc. develop into disputes)

- Procedures for conveying information concerning Consultation Requests, Complaints, etc. to relevant divisions
- Contact information and procedures for dealing with pressures from anti-social forces under the guise of Consultation Requests, Complaints, etc.
- Typical examples of cases suspected to be violation of Laws and the contact information of the division in charge (the Compliance Control Division, etc.) for dealing with a case suspected to be a violation of Laws.
- Procedures for dealing with Consultation Requests, Complaints, etc. suspected to involve damage from billing fraud and other crimes or misuse of an account.

2) Implementation of Customer Support

(1) Enhancement of Consultation Counter Functions

(i) Does the Customer Support Manager provide for measures to enhance and strengthen the handling of Consultation Requests, Complaints, etc. at counters responsible for the consultation requests, complaints (relevant counters in the case where Consultation Requests, Complaints, etc. are handled as a part of ordinary counter services)? Does the Manager endeavor to receive Consultation Requests, Complaints, etc. from a wide base, for example by setting up receiving channels such as an Internet-based counter and opinion boxes through which opinions can be expressed anonymously?

(ii) If a call center is established to act as a consultation counter, is sufficient care taken to ensure the allocation of persons with appropriate knowledge and experience and to fully disseminate the Customer Support Manual to the persons via training?

(2) Appropriateness of Customer Support

(i) Do officers who receive Consultation Requests, Complaints, etc. appropriately respond in a timely manner in accordance with the Customer Support Manual and in coordination with relevant divisions? Do the officers ensure that the occurrence of long-pending cases is prevented and any pending case is resolved promptly by managing progress toward solutions concerning Consultation Requests, Complaints, etc. in an appropriate and timely manner?

(ii) Are pressures from anti-social forces under the guise of Consultation Requests, Complaints, etc. distinguished from ordinary Consultation Requests, Complaints, etc and promptly reported to the Compliance Control Division, etc., so as to take resolute action? If necessary, is an appropriate response made in coordination with the police and other relevant organizations?

(3) Recording, Storage and Reporting

(i) Does the Customer Support Manager record the details of Consultation Requests, Complaints, etc., including the results of responses to them, for storage in register books, etc. and keep the records under integrated control?

(ii) Does the Customer Support Manager report the details of Consultation Requests, Complaints and the results of the processing thereof in a timely manner to the Compliance Control and Internal Audit Divisions, etc.? In particular, does the Manager report to the Compliance Control and Internal Audit Divisions, etc., as well as the Board of Directors, without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

(4) Analysis of Causes of Consultation Requests, Complaints, etc. and Implementation of Improvement

Does the Customer Support Manager analyze the details of Consultation Requests, Complaints, etc., conduct necessary investigations to grasp their causes, and, based on the results of the analysis, present the Board of Directors with proposals for improvements and ask the relevant departments to submit reports and make improvements as necessary, thus ensuring that constant efforts are made for improvements? With regard to the Consultation Requests, Complaints, etc. that are conveyed repeatedly in particular, does the Manager review them thoroughly with the possibility in mind that some kind of problem exists and take specific measures to handle such requests and complaints appropriately?

(5) Monitoring of Customer Support

Does the Customer Support Manager check, on an ongoing basis, whether appropriate and sufficient Customer Support is secured by monitoring the status of compliance with the Customer Support Manual and take deterrent action as necessary? When a call center is established to act as a consultation counter, does the Manager monitor the degree of congestion of calls and review whether appropriate Customer Support is provided promptly?

(6) System for Reporting to Board of Directors

Does the Customer Support Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

(7) System for Reporting to Corporate Auditor

Does the Customer Support Manager report matters specified by the Board of Directors directly to a corporate auditor?

3) Assessment and Improvement Activities

Does the Customer Support Manager review the effectiveness of the Customer Support Management system in a regular and timely manner or on an as needed basis based on reports and findings on the status of management of Customer Support, including the status of compliance with the Customer Support Management Rules and the Customer Support Manual as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Customer Support Management Rules and the Customer Support Manual, the organizational framework, the implementation of training and guidance and the method of monitoring?

3. Customer Information Management System

1) Development of Internal Rules

(1) Development of Customer Information Management Rules and Customer Information Management Manual

(i) Does the Customer Information Supervisory Manager fully understand the need and importance of securing appropriate and sufficient Customer Information Management?

(ii) Has the Customer Information Supervisory Manager decided the method of monitoring and the organizational framework for securing appropriate Customer Information Management and developed internal rules that clearly define the arrangements for managing the relevant business (hereinafter referred to as the "Customer Information Management Rules") in accordance with the Customer Protection Management Policy? Have the Customer Information Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors after undergoing legal checks, etc.?

(iii) Has the Customer Information Supervisory Manager developed operational procedures that specify the method of Customer Information Management and the procedures to be followed (hereinafter referred to as the "Customer Information Management Manual") in accordance with the Customer Protection Management Policy and the Customer Information Management Rules and disseminated them throughout the institution?

(2) Customer Information Management Rules

Do the Customer Information Management Rules exhaustively cover the necessary arrangements for securing appropriate Customer Information Management in a manner suited to the scale and nature of the business? Do the Customer Information Management Rules appropriately stipulate such arrangements, for example, by clearly defining the organizational framework for the management as well as the allocation of the relevant authority and roles and the management method?

(3) Customer Information Management Manual

Does the Customer Information Management Manual exhaustively cover the detailed procedures concerning Customer Information Management and is it stipulated in detail and in an easy-to-understand manner? Does the manual specify the following points in particular?

- Written records and electronic media to be managed
- The method of appropriately managing written records and electronic media to be managed, for example, where to store them and how to dispose of them.
- The scope of officers who have access to customer information and the method of controlling access rights
- The method of handling customer information in ways to prevent information leakage when the information is taken outside.
- The method of responding to information leakage (e.g. reporting to the Customer Information Supervisory Manager, the person in charge of managing customer information and the public authorities and implementing measures to prevent secondary damage from information leakage, including limiting information access and providing explanations to the Customer as necessary)

2) Implementation of Customer Information Management

(1) Arrangement for Customer Information Management System

Does the Customer Information Supervisory Manager ensure appropriate handling of customer information at divisions engaged in the relevant business as well as at sales branches and proper functioning of a check-and-balance system against them by securing, through the person in charge of managing customer information, compliance with the Customer Information Management Rules and the Customer Information Management Manual, etc? Does the Manager implement specific measures for securing the effectiveness of the arrangement?

(2) Guidance and Supervision

Does the Customer Information Supervisory Manager provide appropriate guidance and supervision to the divisions engaged in the relevant business as well as sales branches so as to enable them to implement administrative work related to customer information management in an appropriate and timely manner?

(3) Handling of Computer System

Does the Customer Information Supervisory Manager take the following steps through the division or the person in charge of the computer system?

(i) When customer information is printed out or downloaded, does the Manager impose limitations in an appropriate manner on the nature and quantity of the data that may be printed out or downloaded according to the purpose of the use?

(ii) Does the Manager limit the scope of customer information which may be accessed to a necessary minimum according to the accessing person's corporate post and qualifications?

(iii) Are customer information data stored in personal computer terminals or the host computer, etc. protected through measures such as the use of a password system for access to the customer information database, the establishment of an identification system and encoding of the data?

(iv) Are necessary protection measures taken in terms of system operations with regard to exchanges of customer information data between the financial institution and the Outsourcing Contractor?

(4) Status of Management of Response to Customer Information Leakage

(i) Does the Customer Information Supervisory Manager provide a system to ensure that the person in charge of customer information management immediately reports to the Customer Information Supervisory Manager in the event of an information leak?

(ii) Does the Customer Information Supervisory Manager provide a system to ensure that the person in charge of customer information management reports to the Compliance Control Division or the Board of Directors or equivalent organization to the Board of Directors without delay in the event of an information leak in accordance with the Customer Information Management Rules?

(iii) Does the Customer Information Supervisory Manager ensure the implementation of measures to prevent secondary damage from an information leak, such as reporting to the public authorities, limiting information access and providing explanations to the Customer as necessary? Does the Manager analyze the cause of a customer information leak so as to prevent its recurrence?

(5) Monitoring of Status of Customer Information Management at Each Division

Does the Customer Information Supervisory Manager, through the person in charge of customer information management, monitor on an ongoing basis the status of compliance with the internal rules and the Customer Information Management Manual as well as the status of customer information management at each division?

(6) Monitoring of Status of Customer Information Management at Outsourcing Contractor

Does the Customer Information Supervisory Manager or the person in charge of customer information management keep track on whether bank agents and Outsourcing Contractors appropriately manage customer information and whether they take prescribed measures in the event of accidents?

(7) System for Reporting to Board of Directors and Approval

Does the Customer Information Supervisory Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

(8) System for Reporting to Corporate Auditor

Does the Customer Information Supervisory Manager report matters specified by the Board of Directors directly to a corporate auditor?

3) Assessment and Improvement Activities

Does the Customer Information Supervisory Manager review the effectiveness of the Customer Information Management system in a regular and timely manner or on an as needed basis based on reports and findings on the status of Customer Information Management, including the status of compliance with the Customer Information Management Rules and Customer Information Management Manual as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Customer Information Management Rules and the Customer Information Management Manual, the organizational framework, the implementation of training and guidance and the method of monitoring?

4. Outsourcing Management System

1) Development of Internal Rules

(1) Development of Outsourcing Rules

(i) With regard to outsourcing management, has the Outsourcing Manager developed internal rules that specify the management method, the rules and arrangements on matters and procedures that must be checked and the judgment criteria (hereinafter referred to as the Outsourcing Rules)?

(ii) Have the Outsourcing Rules been disseminated throughout the institution upon approval from the Board of Directors after legal checks, etc.?

(2) Outsourcing Rules

Do the Outsourcing Rules exhaustively cover the necessary arrangements for securing appropriate Outsourcing Management in a manner suited to the scale and nature of the business? Do the Outsourcing Rules appropriately stipulate such arrangements, for example, by clearly defining the organizational framework for conducting Outsourcing Management as well as the allocation of the relevant authority and roles and the management method? Do they stipulate the following matters in particular?

- Arrangements on the selection of Outsourcing Contractors
- Arrangements on the monitoring of Outsourcing Contractors
- Arrangements on the supervision of bank agents as the employing bank when employing such agents as contractors
- Arrangements on the handling of customer information in the event of the termination of contracts with bank agents and Outsourcing Contractors

2) Implementation of Outsourcing Management

(1) Measures for Securing Apt Implementation of Outsourcing Operations

In the case where the financial institution's operations are outsourced to third parties (including the institution's parent, subsidiaries and affiliates), does the Outsourcing Manager provide for measures to secure apt implementation of those operations in a manner suited to the scale and nature of the operations (including requiring the outsourcing contractor to establish a necessary system under the outsourced contract)?

(2) Selection of Outsourcing Contractors

Does the Outsourcing Manager provide for measures to ensure that the outsourced operation is consigned to a party capable of implementing the operation aptly, fairly and efficiently after specifying the operational risks inherent in the operation in coordination with the Integrated Operational Risk Management Division and recognizing possible risk management problems related to the quality of service and the reliability of service continuity?

(3) Contract Conclusion

Does the Outsourcing Manager provide a system to subject the outsourcing contract to legal checks, etc. in advance and confirm whether the provisions of the contract allow appropriate measures to be taken in a manner suited to the scale and nature of the outsourced operation?

(4) Monitoring of Outsourcing Contractors

Does the Outsourcing Manager ensure the exercise of necessary and appropriate supervision over the Outsourcing Contractor by reviewing whether the contractor is implementing the business operation aptly in accordance with the outsourcing contract based on checks conducted on the status of the implementation of the consigned operation in a regular and timely manner or on an as needed basis and having the contractor make improvements as necessary? Does the Manager ensure that appropriate measures can be taken in a timely manner under the outsourced contract, for example by appropriately stipulating the contract provisions that concern the supervision, monitoring and reporting?

(5) System for Processing of Consultation Requests, Complaints, etc. Concerning Outsourced Operations

Does the Outsourcing Manager provide for measures necessary for appropriately and promptly processing the Customer's Consultation Requests, Complaints, etc. concerning consigned operations undertaken by Outsourcing Contractors? Is there an appropriate system for the processing of Consultation Requests, Complaints, etc., such as the establishment of a direct communication channel between the Customer and the institution with regard to customer claims?

(6) Backup System for Outsourced Operations

When the Outsourcing Contractor fails to appropriately implement the consigned operation, does the Outsourcing Manager take measures to prevent the disruption of the operation from the viewpoint of Customer Protection, such as selecting another appropriate Outsourcing Contractor and promptly transfer the operation to the alternative contractor?

(7) Contract Modification and Termination

Does the Outsourcing Manager provide for measures to enable prompt modification or termination of the outsourcing contract if necessary in order to secure sound and appropriate business of the financial institution and protect the Customer related to the outsourced operation?

(8) Measures for Customer Information Protection

Does the Outsourcing Manager provide for measures to ensure customer information management at the Outsourcing Contractor? Does the outsourcing contract have provisions that prohibit the use of customer information for purposes other than the prescribed ones and obligate confidentiality, for example? Does the Manager provide for measures to ensure the exercise of appropriate supervision over the Outsourcing Contractor so as to ensure appropriate handling of customer information when the handling of information concerning customers who are individuals is outsourced?

(9) System for Reporting to Board of Directors and Approval

Does the Outsourcing Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

(10) System for Reporting to Corporate Auditor

Does the Outsourcing Manager report matters specified by the Board of Directors directly to a corporate auditor?

3) Assessment and Improvement Activities

Does the Outsourcing Manager review the effectiveness of the Outsourcing Management system in a regular and timely manner or on an as needed basis based on reports and findings on the status of Outsourcing Management, including the status of compliance with the Outsourcing Rules as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Outsourcing Rules, the organizational framework, the implementation of training and guidance and the method of monitoring?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of Customer Protection Management.

- The descriptions in this checklist are based on the assumption that the roles of and responsibilities for developing a system for each business operation concerning Customer Protection and ensuring the effectiveness thereof rests with the Manager in charge of the relevant business. There are other various organizational frameworks for Customer Protection Management. For example, the financial institution may establish a dedicated division or department in charge of Customer Protection Management, or assign persons in charge of such management to divisions and departments that require Customer Protection, including the Marketing and Sales Division. In such cases, it is necessary to review whether the Customer Protection system is effectively functioning based on the review and analysis as to whether an adequate number of persons with the knowledge and experience necessary for implementing the relevant business are allocated and whether they are assigned the authority necessary for implementing the business.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Customer Protection in General

(1) Handling of New Products

Does the Manager in charge of Customer Protection Management conduct prior investigations with regard to the public and internal rules that concern new products specified in the Comprehensive Risk Management Policy when requested by the Comprehensive Risk Management Division and report to the division in a timely manner after identifying issues that may arise from the viewpoint of Customer Protection?

2. Customer Explanation System

1) Viewpoints Concerning Customer Explanation System in General

(1) Policy Concerning Customer Explanation

Is a policy concerning solicitation activities related to sales of financial products (hereinafter referred to as the "Solicitation Policy") developed appropriately in accordance with laws and ordinances and publicly disclosed promptly? When the Solicitation Policy is modified, is the disclosure thereof made promptly? Is the Solicitation Policy compatible with the Customer Explanation Manual?

(2) Viewpoint Concerning Prevention of Violation of Laws with Regard to Customer Explanation

Are appropriate measures provided for to prevent violation of Laws with regard to Customer Explanation? For example, is there an effective system to prevent violation of Laws as part of the daily operational process through measures such as using multi-person monitoring system and obtaining written confirmation as necessary according to the nature of the operations concerned, in addition to developing the Customer Explanation Manual and conducting training?

(3) Viewpoints Concerning Implementation of Legally-Required Customer Explanation

Are measures provided for to appropriately implement the provision of information and the prevention of mistaken recognition as required by laws and ordinances with regard to Customer Explanation? Is there a system to ensure full compliance with Laws with regard to the following Transactions and products in particular through the provision of appropriate and sufficient explanations to the Customer?

- Agency and intermediary service for the conclusion of trust contracts that do not involve compensation for principal losses
- Exchange-traded financial futures transactions
- Fiduciary service for financial futures transactions

- Financial derivatives transactions and intermediary, brokerage and agency services thereof
- Products that combine derivatives, deposits, etc. without the guarantee of the full principal repayment at maturity

(4) Prevention of Disputes

Is there a system to prevent disputes with the Customer? Are the following matters thoroughly established or implemented?

- A legal check system
- Specification of matters that require explanations and compilation of explanation documents
- Compilation of documents concerning the confirmation of the intent of the Customer with regard to the contract
- Compilation and storage of records on the status of explanations to the Customer
- A system to prevent the abuse of a superior position and unfair transactions such as tie-in transactions
- A system to provide information related to the syndicated loan arranger business.

2) Viewpoints Concerning Specific Transactions and Products

(1) Customer Explanation Concerning Deposits

Is there a system to provide appropriate and sufficient Customer Explanation in accordance with the Customer Explanation Manual when the institution accepts deposits? Are the representation of the interest rates and the explanations concerning the fees and procedures necessary for contract termination made in an easy-to-understand manner, for example? When deposit transactions involve derivatives transactions such as options and swaps (including the case where only derivatives transactions are done) in particular, the inspector should pay attention to the following points.

- Are explanations made in an easy-to-understand manner suited to the knowledge and experience of the Customer with the use of diagrams and examples, and are the explanations provided in the written form?
- Are explanations provided with regard to the method of calculating the fee necessary for premature contract termination and the fee amount calculated?
- Is there a system to provide detailed explanations with regard to deposit products which involve derivatives transactions and which may cause principal losses due to derivatives-related losses, including the explanation about the absence of the principal guarantee?

(2) Customer Explanation Concerning "Risk Products"

Is there a system to provide appropriate and sufficient Customer Explanation in accordance with the Customer Explanation Manual when the institution sells so-called risk products. For example, is the representation of the risk of principal losses appropriate and sufficient and are explanations suited for the Customer's attributes provided in a sufficient and appropriate manner? Is there a system to secure the compliance of Customer Explanation with the Banking Law, the Securities and Exchange Law, the Insurance Business Law, the Antimonopoly Law and other Laws when the institution sells risk products?

(3) Customer Explanation Concerning Credit Transactions

Is there a system to provide appropriate and sufficient Customer Explanation with regard to credit transactions (loan contracts and related collateral and guarantee contracts) in accordance with the Customer Explanation Manual? With regard to the following cases of credit transactions in particular, the inspector should pay attention to the points listed below each case.

(i) In the case where loan transactions involve derivatives transactions such as options and swaps (including the case where only derivatives transactions are done)

- Are explanations made in an easy-to-understand manner suited to the knowledge and experience of the Customer with the use of diagrams and examples, and are the explanations provided in the written form?
- Are explanations provided with regard to the method of calculating the fee necessary for premature contract termination and the fee amount calculated?

(ii) Housing Loan Contracts

- Are explanations made in an easy-to-understand manner suited to the knowledge and experience of the Customer with the use of diagrams and examples, and are the explanations provided in the written form?
- Are full explanations made with regard to the interest rate risk when the institution extends a housing loan which carries a variable interest rate or which carries a fixed interest rate for a prescribed limited period of time?

(3) Viewpoints Concerning Avoidance of Conflicts of Interest

Is there a system to take measures, such as the establishment of the "firewall" between the operational divisions, to prevent harm on the occasion of Customer Explanation from the viewpoint of avoiding the conflict of interests and other inappropriate incidents in Transactions with the Customer?

With regard to so-called private banking, for example, are firewalls to prevent the use of customer information for unintended purposes and avoid conflicts of interest (including the information firewall between the financial institution and its affiliated group companies) appropriately established and do measures to prevent unfair transactions such as tie-in sales function properly when compound services are provided to the private-banking customer by the financial institution alone or jointly by the institution and its affiliated group companies?

3. Customer Support Management System

(1) Processing of Consultation Requests, Complaints, etc. as Dispute-Settlement Mechanism

In handling Consultation Requests, Complaints, etc., does the financial institution regard them as a nascent form of dispute-settlement issue, rather than merely as a matter to be processed, and aim as much as possible to provide solutions by obtaining the understanding and satisfaction of the Customer in a manner suited to the details of the requests and complaints,?

4. Customer Information Management System

(1) Development of Organization for Customer Information Management

With regard to information concerning customers who are individuals, is there an arrangement for the Customer Information Supervisory Manager to take the following measures as necessary and appropriate in order to prevent leakage, loss or destruction of the information as the supervisor of the information safety management as well as of employees and the Outsourcing Contractor (in the case where handling of the information concerned is outsourced)?

(a) Measures based on the provisions of Clauses 10, 11 and 12 of the Guidelines on Personal Information Protection in the Financial Industry

(b) Measures based on the provisions of the operational instructions I, II and III as well as Attachment 2 of the Guidelines on Personal Information Protection in the Financial Industry

(2) Viewpoint Concerning Information Sharing

When customer information is shared between the financial institution and third parties, is there a system to obtain in an appropriate manner the prior consent of the Customer, in the written form in principle, with regard to the sharing? Notwithstanding the above, this checkpoint shall not apply to cases to which Paragraph 6, Article 13 of the Guidelines on Personal Information Protection in the Financial Industry is applicable.

5. Outsourcing Management System

(1) Outsourcing of Business Concerning Deposit-Taking and Withdrawal

When the operation of ATM (automated teller machine) system is outsourced, does the Outsourcing Manager appropriately conduct monitoring and supervision over the status of management at the Outsourcing Contractor so as to ensure that necessary security measures are taken?

6. Outsourcing Management System Concerning Bank Agents

When an operation is outsourced to a bank agent, the following points should be examined in addition to the viewpoints concerning outsourcing listed in Chapter II. 4. (2).

(1) Arrangement for the System to Supervise Bank Agents

Is there a system to supervise bank agents, auditing their operations, providing training to them and monitoring their operations by establishing a division or department in charge of the relevant supervision or by appointing a person in charge thereof?[10]

(2) Selection of Bank Agents

With regard to the selection of a bank agent, is there a system to conduct full deliberations as to whether the agent concerned meets the criteria for legal approval? When the bank agent entrusts the agent operations to another party, is there a system to conduct full deliberations as to the suitability of the said party?

(3) Entrustment Contract with Bank Agent

Is there a system to check whether the legally required measures listed below can be implemented appropriately under the entrustment contract with the bank agent?

(i) Measures for conducting training for legal compliance

(ii) Measures for appropriately supervising the bank agent by reviewing the status of the implemented operations, inspecting the status of ongoing implementation and having the agent make improvements as necessary

(iii) Measures for modifying or terminating the entrustment contract when necessary in order to secure the sound and appropriate implementation of the operation entrusted to the bank agent.

(iv) Measures for allowing the financial institution to conduct screening as necessary with regard to agent or intermediary services for the conclusion of a contract concerning the provision of a loan or bill discounting.

(v) Measures for securing appropriate management of customer information

(vi) Measures concerning appropriate name representation

(vii) Measures for preventing crime with regard to the operations concerning the bank agent business.

(viii) Measures for preventing significant effects on the Customer when the bank agent abolishes

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[10] This does not preclude the Outsourcing Manager from concurrently taking charge of the supervision.

sales branches and offices, by ensuring that the operations concerned are transferred elsewhere appropriately and through other means.

(ix) Measures for promptly processing Consultation Requests, Complaints, etc. with regard to the bank agent operation of the agent employed

7. Other Matters

With regard to operations[11] determined by the financial institution as necessary for Customer Protection and enhancement of customer convenience, is there an appropriate management system that meets the level prescribed by the financial institution in the Customer Protection Management Policy and the Customer Protection Management Rules, etc.?

[11] Refer to (5) "Securing appropriate management of other operations determined by the financial institution as necessary for protecting customers and enhancing customer convenience" listed as the first checkpoint in Chapter I of this checklist.

Checklist for Comprehensive Risk Management

I. Development and Establishment of Comprehensive Risk Management System by Management

【Checkpoints】

- Comprehensive risk management refers to a self-control type of risk management based on a comparison of a financial institution's financial strength (capital) and all risks faced by the institution, including risks not counted in the calculation of the capital adequacy ratios (credit concentration risk, interest rate risk in the banking book, etc.) and assessed on a category-by-category basis (credit risk, market risk, operational risk, etc.). The "integrated risk management" is a type of comprehensive risk management based on a comparison of a financial institution's financial strength (capital) and the aggregate of various risks measured with uniform yardsticks such as VaR (value at risk). On the other hand, a comprehensive risk management method not using this universal-yardstick approach may conduct risk management by, for example, comparing a financial institution's financial strength (capital) and the overall risk level evaluated as a result of qualitative and quantitative assessments of the risks conducted with various methods according to the risk type.

- The development and establishment of the risk management system for a financial institution in its entirety is one of the key elements for ensuring the soundness and appropriateness of the institution's business. The institution's management is charged with and responsible for taking the initiative in the development and establishment of this system by deciding basic corporate management policies (business policies), determining strategic objectives based on these policies and developing an organizational framework for securing the effectiveness of the function of managing risks for the whole of the institution in a comprehensive manner.

- A financial institution should, with a view to ensuring the soundness and appropriateness of its business, make voluntary efforts to develop a comprehensive risk management system based on self-recognition of the need thereof, by taking account of the strategic objectives, the scale and nature of its business and its risk profile.

- When reviewing a financial institution's comprehensive risk management system, the inspector should, while paying as much respect as possible to the institution's voluntary efforts to develop and establish the system, check whether the system being developed and established is an appropriate one commensurate with the institution's strategic objectives, the scale and nature of its business and its risk profile as well as the levels of complexity and sophistication of the risk assessment method used by the institution.

It should be noted that the type and level of the risk assessment method to be used by a financial institution should be determined according to the institution's strategic objectives, the diversity of its business and the risks faced by it and therefore a complex or sophisticated risk management system is not necessarily suited to all financial institutions.

- The inspector should determine whether the comprehensive risk management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later of each of the checklists for the various risk management systems including this checklist, it is necessary to exhaustively examine which of the elements listed in Chapter I. of each checklist, including the elements listed in this checklist as necessary, are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to comprehensive risk management, fully recognizing that a lack of such an approach could seriously hinder attainment of strategic objectives? In particular, does the director in charge of comprehensive risk management review the policy and specific measures for developing and establishing an adequate comprehensive risk management system with a full understanding of the scope, types and nature of risks, and the risk identification, assessment, monitoring and control technique as well as the importance of comprehensive risk management, and with precise recognition of the current status of comprehensive risk management within the financial institution based on such understanding? For example, does the director in charge understand the limitations and weaknesses of the method of assessing various risks in a comprehensive manner (including the assessment and measuring techniques and the assumptions thereof; hereinafter referred to as the "Comprehensive Risk Assessment Method") and consider countermeasures to supplement such shortcomings?

(2) Development and Dissemination of Strategic Objectives

Has the Board of Directors developed strategic objectives covering institution-wide profit objectives, risk-taking strategy (the asset and liability management strategy and the risk-return strategy, etc.) in accordance with the institution's corporate management policy, and disseminated them throughout the institution? When developing such strategic objectives, does the Board of Directors give due consideration to the asset and liability structure (including off-balance sheet items) and various risks and take into account the status of the institution's capital? For example, does it pay attention to the following matters?

- Does it make clear whether to aim at minimizing the risk or to aim at making a profit by aggressively taking and managing a certain amount of risk in deciding the levels of risk-taking and profit objectives?
- Does it avoid setting institution-wide and division-specific strategic objectives that sacrifice risk management for profit? In particular, does it avoid setting objectives that pursue short-term profit by disregarding long-term risk or avoid setting a performance appraisal system that reflects such inappropriate objectives?

(3) Development and Dissemination of Comprehensive Risk Management Policy

Has the Board of Directors established a policy regarding comprehensive risk management (hereinafter referred to as the "Comprehensive Risk Management Policy") and disseminated it throughout the institution? Is the appropriateness of the Comprehensive Risk Management Policy being secured by way of, for example, clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to comprehensive risk management
- The policy on organizational framework, such as establishment of a division concerning comprehensive risk management (hereinafter referred to as the "Comprehensive Risk

Management Division") and the authority assigned thereto

- The policy on organizational framework, such as establishment of an organization that comprehensively manages assets and liabilities and participates in the development and implementation of the strategy regarding Assets, Liabilities and Liquidity, etc. (hereinafter referred to as the "Asset and Liability Management [ALM] Committee") and the authority assigned thereto
- The policy regarding the setting of risk limits
- The policy regarding identification of risks to be managed
- The policy regarding comprehensive assessment of risks and the monitoring, control and mitigation of the assessed risks
- The policy regarding New Products, etc.[1]

(4) Revision of Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings of various investigations on the status of comprehensive risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Manager of the Comprehensive Risk Management Division (hereinafter simply referred to as the "Manager" in this checklist) develop internal rules that clearly specify the arrangements concerning comprehensive risk management (hereinafter referred to as the "Comprehensive Risk Management Rules") and disseminate them throughout the institution in accordance with the Comprehensive Risk Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Comprehensive Risk Management Rules after determining if they comply with the Comprehensive Risk Management Policy and after legal checks, etc.?

(2) Establishment of Comprehensive Risk Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have a Comprehensive Risk Management Division established and have the division prepared to undertake appropriate roles in accordance with the Comprehensive Risk Management Policy and the Comprehensive Risk Management Rules?[2]

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[1] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).

[2] When the Comprehensive Risk Management Division is not established as an independent division (e.g.,

(ii) Has the Board of Directors allocated to the Comprehensive Risk Management Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management operations by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Comprehensive Risk Management Division an adequate number of staff members who have the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for conducting the aforementioned operations?[3]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors keep the Comprehensive Risk Management Division independent from the Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc. and secure a check-and-balance system of the Comprehensive Risk Management Division?

(3) Development of Comprehensive Risk Management Systems in Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to the divisions involving risks to be managed (e.g. the Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc.) and ensure that such divisions observe them? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager to identify the internal rules and operational procedures that should be observed by the Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc. and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of comprehensive risk management in the Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc. through the Manager or the Comprehensive Risk Management Division?

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when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of comprehensive risk management or when a Manager or Managers take charge of comprehensive risk management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[3] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Comprehensive Risk Management Division is reasonable in terms of a check-and-balance system and other aspects.

(4) Establishment of ALM Committee, etc.

Does the Board of Directors or equivalent organization to the Board of Directors have an ALM Committee established that comprehensively manages assets and liabilities and participates in the development and implementation of the strategy regarding Assets, Liabilities and Liquidity, etc. or an organization that provides an equivalent function (hereinafter collectively referred to as an “ALM Committee, etc.”) based on the Comprehensive Risk Management Policy? If not, does it have in place an alternative risk management process?

(5) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors without delay any matters that would seriously affect corporate management?

(6) System for Reporting to Corporate Auditor

In the case that the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor?[4]

(7) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to comprehensive risk management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as “Internal Audit Guidelines”) and an internal audit plan, and approve such guidelines and plan?[5] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the comprehensive risk management system

[4] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

[5] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

- Status of observance of the Comprehensive Risk Management Policy, Comprehensive Risk Management Rules, etc.
- Appropriateness of the comprehensive risk management processes commensurate with the scale and nature of the business and risk profile
- Appropriateness of the use of the comprehensive risk assessment method based on the limitations and the weaknesses thereof
- Appropriateness of the Comprehensive Risk Assessment Method
- Accuracy and completeness of the data used in comprehensive assessment of risks
- Appropriateness of stress test scenarios, etc.
- Status of improvement of matters pointed out in an internal audit or in the last inspection

(8) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of comprehensive risk management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Comprehensive Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the comprehensive risk management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of comprehensive risk management and assessing the effectiveness of comprehensive risk management, based on all information available regarding the status of comprehensive risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of comprehensive risk management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the comprehensive risk management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of comprehensive risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Comprehensive Risk Management System By Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Comprehensive Risk Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Comprehensive Risk Management Rules

Has the Manager, in accordance with the Comprehensive Risk Management Policy, identified the risks, decided the methods of assessment and monitoring thereof and developed the Comprehensive Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on a full understanding of the scope, types and nature of the risk and the relevant comprehensive risk management technique?

Have the Comprehensive Risk Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Comprehensive Risk Management Rules

Do the Comprehensive Risk Management Rules exhaustively cover the arrangements necessary for comprehensive risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business and its risk profile? Do the rules specify the following items, for example:

- Arrangements on the roles, responsibilities, and organizational framework of the Comprehensive Risk Management Division
- Arrangements on the risk limits
- Arrangements on the identification of risks to be subjected to comprehensive risk management
- Arrangements on the comprehensive risk assessment method and assessment methods used for the each risk areas
- Arrangements on the comprehensive risk monitoring method
- Arrangements on periodic reviews of the comprehensive risk assessment method
- Arrangements on approval process for New Products, etc.
- Arrangements on reporting to the Board of Directors or equivalent organization to the Board of Directors

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with the Comprehensive Risk Management Policy and the Comprehensive Risk Management Rules, provide for measures to have the Comprehensive Risk Management Division exercise a check-and-balance system in order to conduct comprehensive risk management appropriately?

(ii) Does the Manager provide a system to prevent any lapse in the risk management for the financial institution as a whole so as to ensure an appropriate comprehensive risk management? Does the Manager ensure that the Manager of each risk management division promptly reports to the Comprehensive Risk Management Division when detecting any weakness or problem that may affect comprehensive risk management?

(iii) Does the Manager ensure that on a risk category-by-category basis, each risk management division identifies risks inherent in New Products as specified in the Comprehensive Risk Management Policy and the Comprehensive Risk Management Rules and reports them for the purpose of the screening of New Products?[6]

(iv) Does the Manager understand the limitations and weaknesses of the comprehensive risk assessment method and provide a system to make risk management more sophisticated in a manner commensurate with the scale and nature of the financial institution’s business and its risk profile?[7]

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[6] See “Checklist for Business Management (Governance) (for Basic Elements),” Chapter I. 3. (4)

[7] It should be noted that sophistication of risk management includes not only expansion of scope of risk measurement and improvement in precision and other aspects of risk management but also enhancement of measures to complement the limits and weaknesses of the management and the technique of utilizing measurement results.

(v) Does the Manager have in place a comprehensive risk management computer system[8] with the high reliability suited to the scale and nature of the financial institution's business and its risk profile?

(vi) Does the Manager ensure the provision of training and education systems to enhance the ability of employees to conduct comprehensive risk management in an effective manner, thus developing human resources with relevant expertise?

(vii) Does the Manager provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors without delay?

(4) Revision of Comprehensive Risk Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of the execution of operations at the Comprehensive Risk Management Division?

Does the Manager review the effectiveness of the comprehensive risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Comprehensive Risk Management Rules and the relevant organizational framework, or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Comprehensive Risk Management Division

1) Risk Identification and Assessment

(1) Identification of Risks to Be Managed

(i) Does the Comprehensive Risk Management Division have each Risk Management Division exhaustively identify all risks faced by the bank on a category-by-category basis and identify the risks to be subjected to comprehensive risk management commensurate with the size and nature of the identified risks? Does the Manager ensure that the identification process covers the full scope of business including those of overseas offices, consolidated subsidiaries and consignees, in addition to exhaustively covering the risk categories such as credit risk, market risk and operational risk?

(ii) Does the Comprehensive Risk Management Division apply comprehensive risk management to the credit concentration risk and the interest rate risk in the banking book and is it considering whether to apply comprehensive risk management to the risks not included in the calculation of the capital adequacy ratio? When there are risks not covered by comprehensive risk management,

[8] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type. The same shall apply hereafter.

has the Comprehensive Risk Management Division determined whether their effects are negligible?

(iii) With regard to New Products as specified by the Comprehensive Risk Management Policy and the Comprehensive Risk Management Rules, does the Comprehensive Risk Management Division identify their inherent risks in advance through each risk management division and report to the new product committee, etc. in a timely manner?[9]

(2) Assessment of Various Risks

(i) When some risks to be controlled through comprehensive risk management cannot be quantified, does the Comprehensive Risk Management Division appropriately assess them by conducting graded assessment of their effects and self-assessment of the levels of management and control to the scope achievable? Or does the Comprehensive Risk Management Division have each risk management division provide necessary information concerning the specific risk areas to be managed in an appropriate and timely manner in such a case?

(ii) Does the Comprehensive Risk Management Division determine the validity of the risk assessment and measurement techniques used by the Risk Management Divisions and the assumptions thereof? Or does it make sure that each risk management division examines the validity of the techniques and assumptions? Does it determine the following items, for example?:

- Are the treatment of core deposits and the technique of measuring the optionality inherent in assets and liabilities (nonlinear risks such as the risks of early termination and early redemption) appropriate when measuring the interest rate risk in the banking book?
- When the scenario approach is employed in measuring risk, are the scenarios used appropriate?
- When VaR, a uniform yardstick for measuring risk, is employed, are the measuring techniques, the holding periods and the confidence levels applied in a manner befitting the financial institution's strategic objectives and risk profile?
- When the integrated risk measurement technique is employed, is consistency between the employed measurement techniques ensured?

(3) Comprehensive Assessment of Risks

(i) Does the Comprehensive Risk Management Division comprehensively assess and measure risks including those existing at sales branches, etc.[10] consolidated subsidiaries and subcontractors with important operations?

(ii) Does the Comprehensive Risk Management Division comprehensively assess and measure the

[9] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).
[10] Sales branches and overseas offices

various risks to be controlled through comprehensive risk management? When the various risks to be thus managed are integrated, is the integration method appropriate? When the integrated risk measurement technique is used, are the various risks integrated in light of the check items listed in Chapter III. 1. 3) (1) of this checklist?

(iii) Does the Comprehensive Risk Management Division comprehensively assess and measure risks based on stress scenarios that cover incidents capable of having serious effects on the financial institution?

2) Monitoring

(1) Comprehensive Monitoring of Overall Risks

Does the Comprehensive Risk Management Division, in accordance with the Comprehensive Risk Management Policy and the Comprehensive Risk Management Rules, conduct monitoring with regard to the status of overall risks comprehensively and with an appropriate frequency in light of the financial institution's internal environment (risk profile, the status of the use of risk limits, etc.) and external environment (economic cycles, markets, etc.)? Does the division conduct monitoring with regard to the status of internal and external environments and the appropriateness of the assumptions?

(2) Monitoring of Compliance with Risk Limits

Does the Comprehensive Risk Management Division regularly monitor the status of compliance with the risk limits and the risk capital limits (in the case where capital allocation management is employed) and the status of the use thereof?

(3) Reporting to Board of Directors or equivalent organization to Board of Directors

Does the Comprehensive Risk Management Division, in accordance with the Comprehensive Risk Management Policy and the Comprehensive Risk Management Rules, provide in a regular and timely manner or on an as needed basis information necessary for the Board of Directors or equivalent organization to the Board of Directors to make an appropriate assessment and judgment with regard to the status of the comprehensive risk management and the status of the risks assessed comprehensively? Does the division report the following items, for example?

- The risk profile and the trend thereof
- The status of compliance with the risk limits and the risk capital limits (in the case where capital allocation management is employed) and the status of the usage thereof
- The status of external environment such as economic cycles
- The validity of the comprehensive risk assessment methods and the limitations and weaknesses thereof

(4) Coordination with the Capital Management Division

Does the Comprehensive Risk Management Division communicate, in a timely and appropriate manner, information determined as necessary by the Capital Management Divisions such as data on the status of risks, the status of compliance with the risk limits and the risk capital limits (in the case where capital allocation management is employed) and the status of the use thereof as well as the validity of the risk assessment and measurement techniques and the assumptions thereof?

(5) Feedback to Risk Management Divisions

Does the Comprehensive Risk Management Division feed back the results of its assessment, analysis and review with regard to the status of risks to each risk management division as necessary?

3) Control and Mitigation

(1) Response to Case Where Unmanageable Risks Exist

In the case where risks not covered by comprehensive risk management have non-negligible effects or where risks to be controlled through comprehensive risk management cannot be managed appropriately, does the Comprehensive Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to make decisions as to whether the financial institution should withdraw from or downsize the business affected by those risks?

(2) Handling with the Case Where Risk Limits are Exceeded

In the case where the financial institution has exceeded the risk limits or the risk capital limits (in the case where capital allocation management is employed), does the Comprehensive Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors without delay to make decisions as to whether to take steps to mitigate risks or alter the limits?

4) Review and Revision

(1) Sophistication of Risk Management

Does the Comprehensive Risk Management Division conduct a review to grasp the limitations and weaknesses of the comprehensive risk assessment method and devise countermeasures to complement the method? Does it conduct investigations, analysis and consideration commensurate with those limitations and weaknesses with a view to making risk management more sophisticated commensurate with the risk profile?

(2) Review and Revision of Comprehensive Risk Management Method

Does the Comprehensive Risk Management Division grasp the limitations and weaknesses of the comprehensive risk assessment method as well as changes in the internal and external environments, and regularly review whether the method suits the institution-wide strategic objectives, the scale and nature of the business in question and the risk profile of the financial institution in its entirety, and revise the method? Does the division review and revise the following items, for example:

- Validity of the identification of risks to be subjected to comprehensive risk management
- Validity of the comprehensive risk assessment method
- Appropriateness of the operation of the comprehensive risk assessment method commensurate with its limitations and weaknesses

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used in the inspection of financial institutions that employ the "integrated risk measurement technique" which measures various risks with uniform yardsticks such as VaR and measures the aggregated risks.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Check Items to Be Used When Integrated Risk Measurement Technique Is Employed

1) Establishment of Integrated Risk Measurement System

(i) Is the integrated risk measurement system conceptually sound and has it been properly implemented?

(ii) Is the role of the integrated risk measurement technique (model) clearly positioned under the Comprehensive Risk Management Policy and operated based on the understanding of the items listed below? Does it determine if there is no problem with the application of the technique to consolidated subsidiaries?

(a) The financial institution's strategic objectives, the scale and nature of its business and its risk profile

(b) The fundamental design concept of the integrated risk measurement technique based on (a)

(c) Identification and measurement of risks based on (b) (scope, technique, assumptions, etc.)

(d) Nature (limitations and weaknesses) of the integrated risk measurement technique that derive from (c) and the validity of the technique

(e) Details of the method of validating with respect to (d)

(iii) In the case where capital allocation management[11] is employed, has the policy of capital allocation management been developed based on the results calculated by way of the integrated risk measurement technique? When there are risks which are not measured with this technique are there any reasonable grounds for excluding them from the measurement? Is the risk capital allocated with due consideration for the risks excluded from the measurement?

2) Appropriate Involvement of Directors and Corporate Auditors

(1) Understanding of Integrated Risk Measurement Technique

(i) Do directors understand that decisions concerning the integrated risk measurement technique as well as the risk limits and the risk capital limits (in the case where capital allocation management is employed) have serious implications for the financial institution's corporate management and financial conditions?

(ii) Does the director in charge of integrated risk management understand the integrated risk management technique required for the business of the financial institution and have a grasp on the nature (limitations and weaknesses) thereof?

(iii) Do directors and corporate auditors seek to enhance their understanding of the integrated risk management technique by participating in training courses or through other means?

(2) Approach to Integrated Risk Management

Do directors involve themselves actively in integrated risk management based on the integrated risk measurement technique?

3) Integrated Risks Measurement

(1) Appropriateness of Measurement Technique

(i) With regard to the various risk measurement techniques used by the Comprehensive Risk Management Division, is the validity of each of them ensured, and is consistency among those techniques secured with a view to measuring risks appropriately in an integrated manner?

(ii) Are the assumptions that underlie the risk measurement conducted by the Comprehensive Risk Management Division reasonable in light of the strategic objectives and the risk profile?

(iii) Is the technique used by the Comprehensive Risk Management Division to aggregate various risks with different risk nature and loss distributions appropriate? When correlations among various risks (distribution effect) are taken into consideration, does the division regularly validate the correlations?

[11] See "Checklist for Capital Management."

(2) Ongoing Validation and Stress Test

(i) Does the Comprehensive Risk Management Division regularly analyze the appropriateness of the measuring techniques through ongoing validation (back testing, etc.)? Are revisions of the measuring techniques conducted in accordance with the internal rules?

(ii) Does the Comprehensive Risk Management Division grasp the stress status of various risks individually and the risks as a whole through stress tests based on a comprehensive and appropriate stress scenarios and make appropriate use of the test results?

(3) Systems for Validating and Managing the Integrated Risk Measurement Technique

Were the integrated risk measurement technique and the assumptions thereof validated during the development of the technique and thereafter on a regular basis by a person or persons with no involvement in the development and with sufficient capabilities? If any deficiency is recognized in the integrated risk measurement technique or the assumptions thereof, is a corrective action taken appropriately?

Are there frameworks and internal rules to prevent the integrated risk measurement technique and the assumptions thereof from being altered on unreasonable grounds, and is the integrated risk measurement technique managed appropriately in accordance with the internal rules?

4) Records on Integrated Risk Measurement Technique

Are systems developed for the purpose of keeping records for future reference on the review process with regard to the selection of the integrated risk measurement technique and the assumptions thereof and the grounds for the selection process in order to enable follow-up verification and utilize the records to make the measurement more sophisticated and elaborated?

5) Audits

(1) Development of Auditing Program

Is an auditing program that exhaustively covers the auditing of the integrated risk measurement technique in place?

(2) Scope of Internal Audits

Is auditing conducted to check the following items?

- Consistency of the integrated risk measurement technique with the strategic objectives, the scale and nature of business and the risk profile
- Appropriateness of the business in light of the nature (limitations and weaknesses) of the integrated risk measurement technique

- Records on the integrated risk measurement technique are appropriately documented and updated in a timely manner
- Appropriate incorporation of alterations to the process of integrated risk management into the risk measurement technique
- Appropriateness of the scope of the risks measured by the integrated measurement technique
- Absence of any deficiency in the information system for the management
- Validity of the integrated risk measurement technique and the assumptions thereof
- Validity of the method of aggregating various risks
- Accuracy and completeness of the data used in integrated risk measurement
- Adequacy of the process and results of ongoing verification (backtesting, etc.)

(3) Utilization of Auditing Results

Does the Comprehensive Risk Management Division appropriately revise the integrated risk measurement technique based on the results of auditing?

6) Utilization of Management Indicators with Due Consideration for Risks

Does the Comprehensive Risk Management Division utilize management indicators such as return on equity not only for the purpose of grasping performance but also for that of enhancing risk management? [12]When management indicators are utilized, are they used to review the reasonableness of the risk-return strategy, etc. and help formulate strategies?

[12] It should be noted that the level of utilization of return on equity and other management indicators varies according to the corporate management policy, strategic objectives, etc.

Checklist for Capital Management

I. Development and Establishment of Capital Management System by Management

【Checkpoints】

- Capital management refers to implementing measures to maintain sufficient capital, assessing its internal capital adequacy and calculating the capital adequacy ratio.

- It is extremely important for a financial institution to calculate the capital adequacy ratio and secure sufficient capital to cover risks it faces by developing and establishing a capital management system, from the viewpoint of ensuring the soundness and appropriateness of the institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- There are various capital management methods according to corporate management policies and other factors. In some cases, there may be two or more sets of policies and internal rules with regard to capital management, and the necessary tasks may be divided between two or more divisions because of the diversity of the tasks, including development and implementation of capital plans, assessment of capital adequacy, calculation of the capital adequacy ratio and capital allocation processes. In other cases, the Comprehensive Risk Management Division may concurrently undertake the task of capital management. The purpose of this manual is not to require the establishment of an independent division in charge of capital management, or to seek to bar a financial institution from having two or more divisions conduct capital management operations in accordance with their respective polices and internal rules as mentioned above.

In the case where two or more divisions engage in capital management in coordination with each other, the inspector should review whether the policies and internal rules adopted by the divisions and the tasks undertaken by them are compatible with one another and whether their respective capital management processes are functioning effectively. In the case where the Comprehensive Risk Management Division undertakes the task of internal capital adequacy assessment, review should be conducted by using both the check items concerning internal capital adequacy assessment as part of the capital management system and those concerning the comprehensive risk management system, and any problem with regard to capital adequacy should be examined as the issue of capital management system.

- It is important for the inspector to review whether a financial institution has a capital management system suited to the levels of complexity and sophistication of the internal capital adequacy assessment processes used by the institution. It should be noted that the type and level of the process of internal capital adequacy assessment to be used by a financial institution should be determined according to the institution's corporate management policy, the diversity of its business and the level of complexity of the risks faced by it, and therefore a complex or sophisticated process of internal capital adequacy assessment is not necessarily suited to all financial institutions.

- The inspector should determine whether the capital management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing with the use of check items listed in Chapter I., whether or not the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to capital management, fully recognizing that the lack of such an approach could seriously hinder attainment of strategic objectives? In particular, does the director in charge of capital management review the policy and specific measures for developing and establishing an adequate capital management system with a full understanding of the assessment, monitoring and control techniques of internal capital adequacy as well as the importance of capital management, and with precise recognition of the current status of capital management based on such understanding? For example, do directors in charge understand the limitations and weaknesses of methods of the internal capital adequacy assessment and consider ways to supplement such shortcomings?

(2) Development and Dissemination of Capital Management Policy

Has the Board of Directors established a policy regarding capital management (hereinafter referred to as the "Capital management Policy") and disseminated it throughout the institution? Is the appropriateness of the Capital Management Policy being secured by way of, for example, including clear statements on the following matters?[1]

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to capital management
- The basic policy for maintaining sufficient capital
- The policy on organizational frameworks, such as establishment of a division concerning capital management (hereinafter referred to as the "Capital Management Division") and the authority assigned thereto
- The policy on the risk limits in relation to the capital
- The definition of capital and risk as used in the internal capital adequacy assessment
- The policy on the assessment, monitoring and control of internal capital adequacy
- The policy on the calculation of the capital adequacy ratio
- The policy on capital allocation process (in the case where capital allocation process is conducted)

(3) Development and Dissemination of Corporate Management Plans

Has the Board of Directors developed corporate management plans in accordance with the corporate management policy and disseminated them throughout the institution? When developing corporate management plans, does the Board of Directors analyze how much capital the institution needs presently and will need in the future in light of the institution's strategic objectives and take into consideration the desirable level of capital thus determined, the amount of capital that must be raised to achieve that level and suitable capital-raising methods? With regard to the capital level objectives, does the Board of Directors ensure its consistency with the institution's risk profile and the situation surrounding its business?

(4) Development of Capital Plans, etc.

Has the Board of Directors, in accordance with the financial institution's corporate management plans, its strategic objectives, the strategic objectives of various divisions and the

[1] It is not necessary to develop a unified capital management policy that exhaustively covers all items that must be clearly specified, but it should suffice that all such items are covered by two or more policies established by divisions engaged in capital management and corporate management plans.

Capital Management Policy, developed capital plans, etc. designed to achieve an appropriate level of capital targeted by the institution? In the case where capital allocation process is conducted, do the capital plans, etc. clearly specify the basis for the calculation of capital to be allocated to risk (hereinafter referred to as the "Risk Capital") and the limits on capital to be allocated to each of the risk categories?

(5) Revision of Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Managers of the Capital Management Division (hereinafter simply referred to as the "Manager" in this checklist) develop internal rules that clearly specify the arrangements concerning capital management（hereinafter referred to as the Capital Management Rules）, and disseminate them to the employees concerned in accordance with the Capital Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Capital Management Rules after determining if they comply with the Capital Management Policy after legal checks, etc.?

(2) Definition of Capital as Used in Internal Capital Adequacy Assessment

Does the Board of Directors or equivalent organization to the Board of Directors clearly define capital as used in the internal capital adequacy assessment? Does it ensure the consistency of the definition of capital used in the internal capital adequacy assessment and the financial institution's corporate management policy and plans, its strategic objectives, etc. in light of the fact that building up capital means preparing for potential losses? Does the Board of Directors or equivalent organization to the Board of Directors make clear the basis for determining the definition of capital as used in the internal capital adequacy assessment in reference to its relation to capital as defined under regulations concerning capital adequacy ratios, Tier 1 and 2 capital, equity capital, etc?

(3) Establishment of Capital Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have the Capital Management Division established and have the division prepared to undertake appropriate roles in accordance with the Capital Management Policy and the Capital Management Rules?[2]

(ii) Has the Board of Directors allocated to the Capital Management Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management business by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Capital Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant business and assigned such staff the authority necessary for implementing the business?[3]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors keep the Capital Management Division in charge of the internal capital adequacy assessment and the calculation of the capital adequacy ratio independent from the Office (Trading, Banking) Divisions and the Marketing and Sales Division and secure a check-and-balance system?

(4) Disclosure

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to disclose the information concerning capital adequacy as specified by Laws (including but not limited to laws and regulations, etc.; hereinafter referred to "Laws.") in a timely and appropriate manner based on a full understanding of the purpose thereof?

(5) The System for Reporting to Board of Directors and equivalent organizations to Board of Directors and Approval

Has the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status to the Board of Directors and the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors and equivalent organization to the Board of Directors on the relevant matters? For example, do the matters to enable the appropriate assessment and judgment of the matters listed below? In particular, does the Board of Directors ensure that the Manager, without delay, reports to the Board

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[2] When the Capital Management Division is not established as an independent division (e.g., when the division is consolidated with other risk management division to form a single division or when a division in charge of other business also takes charge of capital management or when a Manager or Managers take charge of capital management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[3] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Capital Management Division is reasonable in terms of a check-and-balance system and other aspects.

of Directors any matters that would seriously affect corporate management?

- The levels and trends of major risks and their impact on the capital
- Validity of the internal capital adequacy assessment process (including the definition of capital and the methods of determining the range of risks to be covered by capital management and evaluating such risks)
- Status of internal capital adequacy in light of the scale and nature of the financial institution's business and its risk profile
- Consistency among the capital level objective and the institution's risk profile and the situation surrounding its business
- Necessity for revising capital plans, etc.

(6) The System for Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor? [4]

(7) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to capital management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and approve such guidelines and plan?[5] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the capital management system
- Eligibility of the institution's capital under regulations on capital requirements in light of the purposes of "Criteria for Judging Whether A Financial Institution's Own Capital Is Sufficient in Light of the Assets Held, etc. under the Provision of Article 14-2 of the Banking Law" (Notification No. 19 of 2006, the Financial Services Agency)" (hereinafter referred to as the "Notification"), the Basel agreement, and the "Instruments Eligible for Inclusion in Tier 1 Capital" (issued in 1998 by the Basel Committee on Banking Supervision)
- Status of compliance with the Capital Management Policy and the Capital Management

[4] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.
[5] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

Rules, etc.

- Appropriateness of the internal capital adequacy assessment process commensurate with the scale and nature of business and the risk profile
- Appropriateness of the use of the internal capital adequacy assessment method taken in consideration of the limitations and the weaknesses thereof
- Validity of the internal capital adequacy assessment method (technique, assumptions), etc.
- Accuracy and completeness of the data used in the internal capital adequacy assessment
- Validity of scenarios, etc. used in stress tests
- Appropriateness of the process of calculating the capital adequacy ratio
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(8) Revision of the Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Capital Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the capital management system and the particulars thereof, and appropriately review their causes by precisely analyzing the status of capital management and assessing the effectiveness of capital management, based on all the information available regarding the status of capital management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the capital management system identified through the analysis, assessment and review referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of capital management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Capital Management System by Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities that must be performed by the Manager and the Capital Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Capital Management Rules

Has the Manager, in accordance with the corporate management plans, capital plans, etc. and the Capital Management Policy, decided the internal capital adequacy assessment process and the method of monitoring thereof and developed the Capital Management Rules, based on a full understanding of the scale and nature of the financial institution's business and its risk profile as well as the capital management technique? Have the Capital Management Rules been disseminated to all of the relevant employees upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Capital Management Rules

Do the Capital Management Rules exhaustively cover the arrangements necessary for the internal capital adequacy assessment and the calculation of the capital adequacy ratio and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business and its risk profile? Do the rules specify the following items, for example?[6]

[6] It is not necessary to develop a unified set of capital management rules that exhaustively covers all

- Arrangements on the roles, responsibilities and organizational framework of the Capital Management Division
- Arrangements on the establishment of Risk Capital limits (in the case where capital allocation process is conducted)
- Arrangements on the identification of risks subject to capital management in the internal capital adequacy assessment and the method of risk assessment
- Arrangements on the internal capital adequacy assessment method
- Arrangements on the monitoring method of capital adequacy
- Arrangements on periodic reviews of the internal capital adequacy assessment method
- Arrangements on the process of calculating the capital adequacy ratio
- Arrangements on the allocation of capital with regard to New Products[7] (in the case where capital allocation process is conducted)
- Arrangements on reporting to the Board of Directors or equivalent organization to the Board of Directors

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with corporate management plans, capital plans, the Capital Management Policy and the Capital Management Rules, provide for measures to have the Capital Management Division exercise a check-and-balance system in order to conduct the system of capital management appropriately?

(ii) Has the Manager specified the information necessary for conducting an appropriate capital management befitting the financial institution's risk profile, and does he or she make sure to receive reports from divisions which hold the necessary information in a regular and timely manner or on an as needed basis? Does the Manager receive reports with regard to the following items, for example, in a timely and appropriately manner?

- Status of risks
- Status of compliance with the risk limits and use thereof
- Status of compliance with the Risk Capital limits and use thereof (in the case where capital allocation is conducted)
- Status of profits
- Validity of the risk assessment method (assessment and measurement technique, assumptions, etc.)

(iii) Has the Manager, for the purpose of calculating the capital adequacy ratio accurately, established a manual, etc. that specifies the calculation process, and does he or she provide a

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items that must be clearly specified, but it should suffice that all such items are covered by two or more sets of internal rules established by divisions engaged in capital management.

[7] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).

system to obtain accurate raw data for calculation?

(iv) Does the Manager have in place computer systems[8] for the internal capital adequacy assessment and the calculation of the capital adequacy ratio with the high reliability suited to the scale and nature of the financial institution's business and its risk profile?

(v) Does the Manager ensure the provision of training and education to enhance the ability of employees to conduct capital management in an effective manner, thus developing human resources with relevant expertise?

(vi) Does the Manager provide a system to ensure that matters specified by the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors without delay?

(4) Revision of Capital Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of the execution of operations at the Capital Management Division? Does the Manager review the effectiveness of the capital management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Capital Management Rules and the relevant organizational framework, or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Capital Management Division

1) Implementation of Measures for Capital Adequacy

(1) Implementation of Measures and Monitoring for Capital Adequacy

(i) Does the Capital Management Division smoothly implement measures for capital adequacy in accordance with corporate management plans and capital plans, etc.?

(ii) Does the Capital Management Division monitor changes in external environment, including the economic cycle from the viewpoint of smoothly implementing measures for capital adequacy?

(2) Maintenance of Capital Level

(i) Does the Capital Management Division conduct sufficient analysis and deliberations in order to maintain a sufficient level of capital based on the results of monitoring of the status of internal environment (risk profile, status of use of the risk limits, etc.) and external environment

[8] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type.

(economic cycle, market, etc.) as well as the validity of the assumptions?

(ii) Does the Capital Management Division assume the possibility of the institution failing to make a sufficient capital adequacy and examine feasible countermeasures to build up the capital base? Does the division conduct such an examination by taking into consideration the possibility in particular that a reputational risk will make it more difficult for the institution to raise capital than under normal conditions?

2) Internal Capital Adequacy Assessment

(1) Identification of Risks Subject to Capital Management in the Internal Capital Adequacy Assessment

(i) In the case where the Capital Management Division is in charge of risk identification, does the division identify risks faced by the institution exhaustively on a category-by-category basis and specify the risks to be subjected to capital management in the internal capital adequacy assessment in light of the size and nature of the identified risks? Does the Manager ensure that the identification process covers the full extent of business including those of overseas offices, consolidated subsidiaries and consignees, in addition to exhaustively covering the risk categories such as the credit risk, market risk and operational risk?

(ii) Does the Capital Management Division apply capital management to the credit concentration risk and the interest rate risk in the banking book in the internal capital adequacy assessment and is it considering whether to apply capital management to the risks not included in the calculation of the capital adequacy ratio? When there are risks not covered by capital management in the internal capital adequacy assessment, has the Capital Management Division made sure that their impact is negligible?

(2) Risk Assessment Method in Internal Capital Adequacy Assessment

In the case where the Capital Management Division is in charge of risk assessment, does the division assess risks appropriately in internal capital adequacy assessment with a risk assessment method befitting the scale and nature of the financial institution's business and its risk profile? Does the division review the validity of the risk assessment and measurement techniques and the assumptions thereof, etc.? Does it review the following items, for example?

- Are the treatment of core deposits and the technique of measuring optional risks involved in assets and liabilities (nonlinear risks such as the risks of early termination and early redemption) appropriate when measuring the interest rate risk related to the banking book?
- When the scenario method is used to measure the risk quantity, is the scenario used appropriate?

- When VaR, a uniform yardstick to measure the risk quantity is employed, are the measuring technique, the holding period and the confidence level applied suited to the financial institution's strategic objectives and risk profile?
- When the comprehensive risk measurement technique is employed, is consistency among various measurement techniques used ensured and is the method of adding up various risks reasonable?

(3) Internal Capital Adequacy Assessment

Does the Capital Management Division assess capital adequacy in a manner befitting the scale and nature of the financial institution's business and its risk profile? Does it take into consideration the following items, for example?

- Is the quality of capital suited to the internal capital adequacy assessment?
- Are the method of internal capital adequacy assessment and risk assessment valid?
- Are limitations and weaknesses of the risk assessment method taken into consideration?
- Is the internal capital adequacy assessment conducted in light of two or more stress scenarios and based on the analysis of the level of the impact thereof on the capital? Do the stress scenarios give due consideration to all material risks that would seriously affect capital adequacy?
- Is the internal capital adequacy assessment conducted from medium- and long-term perspectives?
- Is a lack or excess of loan loss provisions against expected losses taken into consideration?
- In the case where losses are realized, are they taken into consideration in the internal capital adequacy assessment?
- In the case where a decline in earnings is expected to lead to losses, is the risk of changes in earnings taken into account?

3) Monitoring

(1) Monitoring of Capital Adequacy

Does the Capital Management Division, in accordance with the Capital Management Policy and the Capital Management Rules, conduct monitoring with regard to the status of capital adequacy with an appropriate frequency in light of the financial institution's internal environment (risk profile, the status of the use of risk limits, etc.) and external environment (economic cycle, markets, etc.)? Does the division also conduct monitoring with regard to the status of internal and external environments and the validity of the assumptions?

(2) Reporting to Board of Directors or equivalent organization to Board of Directors

Does the Capital Management Division, in accordance with the Capital Management Policy and the Capital Management Rules, provide in a regular and timely manner or on an as needed basis information necessary for the Board of Directors or equivalent organization to the Board of Directors to make appropriate assessment and judgment with regard to the status of capital management and capital adequacy?

(3) Feedback to Relevant Divisions

Does the Capital Management Division feed back the results of its assessment, analysis and consideration with regard to the status of capital adequacy to relevant divisions as necessary?

4) Control

(1) Countermeasures to Case Where Unmanageable Risks Exist

In the case where risks not covered by capital management have non-negligible impact from the viewpoint of capital adequacy or where risks subject to capital management cannot be managed appropriately, does the Capital Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to make decisions as to whether the financial institution should withdraw from or downsize the operations affected by those risks?

(2) Countermeasures to the Case Where Capital Adequacy is Insufficient

In the case where capital adequacy is insufficient, does the Capital Management Division promptly consider feasible countermeasures to build up the capital base and provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to make decisions as to what specific countermeasures should be taken in the future?

5) Review and Revision

(1) Review and Revision of the Internal Capital Adequacy Assessment Method

Does the Capital Management Division grasp the limitations and weaknesses of the internal capital adequacy assessment method as well as changes in the internal and external environments, and regularly review whether the method suits the financial institution’s strategic objectives, the scale and nature of its business, and its risk profile and revise the method, or provide information necessary for the Board of Directors to make appropriate assessment and judgments? Does the division review and revise the following items, for example?

- Consistency of the definition of capital as used in the internal capital adequacy assessment with the corporate management policy, corporate management plans and strategic objectives, etc. and validity of the grounds for determining the definition

- Validity of identification of risks subject to capital adequacy in the internal capital adequacy assessment
- Validity of the risk assessment method used in the internal capital adequacy assessment (assessment and measurement techniques, assumptions, etc.)
- Validity of the internal capital adequacy assessment method
- Appropriateness of the use of the internal capital adequacy assessment method taken in consideration of its limitations and weaknesses

III. Specific Issues

【Checkpoints】

- Criteria for judging whether or not the status of a financial institution's capital adequacy is appropriate are specified in Article 14-2 of the Banking Law to enable judgments with regard to the soundness of the institution's corporate management. The Banking Law also specifies criteria for issuing an order for corrective measures in a prompt and appropriate manner with a view to encouraging financial institutions as necessary to take corrective action quickly.

- This chapter lists the check items to be used when the inspector reviews whether the capital adequacy ratio is calculated accurately in accordance with the Notification and other rules and procedures. It should be noted that relevant Laws should be taken into consideration when specific cases are examined with the use of the check items listed in this checklist.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning and review findings thereof through dialogue.
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Accuracy of Calculation of Capital Adequacy Ratio

(1) Calculation Formula for Capital Adequacy Ratio

Is the capital adequacy ratio calculated according to the calculation formula specified in Article 2 (in the case of a consolidated-basis capital adequacy ratio under international standards established by the Basel Committee on Banking Supervision), Article 14 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 25 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 37 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(2) Range of Consolidation

Is the range of consolidation in accordance with Article 3 (in the case of a consolidated-basis capital adequacy ratio under international standards) and Article 26 ((in the case of a consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(3) Capital Amount

(i) Is the amount of Tier 1 (core) capital calculated as specified in Article 5 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 17 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 28 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 40 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(ii) Is the amount of Tier 2 (supplementary) capital calculated as specified in Article 6 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 18 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 29 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 41 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(iii) Is the amount of Tier 3 capital calculated as specified in Article 7 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 19 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 30 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 42 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(iv) Is the amount of items to be deducted from capital calculated as specified in Article 8 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 20 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 31 (in the case of a consolidated-basis capital adequacy ratio under domestic standards), and Article 43 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(v) Does the institution pay attention to the following matters when considering the eligibility of its capital amounts?

- Are equity and other capital elements that involve the probability of redemption due to special provisions for step-up interest, etc. eligible as capital under Paragraph 2 of each of Articles 5, 17, 28 and 40 of the Notification?

- In the case where preferred securities are issued through an overseas special-purpose company, are the securities eligible as capital under Paragraphs 3 to 5, Article 5 and Paragraphs 3 to 6, Article 17 of the Notification.
- Is the amount of the tax effect equivalent (amount commensurate with deferred tax assets) included in the capital account amount tax effect equivalent (amount commensurate to deferred tax assets posted appropriately in light of the purposes of "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets" (Report No. 66, the audit committee of the Japanese Institute of Certified Public Accountants) and other standards and operational guidelines concerning the tax effect accounting? With regard to the inclusion of deferred tax assets in Tier 1 capital, attention should be paid to Paragraph 7, Article 5, Paragraph 8, Article 17, Paragraph 3, Article 28, and Paragraph 3, Article 40 of the Notification.
- Are reserves for retirement allowances booked appropriately in the liabilities column in accordance with "Accounting Standards concerning Retirement Allowance Reserves" (June 16, 1998, Business Accounting Council) and "Operational Guidelines concerning Retirement Allowance Reserve Accounting" (Report No. 13, the accounting system committee of the Japanese Institute of Certified Public Accountants)?
- In the case where a subordinated loan is taken or a subordinated bond is issued, is the loan or the bond eligible as capital under Articles 6, 18, 29 and 41 of the Notification?
- Are "intentionally owned capital-raising instruments of other financial institutions" appropriately posted as a deduction item?

(4) Amounts of Credit Risks and Assets

(i) Are the amounts of credit risks and assets calculated as specified in Article 10 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 21 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 33 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 44 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(ii) In the case where the institution inspected falls under the category of institutions that adopt The Standardized Approach under Item 10, Article 1 of the Notification, the inspector should pay attention to the items included in a checklist for The Standardized Approach attached to the "Checklist for Credit Risk Management."

(iii) In the case where the institution inspected falls under the category of institutions that adopt The

Internal Ratings-Based Approach under Item 3, Article 1 of the Notification, the inspector should pay attention to the items included in a checklist for The Internal Ratings-Based Approach attached to the "Checklist for Credit Risk Management."

(5) Total Sum of Market Risk Equivalent Amounts

(i) Is the total sum of market risk equivalent amounts calculated as specified in Article 11 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 22 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 34 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 45 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(ii) In the case where the institution inspected uses the Internal Model Approach under Article 272 of the Notification, the inspector should pay attention to the items included in Chapter III. 4. "Market Risk Measurement Technique" of the "Checklist for Market Risk Management."

(6) Total Sum of Operational Risk Equivalent Amounts

(i) Is the total sum of operational risk equivalent amounts calculated as specified in Article 12 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 23 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 35 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 46 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

(ii) In the case where the institution uses The Standardized Approach under Article 305 of the Notification, does it meet the criteria specified in Article 308 of the Notification on a continuous basis?

(iii) In the case where the institution falls under the category of institutions that adopt the Advanced Measurement Approaches as defined in Item 13, Article 1 of the Notification, does it calculate the risk equivalent amount as specified in Article 311 of the Notification? Does it also meet the criteria specified in Article 315 of the Notification on a continuous basis?

(7) Minimum Capital under Rules on Capital Requirements

With regard to institutions that adopt the Internal Ratings-Based Approach as defined in Item 3, Article 1 of the Notification and those that adopt the Advanced Measurement Approaches as defined in Item 13, Article 1 of the Notification, do they calculate the minimum capital allowed as specified in Article 13 (in the case of a consolidated-basis capital adequacy ratio under international standards), Article 24 (in the case of a non-consolidated-basis capital adequacy ratio under international standards), Article 36 (in the case of a consolidated-basis capital adequacy ratio under domestic standards) and Article 47 (in the case of a non-consolidated-basis capital adequacy ratio under domestic standards) of the Notification?

Checklist for Credit Risk Management

I. Development and Establishment of Credit Risk Management System by Management

【Checkpoints】

- Credit risk is the risk that a financial institution will incur losses from the decline or elimination of the value of assets (including off-balance sheet assets) due to a deterioration in the financial condition of an entity to which credit is provided. In particular, the risk that a financial institution will incur losses with regard to credit provided to an overseas customer due to changes in the foreign currency situation or the political and economic conditions of the country to which the customer belongs is called country risk.

- The development and establishment of a system for credit risk management is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- It is important for the inspector to review whether the credit risk management system developed is an appropriate one suited to the financial institution's strategic objectives, the scale and nature of its business and its risk profile.

It should be noted that the type and level of the credit risk assessment method to be used by a financial institution should be determined according to the institution's strategic objectives, the diversity of its business and the level of complexity of the risks faced by it, and therefore a complex or sophisticated credit risk assessment method is not necessarily suited to all financial institutions.

- The inspector should determine whether the credit risk management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether or not the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I are absent or insufficient, thus causing the said problem, and to review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to credit risk management, fully recognizing that the lack of such an approach could seriously hinder attainment of strategic objectives? In particular, does the director in charge of credit risk management review the policy and specific measures for developing and establishing an adequate credit risk management system with a full understanding of the scope, types and nature of risks, and the techniques of identification, assessment, monitoring and control regarding credit risk as well as the importance of credit risk management, and with precise recognition of the current status of credit risk management within the financial institution based on such an understanding? For example, does the director in charge understand the limitations and weaknesses of the credit risk measurement and analysis methods (including the techniques and the assumptions, etc.) and consider countermeasures to supplement such shortcomings?

(2) Development and Dissemination of Loan Divisions' Strategic Objectives

Has the Board of Directors developed strategic objectives for the Loan Division that are consistent with the institution-wide strategic objectives and disseminated them throughout the institution? When developing the strategic objectives for the Loan Division, does the Board of Directors give due consideration to the following point, for example, in light of the institution's capital status?

- Does the Board of Directors avoid setting institution-wide and division-specific strategic objectives that sacrifice credit risk management for profit? In particular, does it avoid setting objectives that pursue short-term profit by disregarding long-term risk or avoid setting a performance appraisal system that reflects such inappropriate objectives?

(3) Development and Dissemination of Credit Risk Management Policy

Has the Board of Directors developed a policy regarding credit risk management (hereinafter referred to as the "Credit Risk Management Policy") and disseminated it throughout the institution? Is appropriateness of the Credit Risk Management Policy secured by, for example, including clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to credit risk management
- The policy on organizational framework, such as establishment of a division concerning credit risk management (hereinafter referred to as the "Credit Risk Management Division") and the authority assigned thereto
- The policy on identification, assessment, monitoring, control and mitigation of credit risks

(4) Revision of Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of credit risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Has the Board of Directors or equivalent organization to the Board of Directors had the Manager of the Credit Risk Management Division (hereinafter simply referred to as the "Manager" in this checklist) develop internal rules that clearly specify the arrangements concerning credit risk management (hereinafter referred to as the "Credit Risk Management Rules") and disseminate them throughout the institution in accordance with the Credit Risk Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Credit Risk Management Rules after determining if they comply with the Credit Risk Management Policy after legal checks, etc.?

(2) Establishment of Credit Risk Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have a Credit Risk Management Division established and have the division prepared to undertake appropriate roles in accordance with the Credit Risk Management Policy and the Credit Risk Management Rules?[1]

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[1] When the Credit Risk Management Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of credit risk management or when a Manager or Managers take charge of credit risk management instead of a division or a department), the inspector shall

(ii) Has the Board of Directors allocated to the Credit Risk Management Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management business by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Credit Risk Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant business and assigned such staff the authority necessary for implementing the business?[2]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors keep the Credit Risk Management Division independent from the Marketing and Sales Division, etc. and secure a check-and-balance system of the Credit Risk Management Division?

(3) Development of Credit Risk Management Systems in the Marketing and Sales Division, etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to the divisions involving credit risks to be managed (e.g., the Marketing and Sales Division, etc.) and ensure that such divisions observe them? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager to identify the internal rules and operational procedures that should be observed by the Marketing and Sales Division, etc. and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of credit risk management in the Marketing and Sales Division, etc. through the Manager or the Credit Risk Management Division?

(4) The System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on

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review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[2] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Credit Risk Management Division is reasonable in terms of a check-and-balance system and other aspects.

the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors without delay any matters that would seriously affect corporate management?

(5) The System for Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor?[3]

(6) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to credit risk management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and approve such guidelines and plan?[4] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the credit risk management system
- Status of compliance with the Credit Risk Management Policy, Credit Risk Management Rules, etc.
- Appropriateness of the credit risk management processes commensurate with the scale and nature of the business and risk profile
- Appropriateness of the use of the credit risk assessment method taken into account the limitations and the weaknesses thereof
- Validity of the Credit Risk Assessment Method (including techniques and assumptions), etc.
- Accuracy and completeness of the data used in credit risk assessment
- Appropriateness of stress test scenarios, etc.
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(7) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the

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[3] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

[4] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of credit risk management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Credit Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the credit risk management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of credit risk management and assessing the effectiveness of credit risk management, based on all of the information available regarding the status of credit risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of credit risk management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the credit risk management system identified through the analysis, assessment and review referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of credit risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Credit Risk Management System By Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities that must be performed by the Manager and the Credit Risk Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Credit Risk Management Rules

Has the Manager, in accordance with the Credit Risk Management Policy, identified risks, decided the methods of assessment and monitoring thereof and developed the Credit Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on a full understanding of the scope, types and nature of risk and the credit risk management technique? Have the Credit Risk Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Credit Risk Management Rules

Do the Credit Risk Management Rules exhaustively cover the arrangements necessary for credit risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business and its risk profile? Do the rules specify the following items, for example:

- Arrangements on the roles, responsibilities (including the scope of loans that need to be managed as problem loans, and measures for handling problem borrowers), and

organizational framework of the Credit Risk Management Division
- Arrangements on the identification of risks to be subjected to credit risk management
- Arrangements on the credit risk assessment method
- Arrangements on the credit risk monitoring method
- Arrangements on the system of reporting to the Board of Directors or equivalent organization to the Board of Directors

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with the Credit Risk Management Policy and the Credit Risk Management Rules, provide for measures to have the Credit Risk Management Division exercise a check-and-balance system in order to conduct the system of credit risk management appropriately?

(ii) Does the Manager ensure that they report to the Comprehensive Risk Management Division without delay when detecting any weaknesses or problems of the credit risk management system that may affect comprehensive risk management?

(iii) With regard to New Products as specified by the Comprehensive Risk Management Policy, etc., does the Manager provide a system to identify the inherent risks in advance and report them to the Comprehensive Management Division when requested by the division to do so?[5]

(iv) Does the Manager have in place a credit risk management computer system[6] with the high reliability befitting the scale and nature of the financial institution's business and its risk profile?

(v) Does the Manager ensure the system of training and education to enhance the ability of employees to conduct credit risk management in an effective manner, thus developing human resources with relevant expertise?

(vi) Does the Manager provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors without delay?

(4) Revision of Credit Risk Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of the execution of operations at the Credit Risk Management Division? Does the Manager review the effectiveness of the credit risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Credit Risk Management Rules and the relevant

[5] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).
[6] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type.

organizational framework, or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Credit Risk Management Division[7]

(1) Roles and Responsibilities of Screening Division

(i) Is the Screening Division established independently from the Marketing and Sales Division, etc. and is the situation avoided where the director in charge of the division concurrently takes charge of the Marketing and Sales Division, etc., for example, in order to prevent interference from the Marketing and Sales Division? In the case where the Screening Division is not independent from the Marketing and Sales Division, etc. or where the director in charge of the Screening Division concurrently takes charge of the Marketing and Sales Division, etc., it is especially necessary to check whether a check-and-balance system is secured to ensure appropriate screening.

(ii) Does the Screening Division accurately comprehend the status of the borrower's financial condition, the purpose of the use of funds, financial sources for loan repayments, etc. and conduct appropriate screening and management in light of the risk nature of the loan application? When participating in a syndicated loan, for example, does the Screening Division decide whether or not to provide the loan after appropriately grasping the actual status of the borrower? When participating in a syndicated loan or project finance, does the division appropriately set and control a covenant when necessary? [8]

(iii) Does the Screening Division review whether the Marketing and Sales Division is appropriately following its instructions?

(iv) Does the Screening Division keep the Marketing and Sales Division, etc. fully aware that it is necessary to attach importance to the soundness of borrowers' business operations such as their strength in technology and sales and their growth potential as well as the profitability and the future potential of the businesses they are engaged in and to avoid relying too much on the collateral and personal guarantees, and does it review whether the Marketing and Sales Division is acting appropriately?

(2) Roles and Responsibilities of Credit Management Division

(i) Does the Credit Management Division have the function and authority to exert integrated control over the financial institution, its consolidated subsidiaries and affiliates to which the equity

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[7] It should be noted that the purpose of this inspection item is not to review whether or not divisions such as the Screening Division, the Credit Management Division and the Problem Loan Management Division have been established as organizations but to review whether or not the functions required for such divisions are being performed.

[8] It should be noted that covenants may be controlled by another division.

method is applicable within legal limits in the monitoring of the status of the trend of borrowers' business conditions? Does the division exert such an integrated control system with regard to assets containing credit risks and off-balance sheet items (including credit risks related to market transactions) in addition to loans?

(ii) Does the Credit Management Division identify credit risks to which the institution is exposed and specify the risks subject to credit risk management in light of the risks identified? Does the division conduct assessment and measurement of credit risk with the use of credit ratings in a manner suited to the scale and nature of the institution's business and its risk profile? (With regard to details concerning credit ratings, see Chapter III. (1) "Credit Ratings," and for details concerning credit risk measurement techniques, see Chapter III. (7) "Check Items for Credit Risk Measurement Technique.")

(iii) Does the Credit Management Division appropriately control credit risks through the establishing of credit limits and the management of credit concentration risk? (See Chapter III. (2) "Credit Limits" with regard to details concerning credit limits and Chapter III (3) "Management of Credit Concentration Risk" with regard to details concerning credit concentration risk.)

(iv) Does the Credit Management Division appropriately grasp and manage the status of the credit portfolio (e.g. status of credit concentration in a specific business sector or a specific group) and report it regularly to the Board of Directors or equivalent organization to the Board of Directors?

(v) Does the Credit Management Division identify credit risks when the institution introduces New Products and starts business at new overseas offices and subsidiaries?

(vi) Does the Credit Management Division review the appropriateness of the credit management operations such as accuracy of credit ratings and management of borrowers and report the results to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis?

(3) Roles and Responsibilities of Problem Loan Management Division

(i) Does the problem Loan Management Division provide a system to detect at an early date loans that need to be managed as problem loans in accordance with the Credit Risk Management Rules, based on a recognition of the impact of problem loans on the soundness of the financial institution's corporate management?

In the case of a financial institution subject to international standards, the inspector should make sure that the division in charge of managing and recovering problem loans is dedicated to these tasks. In the case of a financial institution subject to domestic standards, too, it is desirable that such a division is a dedicated one.[9]

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[9] "Financial institutions subject to international standards" are ones that calculate their capital adequacy ratios according to international standards, and financial institutions subject to domestic standards are

(ii) Does the problem Loan Management Division, in accordance with the Credit Risk Management Rules, appropriately grasp and manage the status of corporate management at problem borrowers and provide guidance on the formulation of business rehabilitation plans or collect loans as necessary?

(iii) Does the problem Loan Management Division provide a system to report matters determined as necessary by the Board of Directors or equivalent organization to the Board of Directors with regard to the status of problem loans?

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ones that calculates their capital adequacy ratios according to domestic standards.

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of credit risk management.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

(1) Credit Ratings

Does the institution have in place an appropriate credit rating system befitting the scale and nature of its business and its risk profile in order to assess and measure credit risks accurately? Are its rating categories meaningful and consistent from the viewpoint of credit risk management?

(i) Does the institution assign a credit rating according to the level of credit risk involved in the obligator based on ratings assigned by rating agencies, information provided by credit investigation companies and the like? Are its rating categories consistent with the obligator categories?

(ii) Does the institution assign credit ratings accurately and in a manner that allows verification of the objectivity of the ratings? Does it provide a system to revise the ratings in a timely manner, for example by setting a validity period? Does it also provide a system to have the credit ratings reflect in a timely and appropriate manner information concerning matters such as loan arrears, deterioration in the borrower's funding and business conditions, a change in the parent company's support and bankruptcy of a large-lot customer?

(2) Credit Limits

(i) In the case where the institution provides credit on a large scale or on a continuous basis, does it establish credit limits (the maximum value of credit allowed to be provided, the maximum allowable ratio relative to the overall credit provided, the trigger level for a review of the credit provision policy, etc.) in advance? In practice, are credit limits established and revised by the Credit Management Division independent from the Marketing and Sales Division, etc. in accordance with standards established upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(ii) Does the Credit Management Division have in place internal rules and operational procedures concerning credit limits that specify the arrangements, authority, and procedures with regard to reporting of a breach of credit limits to the division (to the Board of Directors or equivalent organization to the Board of Directors as necessary)? Does the division appropriately manage credit limits in accordance with the relevant rules and procedures?

(3) Management of Credit Concentration Risk

(i) Does the institution provide a system to select, based on reasonable criteria, large-lot borrowers whose conditions could have a major impact on the institution and monitor the status of their credit and financial conditions individually and on an ongoing basis and manage them individually? Does the selection cover each borrower's group, including its affiliated companies, as a whole?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors itself have an accurate grasp on large-lot borrowers and actively involve itself in credit risk management thereof?

(iii) When providing credit to borrowers with similar risk nature in terms of business sector, region, and product range, does the institution make sure to conduct appropriate management, for example by establishing credit limits suited to each portfolio or by dispersing credit risks through means such as asset-backed securitization?

(4) Screening and Management of Individual Loan Applications

Does the institution have a sound screening system in place? For example, does it smoothly disburse funds to customers conducting sound business operations, particularly small and medium-size companies, ban speculative real-estate loans and loans involving excessive financial engineering and refuse to provide financing to anti-social forces? Does it avoid using the financial inspection manual established by the authorities as an excuse for inappropriate practices such as refusing to extend loans to customers conducting sound business operations or retrieving loans from such customers?

(5) Management of Problem Loans

(i) In managing problem loans, does the institution appropriately examine the possibility of business rehabilitation of each obligator and make as much effort as possible to help a business turnaround of obligators determined as capable of achieving rehabilitation? When providing support for business rehabilitation, is the institution prepared to formulate a rehabilitation plan that would deserve the market's appreciation by utilizing schemes such as a company division, DES (debt-equity swap), DDS (debt-debt swap) and a corporate rehabilitation fund as necessary and implement private or public bankruptcy procedures promptly?

(ii) When removing a problem loan from the balance sheet by a sale, liquidation (securitization) or other measures, is the institution prepared to make sure and verify that the relevant credit risk is clearly separated, making it unnecessary to continue to bear the credit risk in effect through credit enhancement or other means? When selling or liquidating a problem loan, does the institution ensure that due consideration is given to the protection of the original obligator and that the loan is not transferred to a party which may oppress the obligator or disrupt the obligator's life or business?

(6) Approach to Business Rehabilitation of Small- and Medium-Size Companies

(i) With regard to borrowers which are small- or medium-size companies, does the institution conduct credit management carefully in light of the nature of such companies? For example, does it endeavor to fully grasp the actual status of the borrowing companies' corporate management including information concerning qualitative factors such as the companies' strength in terms of technology and sales as well as senior management's capabilities by visiting the companies on an ongoing basis and conduct loan management accordingly? Is the institution actively involved in corporate and business rehabilitation through the provision of elaborate management consultations and guidance?

(ii) When providing credit to a small- or medium-size company, does the institution conduct credit management operations including credit rating management with due consideration for the overall status of the company's corporate management in light of the nature of small- and medium-size companies in general, such as their vulnerability to the economic cycle and their liability to fall into the status of having excess debt due to one-time factors.

(7) Check Items for Credit Risk Measurement Technique

(i) Establishment of Credit Risk Measurement System

a. Is there not any conceptual problem with the credit risk measurement system, and is the system operated without any lapse?

b. Is the role of the credit risk measurement technique (model) clearly positioned under the Credit risk Management Policy and operated based on an understanding of the items listed below? Is it ensured that there is no problem with the application of the technique to consolidated subsidiaries?

(a) The financial institution's strategic objectives, the scale and nature of its business and its risk profile

(b) The basic design concept of the credit risk measurement technique based on (a)

(c) Identification and measurement of credit risk based on (b) (coverage, technique, assumptions, etc.)

(d) Nature (limitations and weaknesses) of the credit risk measurement technique that derive from (c) and the validity of the technique

(e) Details of the method of verifying (d)

c. In the case where capital allocation management[10] is conducted, has the capital allocation management policy been developed based on the calculation results obtained through the use of the credit risk measurement technique? When there are risks excluded from measurement, is there any reasonable ground for the exclusion? Is risk capital allocated with due consideration for the risks excluded from measurement?

(ii) Appropriate Involvement of Directors and Corporate Auditors

a. Understanding of Credit risk Measurement Technique

(a) Do directors understand that decisions concerning the credit risk measurement technique as well as the risk limits and the risk capital limits (in the case where capital allocation management is employed) have serious implications for the financial institution's corporate management and financial conditions?

(b) Does the director in charge of credit risk management understand the credit risk measurement technique required for the business of the financial institution and comprehend the nature (limitations and weaknesses) thereof?

(c) Do directors and corporate auditors seek to enhance their understanding of the credit risk

[10] See Checklist for Capital Management.

measurement technique by receiving training or through other means?

b. Approach to Credit risk Management

Do directors involve themselves actively in credit risk management that uses the credit risk measurement technique?

(iii) Credit risk Measurement

a. Measurement of Credit Risk Quantity with Universal Yardstick

Does the institution grasp the credit risk quantity with the use of a uniform yardstick? It is desirable that the uniform yardstick is used to grasp and measure all necessary credit risk elements. If there are credit risks that are not sufficiently grasped and measured with the uniform yardstick, does the institution ensure that all necessary elements are taken into consideration in corporate management decisions by utilizing supplementary information?

Is the measurement of the credit risk quantity conducted with a rational, objective and precise statistical technique such as a VaR method, for example?

b. Ongoing Verification and Stress Testing

(a) Does the Credit Management Division regularly analyze the validity of the measurement technique through ongoing verification (backtesting, etc.)? Is a revision of the measurement technique conducted in accordance with the internal rules?

(b) Does the Credit Management Division grasp the stress status of credit risks through stress testing based on comprehensive stress scenarios and make use thereof appropriately?

c. System to Verify and Manage Measurement Technique

Are the validity of the credit risk measurement technique and the assumptions thereof, etc. verified during the development of the technique and thereafter on a regular basis by a person or persons with no involvement in the development and with sufficient competency? If any deficiency is recognized in the credit risk measurement technique or the assumptions thereof, is a corrective action taken appropriately?

Are there a framework and internal rules in place to prevent the credit risk measurement technique and the assumptions thereof from being altered on unreasonable grounds, and is the credit risk measurement technique managed appropriately in accordance with the internal rules?

(iv) Records on Credit risk Measurement Technique

Is there a system to keep records, for future reference, on the process of verification with regard to the selection of the credit risk measurement technique and the assumptions and on the basis for the selection decision, in order to enable follow-up verification and utilize the records to make the measurement more sophisticated and elaborated?

(v) Audit

a. Development of Auditing Program

Has the institution developed an audit program that exhaustively covers audits of the credit risk measurement technique?

b. Scope of Internal Audit

Is auditing conducted to check the following items?

- Consistency of the credit risk measurement technique with the strategic objectives, the scale and nature of the business and the risk profile
- Appropriateness of employing the credit risk measurement technique in light of the nature (limitations and weaknesses) thereof
- Appropriate documentation of records on the credit risk measurement technique and timely updating thereof
- Appropriate reflection of any modification of the process of credit risk management in the measurement technique
- Validity of the scope of measurement conducted with the credit risk measurement technique
- Absence of any deficiency in the information system for the management
- Validity of the credit risk measurement technique and the assumptions
- Accuracy and completeness of data used in credit risk measurement
- Appropriateness of the process and results of ongoing verification (backtesting, etc.)

c. Utilization of the Results of Audits

Does the Credit Management Division appropriately revise the credit risk measurement technique based on the results of audits?

(vi) Credit Risk Measurement Model Developed by Outsourcing Contractor[11]

a. Appropriateness of Credit Risk Measurement System

(a) Does the person in charge of credit risk measurement at the financial institution have sufficient knowledge with regard to the measurement technique and understand the modeling process of credit risk measurement?

(b) Do the institution's Credit Management Division and the Internal Audit Division conduct a theoretical and empirical verification of the validity of the measurement technique?

b. Appropriateness of Credit Risk Measurement Model

(a) Is there not any "black box" with regard to the measurement model? If there is one, has the validity of the measurement model been verified?

[11] When the credit risk measurement is outsourced, the verification should be conducted by using the check items listed in this paragraph.

(b) Are the consistency and the accuracy of data used in measurement secured?

(c) Is the measurement model selected suited to the scale and nature of the institution’s business and its risk profile?

c. Management of Developer of Credit Risk Measurement Model

(a) Is the developer consigned with the development of the credit risk measurement model capable of ensuring continuous management of the model and promoting sophistication and elaboration of the model? Does the institution regularly evaluate the developer?

(b) Does the support system (training, consulting and maintenance) for users of credit risk measurement select a sufficient developer?

(c) Is it ensured that the developer reports to the institution on the status of its verification of the validity of the measurement model in a regular and timely manner or on an as needed basis?

(8) Credit Risk Management System under the Basel II Regime

Does the institution provide a system to conduct credit risk management under the Basel II regulations in a manner suited to the risk management approach adopted? With regard to detailed inspection items, see Attachments “Checklist for The Standardized Approach” and “Checklist for The Internal Ratings-Based Approach”

(i) In the case of institutions adopting The Standardized Approach

a. Treatment of External Ratings

Does the institution have in place standards for the use of ratings and country risk scores assigned by eligible rating agencies for the purpose of determining risk weightings?

b. Risk Weightings Application

Does the institution categorize exposures appropriately and apply an appropriate risk weighting suited to each category? Does it appropriately calculate the credit equivalent amount of off-balance sheet transactions, derivatives and transactions with long settlement periods?

c. Use of Credit Risk Mitigation Technique

When using a credit risk mitigation technique, does it utilize eligible financial asset collateral? When using guarantee and credit derivatives as credit risk mitigation techniques in offsetting loans provided against deposits taken, does the institution use the techniques appropriately?

d. Treatment of Securitization Exposure

Is the unrated portion of the institution’s securitization exposure that must be deducted from its capital actually deducted from the capital?

(ii) In the case of institutions adopting The Internal Ratings-Based Approach

a. Internal Control

Do the Board of Directors or equivalent organization to the Board of Directors and departments in charge of credit risk management and audits appropriately perform the roles and responsibilities necessary for the calculation of the capital adequacy ratio with the use of the Internal Ratings-Based Approach?

b. Calculation of Credit Risk Asset Amount

Does the institution appropriately calculate the amount of credit risk assets in each risk asset class?

c. Designing of Internal Ratings System

With regard to corporate exposures, does the institution have in place an internal ratings system that assigns ratings on both obligator-by-obligator basis and facility-by-facility basis? It should be noted that when the institution applies slotting criteria to designated loans, it is allowed to adopt an internal ratings system that assigns ratings according to expected loss rates.

With regard to retail exposures, does the institution's internal ratings system give due consideration to the nature of risks involved in obligators and retail exposure-related transactions? In order to enable itself to consistently assign identical ratings to obligators and exposures that contain similar risks or allocate such obligators and exposures to identical pools, does the institution specify in sufficient detail the definition of "identical ratings" and "identical pools" and the criteria for the identical rating assignment and pool allocation?

In the case where different rating and pool allocation criteria or different rating and pool allocation procedures are applied according to the type of obligators and exposures, does the Credit Management Division conduct monitoring so as to detect any inconsistency and adjust rating criteria in a timely manner so as to improve consistency?

d. Operation of Internal Rating System

With regard to corporate exposures, does the institution revise obligator and facility ratings at least once a year? With regard to retail exposures, does it revise the loss nature and the status of arrears of each pool at least once a year? Does it appropriately store data concerning corporate and retail exposures?

Does the institution regularly conduct stress testing for the purpose of evaluating the level of its capital buildup and useful and adequately conservative credit risk stress testing that takes account of a scenario of at least a moderate economic recession?

e. Use of Credit Ratings

Do ratings, PD and LDG play important roles in the institution's credit screening, risk management, internal capital allocation and internal control?

In the case where there are differences between the PD and LGD used in the calculation of the capital adequacy ratio and the estimated figures used in credit screening, risk management, internal capital allocation and internal control, does the institution mention the differences in the Credit Risk Management Policy and explain the reasons therefor?

f. Risk Quantification

When estimating PD, LGD and EAD (the estimation of LGD and EAD concerning corporate exposures is limited to institutions adopting an Advanced Internal Ratings-Based Approach), does the institution use all available important data, information and techniques related to the estimate? It should be noted that the use of internal and external data are allowed only in the case where estimates based on the data reflect long-term results.

Does the institution revise the estimated PD, LGD and EAD at least once a year? Does it conservatively revise the estimated PD, LGD and EAD given the possibility of errors in the estimate?

g. Verification of Internal Rating System and Estimated Figures

Does the institution compare the estimates of parameters and the actual figures at least once a year and make sure that the deviation of the estimate of each parameter from the actual figure is within an expected range? Does it conduct such verification for each category of obligator rating with regard to corporate exposures and for each pool with regard to retail exposures? Does the institution conservatively revise a parameter estimate in the case where the actual figure continuously exceeds the estimate?

h. Treatment of Securitization Exposure

Does the institution treat the securitization exposures that must be deducted from the capital and the I/O strips that have the credit enhancement function as deduction items? It should be noted that the amount equivalent to the capital increase due to a securitization deal may not be treated as a deduction item.

In the case where the method of calculating credit risk assets to be applied to the underlying assets of a securitization exposure is not specified, does the institution use The Standardized Approach for the calculation of the amount of credit risk assets if it is the originator and does it use an external ratings-based approach for the calculation if it is not?

In the case where it is impossible to calculate, either with the use of an external ratings-based approach, a specified-function approach, or an internal assessment approach, the amount of credit risk assets with regard to securitization exposures subject to the internal ratings-based approach, does the institution deduct the securitization exposure from the capital?

Checklist for Asset Assessment Management

I. Development and Establishment of Asset Assessment Management System by Management

【Checkpoints】

- Asset assessment refers to examining individual loan assets held by a financial institution and categorizing them according to the degree of risk of default and impairment of the asset value. Asset assessment enables judgment with regard to the degree of safety secured by the quality of assets for funds deposited by customers and, in other words, with regard to the degree of risk to which the institution is exposed due to possible deterioration of the quality of its assets. Self-assessment, conducted by financial institutions themselves, is not only a means for the institutions to manage credit risk and but also a preparation for implementing write-offs and loan loss provisions in an appropriate manner. Implementing write-offs and loan loss provisions is equivalent to calculating the amount of estimated future credit losses in a timely and appropriate manner based on the self-assessment and in light of the actual status of defaults and other factors.

- The development and establishment of a system for asset assessment management is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- The inspector should determine whether the asset assessment management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing , with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) development of internal rules and organizational frameworks and (2) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Standards

(i) Does the Board of Directors have the Managers of the Asset Assessment Management Divisions[1] (hereinafter simply referred to as the "Managers" or "Manager" in this checklist) develop standards that clearly specify the arrangements for conducting self-assessment in an appropriate and accurate manner (hereinafter referred to as the "Self-Assessment Standards") and standards that clearly specify the arrangements for implementing write-offs and loan loss provisions in an appropriate and accurate manner (hereinafter referred to as the "Write-Off/Loan Loss Provision Standards") and disseminate them throughout the institution?

(ii) Has the Board of Directors approved the Self-Assessment Standards and the Write-Off/Loan Loss Provision Standards based on the opinions of the Compliance Control Division and the Internal Audit Division, etc.?

(2) Development of Asset Assessment Management System

Does the Board of Directors or equivalent organization to the Board of Directors have Asset Assessment Management Divisions established and have the divisions prepared to undertake appropriate roles in accordance with the Self-Assessment Standards and the Write-off/Loan-loss Provision Standards?[2]

(i) Self-Assessment Management System

a. Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that self-assessment is conducted appropriately by securing a sufficient check-and-balance system against Sales-Related Divisions[3] through the following

[1] The Asset Assessment Management Divisions are those in charge of controlling self assessment and write-off and loan loss provision.

[2] When an Asset Assessment Management Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of asset assessment management or when a Manager or Managers take charge of asset assessment management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[3] Sales-Related Divisions are sales branches and the sales and Loan Approval Divisions of the headquarters.

arrangements, for example?

- Sales branches and the Sales Division of the headquarters conduct a first-stage assessment, to be followed by a second-stage assessment conducted by the Loan Approval Division of the headquarters, and then a division independent from the Sales-Related Divisions verifies the appropriateness of the assessment.
- A division independent from Sales-Related Divisions conducts a self-assessment in cooperation with such divisions.

b. Has the Board of Directors allocated to the Self Assessment Management Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management operations by assigning him/her the necessary authority therefor?

c. Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Self-Assessment Management Division, etc.[4] an adequate number of staff members with the necessary knowledge and experience to execute the relevant business and assigned such staff the authority necessary for implementing the business?[5]

d. Does the Board of Directors or equivalent organization to the Board of Directors have each division store sufficient documents and other records to enable follow-up reviews on the status of implementation of self-assessment in audits by accounting auditors, etc.?

(ii) Systems for Write-Offs and Loan Loss Provisions

a. Does the Board of Directors or equivalent organization to the Board of Directors ensure that the amounts of write-offs and loan-loss provisions are calculated appropriately by securing a sufficient check-and-balance system against divisions in charge of conducting self-assessment and Account Settlement-Related Divisions through the following arrangements, for example?

- A division in charge of implementing self-assessment calculates the amount of specific loan loss provisions while Account Settlement-Related Divisions calculate the amount of general loan loss provisions, and then a division independent from Sales-Related Divisions and Account-Settlement Divisions verifies the appropriateness of the calculation.
- A division independent from Sales-Related Divisions and Account-Settlement Divisions calculates the amount of specific loan loss provisions and general loan loss provisions in

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[4] The "Self-Assessment Management Division, etc." refers to divisions equipped with functions necessary for conducting self-assessment appropriately and established as necessary according to the scale and nature of the financial institution, including the Self Assessment Management Division and divisions in charge of conducting self-assessment and verifying the self-assessment that are independent from Sales-Related Divisions.

[5] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Self-Assessment Management Division is reasonable in terms of a check-and-balance system and other aspects.

cooperation with Sales-Related Divisions.

b. Has the Board of Directors allocated to the Write-Off/Loan Loss Provision Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management operations by assigning him/her the necessary authority therefor?

c. Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Write-Off /Loan Loss Provision Division, etc.[6]

an adequate number of staff members with the necessary knowledge and experience to execute the relevant business and assign such staff the authority necessary for implementing the business?[7]

d. Does the Board of Directors or equivalent organization to the Board of Directors have each division store sufficient documents and other records to enable follow-up reviews on the status of implementation of write-offs and loan loss provisions in audits by accounting auditors, etc.?

(3) Development of Asset Assessment Management System in First- and Second-Stage Assessment Divisions

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to the divisions in charge of first- and second-stage assessments and have such divisions observe them? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Managers to identify the internal rules and operational procedures that should be observed by the divisions in charge of first- and second-stage assessments and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(4) Arrangement for System of Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and do they make sure to obtain a report with regard to the current status in a regular and timely manner or on an as needed basis or require application for approval on the relevant matters? In particular, do they make sure to

[6] The "Write-Off/Loan Loss Provision Management Division, etc." refers to divisions equipped with functions necessary for implementing write-offs and loan loss provisions appropriately and established as necessary according to the scale and nature of the financial institution, including the Write-Off/Loan Loss Provision Management Division and divisions in charge of calculating the write-off and loan loss provision amounts and verifying the write-offs and loan loss provisions that are independent from Sales- and Account Settlement-Related Divisions.

[7] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Write-Off/Loan Loss Provision Division is reasonable in terms of the absence of problems such as conflicts of interest.

obtain a report without delay with regard to any matters that would seriously affect corporate management?

(5) Arrangement for System of Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and does it provide a system to have the Managers directly report such matters to the auditor?[8]

(6) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to asset assessment management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and approve such guidelines and plan?[9] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

(i) Internal Audit Guidelines concerning self-assessment

- Status of development of the self-assessment management system
- Appropriateness of the self-assessment management process
- Accuracy of self-assessment results
- Status of improvement of matters pointed out in an internal audit or in the last inspection

(ii) Internal Audit Guidelines concerning write-offs and loan loss provisions

- Status of development of the write-off and loan loss provision system based on self-assessment
- Appropriateness of the process of posting write-offs and loan loss provisions based on self-assessment results
- Appropriateness of results of write-offs and loan loss provisions (It is desirable to verify the appropriateness of the loan loss provision ratio, the total amount of loan loss provisions, etc. and the amount of loan loss provisions in the past fiscal years)
- Status of improvement of matters pointed out in an internal audit or in the last inspection

(7) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the

[8] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.
[9] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

development process of the Self-Assessment Standards, the Write-off/Loan Loss Provision Standards and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of asset assessment management in a regular and timely manner or on an as needed basis?

2. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Asset Assessment Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the asset assessment management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of asset assessment management and assessing the effectiveness of asset assessment management, based on all the information available regarding the status of asset assessment management, such as the results of audits by corporate auditors, internal audits and external audits, findings and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of asset assessment management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors and the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the asset assessment management system identified through the analysis, assessment and examination referred to in 2. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of asset assessment management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Asset Assessment Management System by Managers

【Checkpoints】

- This chapter lists the check items to be used when the inspector examines the roles and responsibilities to be performed by the Managers in charge of operations concerning asset assessment management and Asset Assessment Management Divisions.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Managers and Asset Assessment Management Divisions

(1) Development and Dissemination of Self-Assessment Standards and Write-Off/Loan Loss Provision Standards

Have the Managers developed the Self-Assessment Standards and the Write-off/Loan Loss Provision Standards based on a full understanding of the importance of asset assessment management? Have the Self-Assessment Standards and the Write-off/Loan Loss Provision Standards been disseminated throughout the institution upon approval by the Board of Directors?

(2) Details of Self-Assessment Standards and Write-off/Loan Loss Provision Standards

(i) Validation of Self-Assessment Standards

a. Are the Self-Assessment Standards in accordance with the relevant laws and the frameworks specified in this checklist (including Attachment 1), and are they clear and valid? Do they include clear statements with regard to the following matters in particular, exhaustively cover necessary procedures and specify them appropriately?

- Scope of assets to be covered by self-assessment
- Self-assessment management system
- Implementation standards for self-assessment
- Allocation of responsibilities with regard to the conduct of self-assessment

When there are specific rules established by the institution within the Self-Assessment Standards (e.g. rules concerning collateral evaluation and simplified assessment of securities), are they reasonable and compatible with the standards, and are there sufficient reasons for any difference with the relevant frameworks?

b. Does the institution have a consistent basic policy with regard to the Self-Assessment Standards and operate based on it on a continuous basis? When the institution changes its basic policy concerning Self-Assessment Standards, is there a rational and legitimate reason?

(ii) Validation of Write-off/Loan Loss Provision Standards

a. Are the Write-off/Loan Loss Provision Standards in accordance with the relevant laws, corporate accounting standards generally accepted as fair and valid and the frameworks specified in this checklist (including Attachment 2), and are they clear and valid? Do they include clear statements with regard to the following matters in particular, exhaustively cover necessary procedures and specify them appropriately?

- Scope of assets to be covered by write-offs and loan loss provisions
- Write-off/loan loss provision management system
- Standards for calculating the write-off and loan loss provision amounts
- Allocation of responsibilities with regard to the implementation of write-offs and loan loss provisions

When there are specific rules established by the institution with regard to write-offs and loan loss provisions (e.g. rules concerning the calculation of the loan loss provision ratios based on credit ratings and those concerning the calculation of the loan loss provision ratios according to the industrial sector, the region, etc.), are they reasonable and compatible with the Write-off/Loan Loss Provision Standards, and are there sufficient reasons for any difference with the relevant frameworks? For example, are specific costs and losses that are highly likely to arise in the future estimated appropriately?

b. Does the institution have a consistent basic policy with regard to the Write-off/Loan Loss Provision Standards and operate based on it on a continuous basis? When the institution changes its basic policy concerning the Write-off/Loan Loss Provision Standards, is there a rational and legitimate reason?

(3) Development of Organizational Frameworks by Managers

(i) Does the Manager, in accordance with the Self-Assessment Standards and the Write-off/Loan

Loss Provision Standards, provide for measures to have the self-assessment and Write-Off/Loan Loss Provision Management Divisions exercise a check-and-balance system in order to ensure that the institution implements write-offs and loan loss provisions appropriately?

(ii) Have the Managers developed detailed and rational operational procedures (a self-assessment manual and a write-off/loan loss provision manual) in accordance with the Self-Assessment Standards and the Write-off/Loan Loss Provision Standards, in order to ensure an appropriate implementation of self-assessment, write-offs and loan loss provisions?

(iii) Have the Managers in place computer systems[10] with the high reliability suitable for conducting self-assessment and implementing write-offs and loan loss provisions in an appropriate and accurate manner?

(iv) Do the Managers ensure the system of training and education to enhance the ability of employees to conduct self-assessment and implement write-offs and loan loss provisions in an appropriate and accurate manner, thus developing human resources with relevant expertise?

(v) Do the Managers provide a system to ensure that matters specified by the Board of Directors and the Board of Directors or equivalent organization to the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, do the Managers provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors and the Board of Directors or equivalent organization to the Board of Directors without delay?

(4) Revision of Asset Assessment Management Standards and Organizational Frameworks

Do the Managers conduct monitoring on an ongoing basis with regard to the status of execution of operations at the Self-Assessment Management Division and Write-Off/Loan Loss Provision Management Division? Do the Managers review the effectiveness of the self-assessment management system and write-off/loan loss provisions management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Self-Assessment Standards and Write-off/Loan Loss Provisions Standards as well as the relevant organizational framework, or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

[10] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type.

III. Accuracy of Self Assessment Results and Appropriateness of Write-Offs/Loan Loss Provisions

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the accuracy of the results of self-assessment and the appropriateness of the results of write-offs and loan loss provisions.

- In the process of examining the accuracy of the results of self-assessment, the inspector should precisely grasp the actual status of development of the self-assessment system, the actual status of reporting of the results of self-assessment to the Board of Directors and the actual status of internal audits and audits by corporate auditors and accounting auditors of the status of the development of the self-assessment system.

- In the process of examining the appropriateness of the results of write-offs and loan loss provisions, the inspector should precisely grasp the actual status of the development of the write-off/loan-loss provision system, the actual status of reporting of the results of write-off/loan-loss provisions to the Board of Directors and the actual status of internal audits and audits by corporate auditors and accounting auditors of the status of the development of the write-off/loan-loss provisions system.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning properly, and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

Accuracy of Self-Assessment Results and Appropriateness of Write-Off/Loan Loss Provision Results

(1) Accuracy of Self-Assessment Results

(i) Does the institution actually conduct self-assessment accurately in accordance with the Self-Assessment Standards with a method listed in Attachment 1?

(ii) When the results of self-assessment are deemed as inappropriate or inaccurate, does the institution grasp and analyze the cause thereof (e.g. a problem with the Self-Assessment Standards or a problem with the conduct of self-assessment) and consider and implement necessary improvement measures in a timely and appropriate manner?

(iii) Does the institution provide necessary education and guidance to divisions in charge of conducting first- and second-stage self-assessments?

(2) Appropriateness of Write-Off/Loan Loss Provision Results

(i) Does the institution actually implement write-offs and loan loss provisions appropriately in accordance with the Write-off/Loan Loss Provision Standards with a method listed in Attachment 2?

(ii) When the results of write-offs and loan loss provisions are deemed as inappropriate or inaccurate, does the institution grasp and analyze the cause thereof (e.g. a problem with the Write-off/Loan Loss Provision Standards or a problem with the calculation of loan loss provisions) and consider and implement necessary improvement measures in a timely and appropriate manner?

(iii) Does the institution provide necessary education and guidance to divisions in charge of calculating the write-off and loan loss provision amounts?

Checklist for Market Risk Management

I. Development and Establishment of Market Risk Management System by Management

【Checkpoints】

- Market risk is the risk of loss resulting from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in risk factors such as interest rates, foreign exchange rates and stock prices and the risk of loss resulting from changes in earnings generated from assets and liabilities. There are three material market risks as follows:

(1) Interest rate risk: The risk of loss resulting from changes in interest rates. As a result of a mismatch of interest rates on its assets and liabilities and/or timing differences in the maturity thereof, a financial institution may suffer a loss or a decline in profit due to changes in interest rates.

(2) Foreign exchange risk: The risk of loss resulting from the difference between assumed and actual foreign exchange rates in the case where a financial institution has a long position or short position on a net basis with regard to its assets and liabilities denominated in foreign currencies.

(3) Price Change Risk: The risk of loss resulting from a decline in the value of assets due to changes in the prices of securities, etc.

- The development and establishment of a system for market risk management is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- It is important for the inspector to review whether the market risk management system developed is an appropriate one suited to the financial institution's strategic objectives, the scale and nature of its business and its risk profile.

It should be noted that the type and level of the market risk measurement and analysis methods to be used by a financial institution should be determined according to the institution's strategic objectives, the diversity of its business and the level of complexity of the risks faced by it and therefore a complex or sophisticated market risk measurement and analysis methods are not necessarily suited to all financial institutions.

- This checklist sets forth a broad range of check items, from which the inspector should select ones to be applied to a specific financial institution in light of the institution's asset management strategy, investment style, volume of trading, risk profile, risk management method, measurement technique, and other factors. Check items accompanied by the phrase “for example,” are literally cited merely as examples, and the inspector should decide on a case-by-case basis whether to apply the items to a specific institution in light of the scale and nature of the institution’s business and its risk profile, etc. Check items accompanied by phrases like “in the case where the institution is using...” with regard to a certain management method or measurement technique should be applied to the case where the institution is actually using such a method or technique and where the inspector judges that the institution should use such a method or technique.

- The inspector should determine whether the market risk management system is functioning effectively and whether the roles and responsibilities of the institution’s management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution’s management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to market risk management, fully recognizing that the lack of such an approach could seriously hinder attainment of strategic objectives? In particular, does the director in charge of market risk management review the policy and specific measures for developing and establishing an adequate market risk management system with a full understanding of the scope, types and nature of risks, and the techniques of identification, assessment, monitoring and control regarding market risk as well as the importance of market risk management, and with precise recognition of the current status of market risk management within the financial institution based on such an understanding? For example, does the director in charge understand the limitations and weaknesses of market risk measurement and analysis methods (techniques, assumptions, etc.) and consider countermeasures to supplement such shortcomings?

(2) Development and Dissemination of Office (Trading, Banking) Divisions' Strategic Objectives

Has the Board of Directors developed strategic objectives for the Office (Trading, Banking) Divisions that are consistent with the institution-wide strategic objectives and disseminated them throughout the institution? When developing the strategic objectives for the Office (Trading, Banking) Divisions, does the Board of Directors give due consideration to the asset and liability structure (including off-balance sheet items), marketability and liquidity and take into account the status of its capital? For example, does it pay attention to the following matters?

- Does it make clear whether to aim at minimizing the risk or to aim at making a profit by aggressively taking and managing a certain amount of risk in deciding the levels of risk-taking and profit objectives?
- Does it avoid setting institution-wide and division-specific strategic objectives that sacrifice risk management for profit? In particular, does it avoid setting objectives that pursue short-term profit by disregarding long-term risk or avoid setting a performance appraisal system that reflects such inappropriate objectives?

(3) Development and Dissemination of Market Risk Management Policy

Has the Board of Directors developed a policy regarding market risk management (hereinafter referred to as the "Market Risk Management Policy") and disseminated it throughout the institution? Is the appropriateness of the Market Risk Management Policy secured by, for example, including clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to market risk management
- The policy on organizational framework, such as establishment of a division concerning market risk management (hereinafter referred to as the "Market Risk Management Division"), the Office (Trading, Banking) Division, and the division that conducts back-office business concerning market transactions (hereinafter referred to as the "Back-Office Division") and the authority assigned thereto
- The policy regarding the establishing of market risk limits

- The policy on identification, assessment, monitoring, control and mitigation of market risks

(4) Revision of Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of market risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Has the Board of Directors or equivalent organization to the Board of Directors had the Manager of the Market Risk Management Division (hereinafter simply referred to as the “Manager” in this checklist) develop internal rules that clearly specify the arrangements concerning market risk management (hereinafter referred to as the “Market Risk Management Rules”) and disseminate them throughout the institution in accordance with the Market Risk Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Market Risk Management Rules after determining if they comply with the Market Risk Management Policy after legal checks, etc. ?

(2) Establishing of Appropriate Limits

Does the Board of Directors or equivalent organization to the Board of Directors in accordance with the Market Risk Management Policy and the Market Risk Management Rules, establish limits (risk limits, position limits, loss control limits, etc.) suited to each operation and each risk category by examining the details of operations of the various divisions and taking into consideration the position of each division in corporate management, the institution’s capital, earning power, risk management capability, human capacity, etc.?[1] Does the Board of Directors or equivalent organization to the Board of Directors review the details of each division’s operations and revise the method of establishing limits and the limits established in a regular and timely manner or on an as needed basis? Does the Board of Directors or equivalent organization to the Board of Directors compare the institution’s corporate strength and the quantity of market risk it faces and

[1] There are hard limits and soft limits. Hard limits trigger compulsory reduction of risks and positions when they are exceeded, while soft limits do not necessarily trigger such reduction but require that the Board of Directors or equivalent organization to the Board of Directors discuss and decide what measures to take. Usually, hard limits are established in the trading account and soft limits are established in the banking account. However, the inspector should review whether the two types of limits are established appropriately in a manner suited to the actual status of transactions.

make sure that the quantity of market risk is not excessive in relation to the corporate strength? Does the Board of Directors or equivalent organization to the Board of Directors pay attention to the following items, for example?

- In the case where the institution contains complex risks, does it conduct management of limits with due consideration for such risks?
- Does the institution give due consideration to market liquidity?

(3) Establishment of Market Risk Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have the Market Risk Management Division established and have the division prepared to undertake appropriate roles in accordance with the Market Risk Management Policy and the Market Risk Management Rules?[2]

(ii) Has the Board of Directors allocated to the Market Risk Management Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management business by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Market Risk Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing the operations?[3]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors keep the Market Risk Management Division independent from the Office (Trading, Banking) Divisions and Marketing and Sales Divisions and secure a check-and-balance system of the Market Risk Management Division?

(4) Development of Market Risk Management Systems in The Office (Trading, Banking) Divisions, Marketing and Sales Divisions , etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to the

[2] When the Market Risk Management Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of market risk management or when a Manager or Managers take charge of market risk management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[3] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Market Risk Management Division is reasonable in terms of a check-and-balance system and other aspects.

divisions involving market risks to be managed (e.g., the Office (Trading, Banking) Division, Marketing and Sales Divisions, etc.) and ensure that such divisions observe them? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager to identify the internal rules and operational procedures that should be observed by the Office (Trading, Banking) Divisions, The Marketing and Sales Divisions, etc. and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of market risk management in the Office (Trading, Banking) Divisions, The Marketing and Sales Divisions, etc. through the Manager or the Market Risk Management Division?

(5) Arrangement for The System of Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters? In particular, does it ensure that the Manager, without delay, reports to the Board of Directors or equivalent organization to the Board of Directors any matters that would seriously affect corporate management?

(6) System of Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor?[4]

(7) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to market risk management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and

[4] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

approve such guidelines and plan?[5] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the market risk management system
- Status of compliance with the Market Risk Management Policy, and Market Risk Management Rules, etc.
- Appropriateness of the market risk management computer systems[6]
- Appropriateness of the market risk management processes commensurate with the scale and nature of business and the risk profile
- Appropriateness of the use of market risk measurement and analysis methods (techniques, assumptions, etc.) taken into account the limits and the weaknesses thereof
- Validity of the market risk measurement and analysis methods (techniques, assumptions, etc.)
- Accuracy and completeness of the data used in market risk measurement and analysis
- Validity of scenarios, etc. used in stress tests
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(8) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of market risk management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Market Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the market risk management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of market risk management and assessing the effectiveness of market

[5] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

[6] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type. The same shall apply hereafter.

risk management, based on all the information available regarding the status of market risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings of investigations on the status of market risk management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the market risk management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings of investigations on the status of market risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Market Risk Management System By Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Market Risk Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Market Risk Management Rules

Has the Manager, in accordance with the Market Risk Management Policy, identified risks, decided the methods of assessment and monitoring thereof and developed the Market Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on a full understanding of the scope, types and nature of risk and the relevant market risk management technique? Have the Market Risk Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Market Risk Management Rules

Do the Market Risk Management Rules exhaustively cover the arrangements necessary for market risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business and its risk profile? Do the rules specify the following items, for example?

- Arrangements on the roles, responsibilities, and organizational framework of the Market

Risk Management Division, the Office (Trading, Banking) Division, and the Back-Office Division

- Arrangements on the identification of risks to be subjected to market risk management
- Arrangements on the market risk measurement and analysis methods (techniques, assumptions, etc.)
- Arrangements on the market risk monitoring method
- Arrangements on establishing market risk limits
- Arrangements on the periodic review of market risk measurement and analysis methods (techniques, assumptions, etc.)
- Arrangements on market value calculation;
- Arrangements on *TOKUTEI-TORIHIKI* (hereinafter referred to as the "Segregated Trading Book") (Trading Book)
- Arrangements the system of on reporting to the Board of Directors or equivalent organization to the Board of Directors

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with the Market Risk Management Policy and the Market Risk Management Rules, provide for measures to have the Market Risk Management Division exercise a check-and-balance system in order to conduct the system of market risk management appropriately?

(ii) Does the Manager ensure that they report to the Comprehensive Risk Management Division without delay when detecting any weaknesses or problems of the market risk management system that may affect comprehensive risk management?

(iii) With regard to New Products as specified by the Comprehensive Risk Management Policy, etc., does the Manager provide a system to identify their inherent risks in advance and report to the Comprehensive Risk Management Division when requested by the division to do so?[7]

(iv) Does the Manager provide a system to promote the sophistication of the institution's market risk management, including the expansion of coverage of market risk measurement and improvement in the precision thereof, in a manner befitting the scale and nature of the institution's business and its risk profile, based on an understanding of the limitations and weaknesses of the market risk measurement and analysis methods (techniques, assumptions, etc.)?

(v) Does the Manager provide a system to enable the Market Risk Management Division to obtain necessary internal data such as trading information and market data directly from the Office (Trading, Banking) Divisions in an appropriate manner? Does the Manager provide a system to

[7] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).

enable the Market Risk Management Division to directly command and supervise middle offices, etc. at branches?

(vi) Does the Manager have in place a market risk management computer system with the high reliability befitting the scale and nature of the financial institution's business and its risk profile, in order to identify all important market risks faced by the institution?

(vii) Does the Manager ensure the system of training and education to enhance the ability of employees to conduct market risk management in an effective manner, thus developing human resources with relevant expertise?

(viii) Does the Manager provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors without delay?

(4) Revision of Market Risk Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of the execution of business at the Market Risk Management Division? Does the Manager review the effectiveness of the market risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Market Risk Management Rules and the relevant organizational framework, or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Market Risk Management Division

1) Identification and Assessment of Market Risks

(1) Identification of Market Risks

(i) Does the Market Risk Management Division identify market risks faced by the institution and the risks subject to market risk management commensurate with the size and nature of the identified risks? When identifying market risks, does the Manager ensure that the process covers the full scope of business including the banking and trading books, overseas offices, consolidated subsidiaries, etc., in addition to exhaustively covering the risk categories such as interest rate risk, foreign exchange risk, and stock price risk (or risk factors) involved in its assets and liabilities (including off-balance sheet assets and liabilities)?

(ii) Of the risks held, does the institution identify the following risks, for example, and consider whether or not to subject them to market risk management?

a. Interest rate risk:

The risk of the current value (or periodic profit) of assets and liabilities (including off-balance sheet assets and liabilities) being affected by changes in interest rates. Repricing risk, yield curve risk, basis risk, and optionality must be taken into consideration as possible sources of interest rate risk. The following are examples of items which contain interest rate risk.

- Deposits
- Loans
- Bonds
- Financial derivative products

b. Foreign exchange risk:

The risk of the current value (or periodic profit) of assets and liabilities (including off-balance sheet assets and liabilities) being affected by changes in foreign exchange rates. The following are examples of items that contain foreign exchange risk.

- Assets and liabilities denominated in foreign currencies
- Foreign exchange transactions
- Derivatives of foreign exchange transactions (forward contracts, futures, swaps, options, etc.)
- Assets and liabilities whose cash flow (redemption value, coupon rate, etc.) is determined in reference to foreign exchange rates

c. Stock risk:

The risk of the current value (or periodic profit) of assets and liabilities (including off-balance sheet assets and liabilities) being affected by changes in stock prices, stock index prices, etc. . The following are examples of items that contain stock risk.

- Stocks
- Corporate bonds with equity-purchase warrants
- Stock derivatives (forward contracts, futures, swaps, options, etc.)
- Assets and liabilities whose cash flow (redemption value, coupon rate, etc.) is determined in reference to stock prices, stock index prices, etc.

d. Commodity risk:

The risk of the current value (or periodic profit) of assets and liabilities (including off-balance sheet assets and liabilities) being affected by changes in commodity prices, commodity index prices, etc. The following are examples of items that contain commodity risk.

- Commodity derivatives (forward contracts, futures, swaps, options, etc.)
- Assets and liabilities whose cash flow (redemption value, coupon rate, etc.) is determined in reference to commodity prices, commodity index prices, etc.

e. Other market risks

Among risk factors that determine the current value other than the ones listed in a. to d. is, for example, the correlation between two or more indices in reference to which the cash flow of assets and liabilities (including off-balance sheet assets and liabilities) is determined.

(iii) With regard to corporate bonds, credit derivatives, etc., does the Market Risk Management Division identify, for example, the risk that changes in the credit spread will affect the current value (or periodic profit) and consider whether or not to subject the risk to market risk management?[8]

(iv) With regard to options transactions, does the Market Risk Management Division identify the following risks, for example, and consider whether or not to subject them to market risk management?

- The risk of the current value (or periodic profit) being affected by changes in volatility (vega risk)[9]
- The non-linear portion of the risk produced for the current value by a change in the price of the underlying asset (gamma risk).[10]

(v) In the case where there are risks not subject to market risk management, has the institution determined if their impact is negligible?

(iv) When the institution handles New Products, purchases new products or starts business at overseas offices or subsidiaries, does the Market Risk Management Division sort out the inherent market risks in advance the risks subject to market risk management?

(2) Measurement and Analysis of Market Risks

(i) Does the Market Risk Management Division measure and analyze all of the risks subject to market risk management? Does it conduct market risk measurement and analysis in each of the areas that are consistent with the institution’s organizational framework and the roles and responsibilities allocated thereto?

(ii) Does the Market Risk Management Division measure the current value (market value) of the positions held by the institution with a frequency befitting the scale and nature of the institution’s business and its risk profile?

(iii) Does the Market Risk Management Division measure and analyze market risks in the banking and trading books with appropriate market risk measurement and analysis methods (techniques, assumptions, etc.) befitting the scale and nature of the institution’s business and its risk profile? Does the division conduct its risk measurement and analysis with due consideration for factors

8 In some cases, such risk is specified as credit risk, rather than market risk.
9 The vega risk is often specified as interest rate risk, foreign exchange risk, stock risk, commodity risk, etc. according to the type of the relevant underlying asset.
10 The gamma risk is often specified as interest rate risk, foreign exchange risk, stock risk, commodity risk, etc. according to the type of the relevant underlying asset.

that may affect the current value of assets and liabilities (including off-balance sheet assets and liabilities) and factors that may affect the periodic profit thereof?

Note: The following are examples of measurement and analysis techniques regarding market risk.

- Analysis of the balance of positions, unrealized profits/losses and realized profits/losses
- Gap analysis and static and dynamic simulation analysis based on the replacing-based ladder and maturity ladder
- Sensitivity analysis (duration, BPV (basis point value), GPS (grid point sensitivity), etc.)
- Scenario analysis using static and dynamic simulation
- VaR (value at risk)
- EaR (earnings at risk)

(iv) Does the Market Risk Management Division ensure validity of the pricing model, the risk measurement and analysis techniques (or measurement models), the assumptions, etc? Are the pricing model, concepts and risk measurement techniques used by the institution generally accepted in the financial industry?

(3) Risk Measurement with Uniform Yardstick

In the case where the quantity of market risks is measured with a uniform yardstick, does the Market Risk Management Division measure all of the risks identified as subject to market risk management with the use of a uniform yardstick? When there are risks that cannot be sufficiently grasped by a uniform yardstick or that have not been measured thereby, does the division take into consideration those risks identified as subject to market risk management by using supplementary information?

(4) Stress Test

Does the Market Risk Management Division measure the amount of changes in the current value of assets and liabilities (including off-balance sheet assets and liabilities) under stress conditions in a regular and timely manner or on an as needed basis? Does the division conduct stress tests based on stress scenarios that take into consideration major changes in the external environment (economy, market, etc.) that have occurred in the past as well as the current external environment and the scale and nature of the institution’s business and its risk profile?

2) Monitoring

(1) Monitoring of Market Risks

Does the Market Risk Management Division, in accordance with the Market Risk Management Policy and the Market Risk Management Rules, conduct monitoring with regard to the status of market risks faced by the financial institution with an appropriate frequency in light of the financial institution's internal environment (risk profile, the status of risk limits usage, etc.) and external environment (economy, markets, etc.)? For example, with regard to the trading books, does the Market Risk Management Division monitor the positions and loss of major products on an as-needed basis during the daytime? Does the division conduct monitoring with regard to the status of internal and external environments and the validity of the assumptions?

(2) Monitoring of Compliance with Risk Limits

Does the Market Risk Management Division appropriately monitor the status of compliance with the risk limits and the status of the use thereof?

(3) Reporting to Board of Directors or equivalent organization to Board of Directors

Does the Market Risk Management Division, in accordance with the Market Risk Management Policy and the Market Risk Management Rules, provide in a regular and timely manner or on an as needed basis information necessary for the Board of Directors or equivalent organization to the Board of Directors to make an appropriate assessment and judgment with regard to the status of the market risk management and the status of market risks? Does the division report the following items, for example?

- The market risk profile and the trend thereof
- The status of compliance with the risk limits and the status of the application thereof
- The nature (limitations and weaknesses) and validity of the market risk measurement and analysis methods (techniques, assumptions, etc.)

(4) Feedback to Office (Trading, Banking) Divisions, etc.

Does the Market Risk Management Division provide feedback for the results of its measurement, analysis and review with regard to the status of market risks to the Office (Trading, Banking) Division, etc?

3) Control and Mitigation

(1) Countermeasures to Case Where Unmanageable Market Risks Exist

In the case where risks not covered by market risk management have non-negligible effects or where risks to be controlled through market risk management cannot be managed appropriately, does the Market Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to make decisions as to whether the financial institution should withdraw from or downsize the business affected by those risks?

(2) Countermeasures to Case Where Risk Limits are Exceeded

In the case where the financial institution has exceeded the risk limits, does the Market Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors without delay to make decisions as to whether to take steps to mitigate positions and risks, etc?

4) Review and Revision

(1) Sophistication of Market Risk Management[11]

Does the Market Risk Management Division conduct a review to grasp the limitations and weaknesses of market risk measurement and analysis methods (techniques, assumptions, etc.) and devise countermeasures to complement the said methods? Does it conduct investigations, analysis and feasibility studies in light of those limitations and weaknesses with a view to making risk management more sophisticated to suit the risk profile?

(2) Revision of Market Risk Identification

Does the Market Risk Management Division check in a regular and timely manner or on an as needed basis whether or not the impact of risks not subject to market risk management has increased due to changes in the scale and nature of the institution's business and its risk profile or changes in the external environment (economy, market, etc.)? In the case where the impact is determined as significant, does the division take appropriate countermeasures?

(3) Revision of Market Risk Assessment Method

(i) Does the Market Risk Management Division review in a regular and timely manner or on an as needed basis whether the coverage, frequency, technique of market measurement and analysis, etc. are suited to the institution's strategic objectives, the scale and nature of its business and its risk profile? When a revision is necessary, does the division make the revision based on the internal rules after following appropriate procedures?

(ii) Does the Market Risk Management Division conduct theoretical and empirical review of the pricing model, the market measurement and analysis techniques and the assumptions, etc. and make the revision thereof in a regular and timely manner or on an as needed basis? Does the division review and revise the market risk measurement method by comparing the measurement results with the actual trend of profits/losses?

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11 It should be noted that sophistication of risk management includes not only expansion of scope of risk measurement and improvement in precision and other aspects of risk management but also enhancement of measures to complement the limits and weaknesses of the management and the technique of utilizing measurement results.

(4) Revision of Method of Establishing Limits and Limits Established

Does the Market Risk Management Division review in a regular and timely manner or on an as needed basis whether the method of establishing limits and the limits established are suited to the financial institution's strategic objectives, the scale and nature of its business and its risk profile? In the case where a revision is deemed necessary, does the division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors without delay to make appropriate assessments and decisions?

(5) Revision of Strategic Objectives, etc.

Does the Market Risk Management Division review the reasonableness of the risk-return strategy by comparing the results of market risk measurement and the trend of actual profits/losses? Does it provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to revise the strategic objectives, etc.?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of market risk management.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Conduct of Market Activities

(1) Appropriate Conduct of Market Activities

Do the Office (Trading, Banking) Divisions conduct market activities appropriately in accordance with the strategic objectives, the Market Risk Management Policy, the Market Risk Management Rules, etc.? Does the Market Risk Management Division conduct monitoring for whether the Office (Trading, Banking) Divisions are conducting risk control and other activities appropriately and report the status of activities to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? If it finds that market activities are not conducted in accordance with the strategic objectives, the Market Risk Management Policy, the Market Risk Management Rules, etc., does the Market Risk Management Division promptly take improvement measures?

(2) Transactions Based on Fair Prices

Do the Office (Trading, Banking) Divisions conduct transactions at fair prices? Does the

Market Risk Management Division check whether the Office (Trading, Banking) Divisions are conducting transactions at fair prices by using deviations from market rate as a basis for its judgment?

(3) Management of Limits

(i) Do the internal rules, etc. specify the arrangements and procedures for prompt reporting to the Manager the delegation and the countermeasures to be taken when the risk limits, position limits and loss limits are exceeded or likely to be exceeded? Do the internal rules, etc. stipulate that once the limits (in case of hard-limit) are exceeded, the positions must not be maintained?

(ii) Does the institution delegate the authority concerning positions, profit objectives, loss control limits, etc. in writing to the director in charge, the Manager and dealers and make clear to dealers the focus of responsibility, for example by obtaining signed confirmation from dealers each time the limits are changed? Does the institution regularly (at least once every half year) revise the limits established for each division?

(iii) Are the internal rules etc. concerning the limits applied rigorously? In the case where any problem is detected in the internal rules or the enforcement thereof, are appropriate improvement measures taken?

(4) Analysis of Profit/Loss Status, etc. and Checks on Inappropriate Handling

Is there not any inappropriate practice using derivatives and other transactions for the purpose of manipulating the account settlement? In the case where the Office (Trading, Banking) Divisions, etc. generate excessive profits, does the Market Risk Management Division analyze the cause thereof and check whether or not the excessive profits result from inappropriate practices such as those deviating from the internal rules? Does the Market Risk Management Division inspect profits/losses to examine them in relation to the contract value, the notional amount and the trading volume, etc.?

(5) Reporting to Market Risk Management Division

Do the Office (Trading, Banking) Divisions provide all information concerning market risks without delay and accurately to the Market Risk Management Division? In the case where a problem related to market risk management occurs, is it ensured that the person in charge of the relevant activities and the relevant Office (Trading, Banking) Division report it to the Market Risk Management Division without delay and accurately, rather than try to resolve the problem on his or her own and within the division itself?

(6) Development of Mutual Check-and-Balance System

(i) In the case where computer systems of the Office (Trading, Banking) Divisions, the Market Risk Management Division and the Back-Office Division are not integrated, does the Market Risk Management Division obtain position information, etc. from both the Office (Trading, Banking) Divisions and the Back-Office Division and determine if there is no discrepancy between the two sets of information?

(ii) Does the Market Risk Management Division have a sufficient number of staff members to monitor transactions?

(iii) Does the Market Risk Management Division regularly examine and analyze profits/losses (including unrealized evaluation profits/losses) in the relevant business term to verify whether there is any irregularity. In such examination and analysis, does the division compare the losses/profits with the risk quantity, for example?

(iv) Is consideration given to the following matters in order to exercise a mutual check and balance system?

- Is familiarity between the chief dealer and the Back-Office Division Manager not creating a situation in which dealers are allowed to directly engage in system operation and issue instructions with regard to accounting?
- Are there any experienced dealers so trusted by others that their conduct of transactions is regarded as unquestionable? Is the institution aware that human risk increases when it depends too much on specific individuals and does it conduct management in a way so as to avoid such risk?
- Is the market-related organization not run in a way to hamper the function of a check-and-balance system, for example, with a confirmation section established under the Office (Trading, Banking) Division Manager or the same person serving as the Manager of both Market and Back-Office Divisions?
- Is dealer trading voice-recorded 24 hours a day and are the trades on the voice recording checked against trading records with sampling and other methods?

  Are recorded tapes stored for a prescribed period of time? Are the tapes stored under the control of an organization segregated from the Market and Back-Office Divisions (e.g. the Market Risk Management Division, etc.) or a section of the Back-Office Division segregated from the responsibilities? It is desirable that telephone conversations involving the Back-Office Division be recorded, too, for follow-up checks. It should be noted that when comparing the trades on the voice recording with dealing tickets (trading records), it is necessary to check whether the all trades on the voice recordings are covered by dealing tickets, rather than checking the dealing tickets against the recordings.
- Is at-home dealing allowed only under restricted conditions for purposes such as avoiding risks related to off-hours trading? Does the institution specify the maximum trading

volume and the types of transactions allowed for at-home trading and the dealers allowed to engage in such trading (Do the internal rules specify these items)? Are answering machines and other similar devices used to voice -record at-home dealing?

- Are all dealers fully aware that dealing recordings are regularly checked against dealing tickets?

2. Assets and Liabilities Management

1) Policy Development and Organizational Frameworks

(1) Development of Strategic Objectives, etc.

(i) Is an ALM Committee, etc.[12], as an entity that comprehensively manages assets and liabilities and participates in the development and implementation of the ALM strategies and the like, involved in the development of strategic objectives, etc. for the Office (Trading, Banking) Divisions?

(ii) Does the ALM Committee, etc., in accordance with the strategic objectives, the Market Risk Management Policy and the Market Risk Management Rules, discuss the management of assets and liabilities, including long-term investments for business relationships and off-balance sheet assets and liabilities, and conduct risk control in relation to the institution’s capital and other elements of institution’s soundness? For example, does the ALM Committee, etc. control the level of interest rate risk in the banking book in relation to the capital?

(iii) Does the ALM Committee, etc. make effective use of the results analyzed by divisions involved in interest and foreign exchange rate forecasts, risk measurement, and hedging transactions in their analysis and examination? With regard to interest rate risk in particular, are the results of assessments based on multifaceted and appropriate risk analysis and measurement reported accurately to the ALM Committee, etc., and are sufficient discussions conducted on the management of assets and liabilities? Does the ALM Committee, etc. also examine the possible impact of offsetting effects of assets in various risk categories?

(2) Framework of ALM Committee, etc.

(i) Is there an arrangement to ensure that important information related to the Office (Trading, Banking) Divisions is provided to the ALM Committee, etc. in a timely and appropriate manner? Is the definition of the important information that must be provided to the ALM Committee, etc. specified by the internal rules?

(ii) Do the directors and Managers in charge of the relevant divisions attend all meetings of the

[12] In the case where an ALM Committee, etc. is not in place, the inspector should review whether an alternative risk management process is performing necessary functions.

ALM Committee, etc. and involve themselves in deliberations? When an incident that may seriously affect corporate management, such as a major change in the market environment, occurs, is a meeting of the ALM Committee, etc. held in a timely and appropriate manner with the participation of the representative directors?

2) Appropriate Assets and Liabilities Management

(1) Management of Limits

In comprehensive management of assets and liabilities, is management of limits conducted from the perspective of market risk management in accordance with the Market Risk Management Policy and the Market Risk Management Rules? Are limits established with due consideration for the capital and net profits from core businesses and are the limits established not excessive compared with the institution's corporate tolerance? Are long-term investments for business relationships and off-balance sheet assets and liabilities also taken into consideration in the setting of limits? Are alarm points set as necessary to issue warnings before the limits are reached? Are procedures in place for reporting and other measures to be taken when the alarm is triggered? Are the limits and alarm points revised in a regular and timely manner or on an as needed basis?

(2) Risk Control

Are market risk elements such as changes in interest rates, foreign exchange rates and prices controlled in accordance with the strategic objectives, etc., the Market Risk Management Policy and the Market Risk Management Rules? Is the level of interest rate risk in the banking book controlled, for example?

(3) Utilization of Examination by ALM Committee, etc. for Corporate Strategies

(i) Are the results of analysis by the ALM Committee, etc. taken into consideration when the Board of Directors develops strategic objectives and the Market Risk Management Policy?

(ii) Does the Market Risk Management Division review whether the market risk control is conducted in accordance with the strategic objectives, etc., the Market Risk Management Policy and the Market Risk Management Rules and the like and report its findings to the Board of Directors or equivalent organization to the Board of Directors? In the case where it finds otherwise, does the division take improvement measures without delay?

3. Funds

1) Management of Screening

(1) Decision-Making Process

When the institution purchases a fund, does it go through a decision-making process based on the internal rules, etc., with due recognition and understanding of the nature of the fund and the risks involved therein? For example, does the institution appropriately check the structure of the fund, the fund Manager risk and liquidity risk involved and the limitations of the institution's approach to management?

(2) Screening at the Time of Purchase

When purchasing a fund, does the institution appropriately check the following items, for example, based on its selection criteria?

- Investment strategy
- Risk management policy, risk management method
- Volatility
- Profit stability
- Nature of leverage and leverage policy

(3) Acquisition of Information

Does the contract provide for disclosure of information at appropriate intervals? Are details of the information disclosed sufficient in terms of risk management?

2) Continuous Risk Management

(1) Conduct of Appropriate Risk Management

Does the institution conduct risk management concerning the fund purchased based on sufficient understanding of the details of the fund, such as the presence or absence of an audit and the length of the cancellation period?

(2) Grasp of Investment Status

Does the institution review, with the use of asset management reports and the like, whether the fund is managed in accordance with the investment strategies, investment guidelines, etc. explained in advance? Does the institution appropriately check any change in the investment style of the fund?

(3) Acquisition of Information

Is the contract maintained in a way to ensure sufficient disclosure at appropriate intervals in terms of risk management, and are its terms observed?

3) Others

(1) Market-Value Evaluation

Does the institution review and check the validity of the various elements for determining the market value of the fund purchased, such as the assessment method of the fund's investment assets and other basic matters?

(2) Risk Quantity Measurement, etc.

Does the institution measure the risk quantity appropriately in a manner befitting the nature of the fund? Is the risk quantity measured within the appropriate investment limitations established with due consideration for the institution's capital, profit-earning power, etc.?

4. Market Risk Measurement Technique[13]

(1) Establishment of Market Risk Measurement System

(i) Is the market risk measurement system conceptually sound and implemented with integrity?

(ii) Is the role of the market risk measurement technique clearly positioned under the Market Risk Management Policy and implemented based on an understanding of the items listed below, for example? Does it determine if it is implemented with integrity to consolidated subsidiaries as well?

(a) The financial institution's strategic objectives, the scale and nature of its business and its risk profile

(b) The basic design concept of the market risk measurement technique based on (a)

(c) Identification and measurement of market risk based on (b) (coverage, technique, assumptions, etc.)

(d) The nature (limitations and weaknesses) of the market risk measurement techniques that derive from (c) and the validity of the technique

(e) Details of backtesting to study (d) (in the case where a statistical technique is employed to measure the risk quantity)

(f) Details of stress tests to supplement (d) (in the case where a statistical technique is used to measure the risk quantity)

(iii) In the case where capital allocation management[14] is employed has the capital allocation management policy been developed based on the outcomes obtained through the calculation of the market risk measurement technique? When there are risks which are not measured with this technique, are there any reasonable grounds for excluding them from the measurement ? Is the risk capital allocated with due consideration for the risks excluded from the measurement?

[13] Risk measurement techniques include not only statistical techniques but also BPV (basis point value), GPS (grid point sensitivity), etc.

[14] See Checklist for Capital Management

2) Appropriate Involvement of Directors, Corporate Auditors and Board of Directors or equivalent organization to Board of Directors

(1) Understanding of Market Risk Measurement Technique

(i) Do directors understand that decisions concerning the market risk measurement technique as well as the risk limits and the risk capital limits (in the case where capital allocation management is employed) have serious implications for the financial institution's corporate management and financial conditions?

(ii) Does the director in charge of market risk management understand the market risk measurement technique required for the business of the financial institution and comprehend the nature (limitations and weaknesses) thereof?

(iii) Do directors and corporate auditors seek to enhance their understanding of the market risk measurement technique by receiving training or through other means?

(2) Approach to Market Risk Management

(i) Do directors involve themselves actively in market risk management that uses the market risk measurement technique?

(ii) Does the Board of Directors clearly define the basic concept of the market risk measurement technique deemed as necessary for the business of the financial institution?

(iii) Does the Board of Directors or equivalent organization to the Board of Directors take into consideration the results of stress tests when developing the Market Risk Management Policy and the Market Risk Management Rules?

3) Establishment of Independent Market Risk Management Division

(1) Securing of Independence of Market Risk Management Division

Does the institution have the Market Risk Management Division in charge of designing and operating the market risk management system established independently from the Office (Trading, Banking) Divisions? In the case where the institution is subject to market risk capital requirement, is the same director not in charge of the Office (Trading, Banking) Divisions and the Market Risk Management Division?

(2) Clarification of Roles and Responsibilities of Market Risk Management Division

Are the Market Risk Management Rules clearly defined the roles and responsibilities of the Market Risk Management Division?

(3) Roles and Responsibilities of Market Risk Management Division

(i) Does the Market Risk Management Division report the outcomes obtained through the use of the market risk measurement technique directly to the director in charge and the Board of Directors or equivalent organization to the Board of Directors?

(ii) Has the Market Risk Management Division fully disseminated the internal rules and detailed operational procedures, etc. that must be observed to all of the relevant divisions?

(iii) Does the Market Risk Management Division appropriately analyze and assess the outcomes obtained through the use of the market risk management technique?

4) Deployment of Staff for Market Risk Management

(i) Are staff members with expertise in using the market risk measurement technique and the pricing model secured according to the needs of the operations of the relevant divisions (the Office (Trading, Banking) Divisions, the Market Risk Management Division, the Back-Office Division, the Internal Audit Division, etc.)?

(ii) Does the Manager have sufficient knowledge and experience with regard to the market risk measurement technique and the pricing model?

5) Framework for Research on Market Risk Measurement Technique

Is a framework in place for conducting research on the market risk measurement technique? Is research conducted on the following items, for example?

- Countermeasures of the limitations and weaknesses of the market risk measurement technique
- Preventing the market risk measurement technique from technology obsolescence
- Response to changes in the composition of market risks in the portfolio
- Elaboration and sophistication of the market risk measurement technique

6) Development of Internal Rules, etc. Concerning Market Risk Measurement Technique

(1) Development of Internal Rules

Has the institution developed the internal rules and detailed operational procedures that specify the policy concerning the use of the market risk measurement technique and the management and procedures thereof, and does it regularly revise the rules and detailed operational procedures? Is consistency secured between other internal rules and operational procedures concerning the market risk management system?

(2) Compliance with Internal Rules

Does the institution provide a system to ensure compliance with the internal rules and detailed operational procedures, etc.?

7) Incorporation of Market Risk Measurement Technique into Regular Market Risk Management

(1) Compilation and Communication of Reports on Market Risk Measurement Results

(i) Are the results of market risk measurement promptly reflected in risk reports and communicated to the Manager?

(ii) Are appropriate measures taken when the results of the calculation of the market risk measurement technique show a breach of the limits established by the institution?

(iii) Is a report that includes comments for consideration by the Manager and sums up the status of major market risks compiled regularly and communicated to the Manager?

(2) Analysis and Utilization of Market Risk Measurement Results

(i) Are the outcomes obtained through the use of the market risk measurement technique appropriately analyzed and utilized for market risk management?

(ii) Do the relevant divisions utilize risk reports for their daily risk management business?

(iii) Are the results of market risk measurement fully utilized for the development of strategic objectives, the Market Risk Management Policy and the Market Risk Management Rules as well as for monitoring? Are the results also taken into account in the development of the investment policy and the establishment of limits?

(iv) Is analysis conducted on the relation among the market risk quantity calculated with the use of the market risk measurement technique, the limits and profit objectives established by the institution?

(v) Are the outcomes obtained through the use of the market risk measurement technique (e.g. VaR (value at risk)) utilized for performance evaluation? Is performance evaluation conducted for each of the business units divided along the line of internal control for earning management, based on the risk-return analysis using the outcomes obtained through the use of the market risk measurement technique employed?

(3) Appropriate Use of Market Risk Measurement Technique

(i) When the institution modifies the market risk measurement technique, does it follow appropriate procedures?

(ii) When the institution modifies the market risk measurement technique, does it disseminate the modification to the relevant divisions and consolidated subsidiaries after determining the modified technique's consistency with the Market Risk Management Policy?

(iii) It is desirable for the Office (Trading, Banking) Divisions and the Market Risk Management Division to conduct market risk management by using the outcomes obtained through the use of the same market risk measurement technique. When the techniques used by them are not the same, are the differences comprehended?

8) Market Risk Measurement

(1) Securing of Appropriateness of Market Risk Measurement Technique

(i) Does the institution use a market risk measurement technique that covers all of the important market risks it takes? In the case where there are risks excluded from measurement, has the institution reviewed the judgment that those risks are not important?

(ii) When employing market risk measurement technique, does the institution make the selection after weighing it's calculation results against the outcomes obtained through the use of other techniques by using test data?

(2) Reflection of Market Risk Measurement Technique in Computer System

(i) Are changes in the risk measurement technique (measurement technique, assumptions, etc.) accurately reflected in computer systems?

(ii) Is consistency secured between the systems used by the Office (Trading, Banking) Divisions, the Market Risk Management Division and the Back-Office Division? It is desirable that the Office (Trading, Banking) Divisions and the Market Risk Management Division use the same models (market risk measurement model, pricing model, risk factor calculation method, etc.). If this is not the case, does the institution comprehend the differences between the models used by the Office (Trading, Banking) Divisions and the Market Risk Management Division?

(3) Data Input into Computer System

(i) Does the institution obtain data at an appropriate time? Has it established detailed guidelines for detecting and handling extraordinary data and is it operating based on these guidelines?

(ii) Does the institution check data for errors?

(iii) Do external data used by the institution come from appropriate sources? In the case where data from multiple sources are used, is there a rational reason for this and is consistency among those data secured? Is there not any problem with consistency, timing, reliability, and independence of the data source?

(iv) Are the accuracy and completeness of position data secured? For example, is the input process of transaction data conducted through a direct link? When the input process is manual, is a review conducted to verify the data accuracy?

(4) Handling of New Products

Before introducing New Products, does the institution firmly comprehend the nature of the market risks involved and build the risks into the market risk measurement technique? In the case where the institution decides not to apply the market risk measurement technique to the risks involved in New Products, are the grounds not to apply it reasonable?

9) Measurement of General Market Risk (in the case where the quantity of general market risk is measured)

(1) Market Risk Measurement

Does the institution use a measurement technique that covers all of the important risks it takes and conduct risk measurement appropriately? In the case where there are products and risk factors to which the market risk measurement technique is not applied in the calculation of the risk quantity, does the institution take steps to comprehend the quantity of the risks involved therein with the use of an alternative technique?

- Does the institution capture linear and non-linear risks when measuring its market risks?
- In the case where the institution takes optionality, does it capture the gamma and vega risks involved in options?
- In the case where the institution owns path-dependent products, does it capture the risks inherent in such products?
- In the case where the institution uses proxy variables in its risk measurement, does it capture residual risk?

(2) Frequency of Risk Measurement

In the case where the institution uses the internal model approach under market risk capital requirements, does it conduct daily measurement of VaR in the trading book?

(3) Confidence Level

In the case where the institution uses the internal model approach under market risk capital requirement, does it apply a one-tail confidence level of 99%? Does the accuracy of the outcome obtained through the use of the market risk measurement technique suit the confidence level applied? With regard to the outcome for use in internal control, in addition to verifying the accuracy of the results, are the grounds for the adoption of the confidence level applied clear?

- In the case where a parametric technique (variance-covariance method, etc.) is employed, is the assumption of distribution appropriate?
- In the case where a simulation method (historical simulation method, etc.) is employed, is the estimation of the distribution tail appropriate?
- In the case where the Monte Carlo simulation method is employed, are the precision of random numbers and simulation times consistent with the confidence level applied?

(4) Holding Period

In the case where the institution uses the internal model approach under market risk capital requirement, is the holding period set at 10 trading days or longer? Is the institution's data sampling method appropriate for the holding period? With regard to the data sampling method for internal control, is the holding period adopted consistent with the position's liquidation horizon and the characteristics of positions, in addition to reviewing the data sampling method?

(5) Historical Data Observation Period, Update Frequency and Handling of Deficient Data

(i) Is the historical observation period one year or longer? Is the historical data observation period adopted valid?

(ii) Are historical data updated at least once every three months? When a problem that may undermine the validity of the update frequency, such as large fluctuations in market prices, occurs, does the institution take appropriate countermeasures based on recognition of the need to update historical data?

(iii) Is the method of supplementing deficient data appropriate?

(6) Consideration of Correlation

(i) In the case where the institution takes into consideration the correlation between risks within each broad risk category (interest rate risk, foreign exchange risk, stock risk and commodity risk. Option volatility is included in a relevant risk category), does it determine the validity of the correlation with the use of historical data?

(ii) In the case where the institution takes into consideration the correlation among broad risk categories, does it determine the reasonableness of the correlation and compile and store documents that explain this reasonableness?

(7) Establishing Market Risk Factors

(i) Are market risk factors established in a way to enable the institution to sufficiently capture the market risk inherent in the institution's portfolio?

- Does the institution establish market risk factors with regard to the broad risk categories of interest rate, foreign exchange, stock and commodity risks?
- Does the institution revise the market risk factors set in a manner befitting the change in its business, the market environment, etc.?
- In the case where proxy variables are used, are they valid and conservative?

(ii) Are interest rate risk factors established in a way to enable the institution to sufficiently capture the interest rate risk inherent in the institution's portfolio?

- Has the institution developed internal rules and detailed operational procedures concerning the yield curve formulation method?

- Is there not any problem with the consistency of the establishing yield curve-related risk factors (currency, type, period) and the modeling approach with the nature of the institution's portfolio?
- Does the institution capture spread risk?

(iii) Are foreign exchange risk factors established in a way to enable the institution to sufficiently capture the foreign exchange risk inherent in the institution's portfolio?

- Is the institution's treatment of a currency which lacks market liquidity in its market risk measurement consistent with its treatment of such a currency in the business policy?

(iv) Are stock risk factors established in a way to enable the institution to sufficiently capture the stock risk inherent in the institution's portfolio?

- Are the stock risk factors established in a manner consistent with the nature of market and investment (unlisted shares, funds, the level of diversification and concentration of issues, etc)?

(v) Are commodity risk factors established in a way to enable the institution to sufficiently capture the commodity risk inherent in the institution's portfolio?

(vi) Are risk factors that enable the institution to sufficiently capture the optionality risk inherent in the institution's portfolio established within each risk category?

- Has the institution developed internal rules and detailed operational procedures concerning the method of the volatility curve formulation?
- Is there not any problem with the consistency of the establishing volatility risk factors (currency, type and term) and the modeling approach with the nature of the institution's portfolio?

(vii) In the case where the institution's portfolio contains risks other than the ones mentioned in (ii) to (vi), are risk factors established in a way to enable the institution to sufficiently capture such risks?

(8) Position Data

Does the institution establish relations between position data and risk factors in an accurate and appropriate manner? In mapping of assets related to two or more risk factors, does the institution match the assets with the corresponding risk factors?

10) Measurement of Specific Risks (in the case of financial institutions subject to market risk capital requirement, or that measure the risk quantity with regard to specific risks)

(i) Does the institution measure all specific risks?

(ii) In the case where the institution measures specific risks with the use of the internal model approach, does it meet the following criteria?

- Can the institution explain the past price changes concerning its portfolio?
- Does the institution capture the impact of changes in its portfolio (including the level of risk concentration) on market risks as a whole?
- Does the institution comprehend the impact on the market risk in its entirety caused by the changes in market environment?
- Does the institution comprehend the difference between the risks involved in positions similar to each other but not identical given the difference in their maturities, levels of subordination and credit incidents involved, etc.?
- Does the institution accurately capture event risk and default risk?
- Can the institution show based on the results of backtesting that it accurately captures specific risks?
- Does the institution, under realistic market scenarios, conservatively assess risks arising from less liquid positions or positions with limited price transparency?

(iii) With regard to the event risk not captured by the market risk management technique because it is beyond the 10-day holding period and 99 percent confidence interval, does the institution capture the impact of such events through appropriate techniques such as stress testing?

(iv) In the case where the institution does not measure specific risks with the use of the internal model approach, does it use The Standardized Approach ?

11) Backtesting (in the case where a statistical technique is used to measure the risk quantity)

(1) Implementation of Backtesting

(i) Does the institution document the purpose, implementation method and frequency of backtesting as well as the analysis and reporting procedures thereof?

(ii) Does the institution regularly conduct backtesting with the use of actual profits/losses or hypothetical profits/losses for no portfolio changes?

In order to review the appropriateness of the market risk measurement technique, does the institution use profits/losses befitting a statistical verification?

(iii) In the case where the institution takes into consideration the correlation measured based on historical data within each broad risk category (interest rate risk, foreign exchange risk, stock risk and commodity risk; however, option volatility is included in a relevant risk category), does it conduct backtesting on a category-by -category basis in a manner befitting the nature of the business?

(2) Analysis of Backtesting Results

(i) When the actual profits/losses exceeds the outcome obtained through the use of the market risk measurement technique, does the institution analyze and study the cause thereof and revise the measurement model accordingly?

(ii) Does the institution take appropriate responses according to the number of exceptions that actual profits/losses exceeded the outcomes obtained through the use of the market risk measurement technique?

(iii) Does the institution comprehend, based on the results of backtesting, the nature of the market risk measurement technique (limitations and weaknesses) and risks not covered by the technique and ensure the reliability and appropriateness of the market risk measurement technique by taking necessary countermeasures?

(iv) Are the results of backtesting and the results of the analysis and study thereof reported to the director in charge and the Board of Directors or equivalent organization to the Board of Directors? Does the institution provide a system to ensure that when any problem with regard to the appropriateness of the market risk measurement technique is detected based on the results of backtesting and the analysis thereof, the problem is reported to the Board of Directors or equivalent organization to the Board of Directors without delay and countermeasures are formulated?

12) Calculation of Market Risk Equivalent Amount under Market Risk Capital Requirement (in the case of financial institutions subject to market risk capital requirement)

(1) Calculation of Market Risk Equivalent Amount

Is the market equivalent amount adopted by the institution the larger of the VaR (value at risk) on the calculation base date and a figure obtained by multiplying the average VaR (value at risk) over the last 60 trading days including the calculation base date by the prescribed multiplier?

(2) Appropriate Response to Exceptions in Backtesting

Whenever a daily actual loss amount exceeds the relevant daily VaR (value at risk) five times or more during the most recent 250 trading days including the calculation base date, does the institution establish the system to analyze the cause and explain it clearly?

13) Stress Tests (in the case where a statistical technique is used to measure the risk quantity)

(1) Implementation of Stress Tests

(i) Does the institution document the purpose, implementation method and frequency of stress tests as well as the analysis and reporting procedures thereof?

(ii) Does the institution conduct stress tests in an appropriate manner in a regular and timely manner or on an as needed basis? If the institution is subject to market risk capital requirement, it should regularly conduct stress tests.

(iii) Do the risk factors subject to stress tests cover material transactions? Does the institution revise risk factors not subject to stress tests as necessary?

(2) Developing of Stress Scenario

Does the institution develop scenarios that take into consideration incidents that may seriously affect the financial institution and supplement the limitations and weaknesses of the market risk measurement technique?

- Does the institution develop stress scenarios, which apply market turmoil, where big price fluctuations and a rapid decline of liquidity occurred simultaneously in the past crises, to the current portfolio?
- Does the institution develop a worst-case scenario for its portfolio?
- Do the stress scenarios set by the institution reflect its risk nature? Do the scenarios take into consideration the nature of options and products similar in nature to options, for example?
- Does the institution set stress scenarios in case the assumptions of the market risk measurement technique, etc. are failing ?

(3) Utilization of Stress Test Results

Are the results of stress tests and the results of analysis and study thereof reported to the director in charge and the Board of Directors or equivalent organization to the Board of Directors? Does the institution provide a system to ensure that when a large amount of loss is expected as a result of a stress test, the case is reported to the Board of Directors or equivalent organization to the Board of Directors without delay and corrective measures are formulated? Does it utilize the test results in a way to reflect them in the investment policy, the establishing limits and the internal capital adequacy assessment?

14) Review of Accuracy and Appropriateness of Market Risk Measurement Technique (in the case where a statistical technique is used to measure the risk quantity)

(i) Are the accuracy and appropriateness of the market risk measurement technique assessed and challenged in the development stage and regularly thereafter by a person or persons with no involvement in the development of the market risk measurement technique and with sufficient capabilities? Is such a review also made in the case where a material modification of the market risk measurement technique, a structural change of the market or a change in the portfolio may undermine the accuracy and appropriateness of the technique?

(ii) Does the institution not underestimate risks in using the market risk measurement technique because of inappropriate assumptions, etc.?

(iii) Does the institution conduct backtesting in order to assess the accuracy and appropriateness of the market risk measurement technique? Does it seek to enhance the review by conducting medium- and long-term analysis, for example, in addition to backtesting required by regulation?

(iv) Does the institution obtain reasonable assessment results by reviewing the measurement model in an appropriate manner in light of the institution's portfolio and the structure of the market risk measurement technique?

(v) Does a review using a hypothetical portfolio show that the market risk measurement technique appropriately captures the impact that may arise from the structural nature of the portfolio?

15) Document of Records on Market Risk Management Technique (in the case where a statistical technique is used to measure the risk quantity)

Does the institution develop the system to keep meticulous records, for future reference, on the deliberation process with regard to the selection of the market risk measurement technique and the assumptions thereof and the grounds for the selection, in order to enable a follow-up review and utilize the records to make the measurement more sophisticated and elaborated? Does the institution keep records with regard to the following items, for example?

- The basic design concept
- Documents that explain the key points and details of the market risk measurement technique (measurement technique, assumptions, etc.)
- Results of deliberation with regard to the selection of the market risk measurement technique and the grounds for the selection
- Details of the implementation of assessment of the accuracy and appropriateness of the market risk measurement technique, results of assessment thereof and the grounds for the judgment
- Details of the implementation of backtesting and stress tests, results of assessment thereof and the grounds for the judgment
- The pricing model of each product

16) Audits (in the case where a statistical technique is used to measure the risk quantity)

(1) Development of Audit Program

Has the institution developed an audit program that exhaustively covers audits of the market risk measurement technique?

- Does a person in charge of internal audits have expertise in the market risk measurement technique?
- Is an internal audit conducted at least once a year?

(2) Scope of Internal Audits

Is auditing conducted to check the following items?

- Consistency of the market risk measurement technique with the strategic objectives, the scale and nature of the business and the risk profile
- Appropriateness of employing the market risk measurement technique in light of the nature (limitations and weaknesses) thereof
- Appropriate documentation of records on the market risk measurement technique and timely updating thereof
- Appropriateness of the deployment of staff members with expertise in the use of the market risk measurement technique and pricing models
- Integration of the results obtained through the use of the market risk measurement technique into daily management of market risks
- Appropriateness of the approval process of a new model that includes pricing models and a market risk measurement technique
- Appropriate reflection of any modification of the process of market risk management in the measurement technique
- Validity of the scope of measurement conducted with the market risk measurement technique
- Absence of any deficiency in the information system for the management
- Reasonableness of the logic of pricing models
- Validity of the market risk measurement technique and the assumptions, etc.
- Accuracy and completeness of data used in market risk measurement
- Consistency, timeliness, reliability and independence of data source used when the market risk measurement technique is applied
- Adequacy of the process and results of backtesting
- Adequacy of the process and results of stress tests
- Appropriateness of the regular review of the market risk measurement technique

(3) Utilization of the Results of Internal Audits

Does the Market Risk Management Division appropriately revise the market risk measurement technique based on the results of internal audits?

(4) Utilization of the Results of External Audits

Are external audits conducted in an appropriate manner (in terms of coverage, frequency and depth) with due consideration for the nature of the institution’s business and the status of implementation of internal audits? Does the Market Risk Management Division appropriately revise the market risk measurement technique based on the results of external audits?

5. Market Risk Measurement Model Developed by Outside Vendor[15]

(1) Appropriateness of Market Risk Measurement System

(i) Does the person in charge of market risk measurement at the financial institution have sufficient knowledge with regard to the measurement technique and understand the modeling process of market risk measurement?

(ii) Do the institution's Market Risk Management Division and the Internal Audit Division conduct a theoretical and empirical verification of the validity of the measurement technique?

(2) Appropriateness of Market Risk Measurement Model

(i) Is there not any "black box" with regard to the measurement model? If there is one, has the validity of the measurement model been verified ?

(ii) Are the consistency and the accuracy of data used in measurement secured?

(iii) Is the measurement model selected suited to the scale and nature of the financial institution's business, and its risk profile?

(3) Management of Developer of Market Risk Measurement Model

(i) Is the developer consigned with the development of the market risk measurement model capable of ensuring continuous management of the model and promoting sophistication and elaboration of the model? Does the institution regularly evaluate the developer?

(ii) Does the developer provide sufficient user support (training, consulting and maintenance) with regard to market risk measurement?

(iii) Is it ensured that the developer reports to the institution on the status of its verification of the validity of the measurement model in a regular and timely manner or on an as needed basis?

6. Installation of Computer System

(1) Dealing Support System

Does the institution have a dealing support system that enables mark-to-market evaluation of dealer-by-dealer (or unit-by unit) positions and office-by-office positions with regard to all major products it handles? Does it have a system that enables management of profits on a dealer-by-dealer or a position-by-position basis?

(2) Installation of ALM System

[15] In the case where the market risk measurement is outsourced, the review should be conducted by using the check items listed in this paragraph.

Does the institution have a system in place for assets and liabilities management? For example, does it have a system that uses a multifaceted risk-return analysis technique that covers the institution's market risks including interest rate risk such as repricing risk, yield curve risk and basis risk as well as foreign exchange risk and price change risk and that is befitting the scale and nature of the institution's business, and its risk profile?

(3) Computer System for Back-Office Processing

Does the institution have accounting and information support systems that can fully perform basic back-office processing, settlement and management concerning all transactions in which the institution is involved?

7. Calculation of Market Prices

(1) Development of Internal Rules

In order to exclude arbitrariness from accounting processes and ensure transparency, it is necessary for the Board of Directors or equivalent organization to the Board of Directors to establish internal rules and enforce them on a continuous basis. Does the institution specify the following items at a minimum? Does the institution attach due importance to the internal rules and, when revising the rules, does it follow procedures same as those followed when they are established?

a. Power and responsibilities of the Manager in charge of the division that calculates market values.

b. Obligation to comply with internal rules and procedures for revising the rules

c. The basic concept concerning the calculation of market values

- Calculation of market values by a division independent from organizations that conduct *TOKUTEI-TORIHIKI* (hereinafter referred to as the "Segregated Trading") and non-segregated trading transactions
- The method of market value calculation. (In the case where the method of calculating market values is specified by other documents, the internal rules should make reference thereto.)
- The method of involvement of an organization performing front-office functions in the calculation of market values in the case where such involvement is necessary

(2) Independence of Market Value Calculation Division

Are divisions in charge of market trading and the calculation of market values separately established in order to secure fairness in market value calculation? Aren't the Office (Trading, Banking) Divisions intervening in the Market Value Calculation Division in a way to undermine the objectivity of the calculation.

(3) Securing of Objectivity of Market Value Calculation

(i) Has the institution established a market value calculation manual in accordance with the internal rules and does it follow the manual on a continuous basis? When it becomes necessary to modify the calculation method because of an accounting system reform and the development of a new technique or for other reasons, does the institution promptly make modification in accordance with the internal rules? Does it make clear the status of such modification?

(ii) Has the manual for market value calculation been approved in an appropriate manner by the person with the approval authority after being checked by a division (such as the Risk Management Division and the Internal Audit Division) independent from the Office (Trading, Banking) Divisions (divisions performing so-called front-office functions) and a division responsible for the development of financial products, in order to secure fairness and validity of the manual? Is the status of use of the manual regularly checked by a division independent from the Office (Trading, Banking) Divisions, a division in charge of the development of financial products and a division in charge of market value calculation?

(iii) Does the institution calculate market values appropriately based on “Accounting Standards concerning Financial Products” (Accounting Standards Board of Japan), etc.? Does it conduct market value calculation on its own? In the case where the institution obtains market value information from third parties, does it obtain such information regularly and review the validity of the market values for itself?

(iv) Does the institution include the status of securing of objectivity of market value calculation among its important internal audit items?

8. Issues Related to Segregated Trading (in the case of institutions which have segregated trading books)

(1) Development of Internal Rules

In order to exclude arbitrariness and ensure transparency in segregated accounting, it is necessary for the Board of Directors or equivalent organization to the Board of Directors to establish clear internal rules and enforce them on a continuous basis. Does the institution specify the following items at a minimum in addition to the items listed in Chapter III. 7. (1) above? Does the institution attach due importance to the internal rules, and, when revising the rules, does it follow procedures same as those followed when they are established?

a. Clear operational procedures concerning segregated accounting based on the legal definition of “segregated trading purposes”

- Definition of segregated trading purposes
- Clear organizational divisions (divisions of personnel into units) and independent decision-making power
- Restrictions on concurrent service of dealers in organizations involved in segregated

trading and other organizations

- Ban on transfers between accounts (excluding the case where such transfers are conducted within the limitations allowed according to an application filed with the authority in accordance with laws)
- Limiting of counterparties for segregated trading securities to market and recognition of the hedging purpose

b. Power and responsibilities of the Manager in charge of a division that conducts segregated trading

c. Responsibilities to comply with internal rules and procedures for revising internal rules

d. Methods concerning internal trading and management thereof

- Definition of internal trading and coverage thereof
- The basic policy on internal trading
- Approval of internal trading by an organization independent from a front-office organization
- Approval procedures of internal trading and documents to be stored

e. Rules concerning commissioned trading

(2) Separation of Organizations and Personnel

It is desirable that an organization engaged in transactions related to the segregated trading book (an organization performing so-called front-office functions at a minimum) be a unit (e.g. section, group, department) or larger in size and be separate in terms of organizational structure and personnel from an organization that is engaged in similar transactions but also conducts transactions related to the non-segregated trading book, which has a different purpose.

It should be noted that such an organizational division is not necessarily required in the case where segregated trading and assets involved in such transactions are clearly segregated from other types of transactions and assets involved therein from an objective viewpoint and it is thus deemed that there is no concern that accounting manipulation would be conducted (e.g. in the case where the segregated trading division is concurrently engaged in transactions other than those listed as segregated transactions).

(3) Book-Keeping

With respect to the books for the segregated trading book, are segregated transactions and assets involved in them clearly distinct from other transactions and assets involved therein?

(4) Ban on Transactions Related to Non-Segregated Trading Book by Segregated Trading Division

Is an organization engaged in transactions related to the segregated trading book not involved in transactions related to the non-segregated trading book (and vice versa). (This shall not apply to the case where segregated transactions and assets involved in such transactions are clearly distinguished from other types of transactions and assets involved from an objective viewpoint and it is thus deemed that there is no concern that accounting manipulation would be conducted.)

(5) Ban on Arbitrary Account Choice

Does the institution not decide in an arbitrary manner whether to enter a transaction in the segregated or non-segregated trading book, for example deciding to process a transaction that should be handled in the non-segregated trading book as a segregated transaction in dealing with a market risk-related problem?

(6) Adequateness of Internal Trading

With regard to internal trading within a financial institution, there is concern that the institution may take advantage of the differences between accounting systems in posting profits/losses. In order to exclude arbitrary trading, does the institution conduct internal trading appropriately in accordance with the "Documents Noting Matters Related to the Handling of Internal Trades" (or internal rules concerning the segregated trading book)?

(7) Securing of Objectivity of Market Value Calculation

Does the institution include the following items in particular among the check items concerning internal control in order to secure objectivity of market value calculation in the segregated trading book ?

a. Is there no deviation from the scope of transactions specified in the ordinance? (Inter-account transactions are not allowed for exchange transactions, securities-related transactions and acquisitions and transfers of monetary receivables)

b. Is an internal check and balance system functioning effectively to ensure that internal trading is conducted in accordance with the internal rules? For example, is internal trading conducted at market price?

c. Are internal transactions indicated as such on trading tickets and the records thereof stored separately?

d. Is there not any intentional profit/loss adjustment?

(8) Disclosure

Does the institution disclose the following items with regard to appropriate segregated accounting and obtaining and management of objective market prices?

a. Framework of segregated trading book (definition of "trading for the segregated trading purpose," specific products eligible for segregated trading, organizational divisions, etc.)

b. Measures to secure objectivity of market prices

c. Financial information concerning the segregated trading book

Checklist for Liquidity Risk Management

I. Development and Establishment of Liquidity Risk Management System

【Checkpoints】

- Liquidity risk is the risk that a financial institution will incur losses because it finds it difficult to secure the necessary funds or is forced to obtain funds at far higher interest rates than under normal conditions due to a mismatch between the maturities of assets and liabilities or an unexpected outflow of funds (referred to as funding-liquidity risk). It is also the risk that a financial institution will incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to a market crisis and the like (referred to as market-liquidity risk).

- The development and establishment of a system for liquidity risks management is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- It is important for the inspector to review whether the liquidity risk management system developed is an appropriate one suited to the financial institution's strategic objectives, the scale and nature of its business and its risk profile.

- This checklist is compiled on the assumption that at the institution inspected, the Liquidity Risk Management Division is dedicated to the task of liquidity risk management and the Funds Management Division is dedicated to the task of funds management. The inspector should bear in mind that the scope of the roles and responsibilities of such divisions varies from institution to institution and review whether the liquidity risk management system as a whole is functioning effectively.

- The inspector should determine whether the liquidity risk management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to liquidity risk management, fully recognizing that the lack of such an approach could lead directly to bankruptcy in some cases? In particular, does the director in charge of liquidity risk management review the policy and specific measures for developing and establishing an adequate liquidity risk management system with a full understanding of the scope, types and nature of risks, and the techniques of identification, assessment, monitoring and control regarding liquidity risk as well as the importance of liquidity risk management, and with precise recognition of the current status of liquidity risk management within the financial institution based on such an understanding?

(2) Development and Dissemination of Liquidity Strategy

Has the Board of Directors developed a liquidity strategy consistent with the strategic objectives of the financial institution as a whole and disseminated it throughout the institution? When developing the liquidity strategy, does the Board of Directors also ensure its consistency with the strategic objectives of operational divisions, take account of the assets and liabilities structure, marketability and liquidity on a currency-by-currency basis, a product-by-product basis and a term-by-term basis as well as its capital status?

(3) Development and Dissemination of Liquidity Risk Management Policy

Has the Board of Directors established a policy regarding liquidity risk management (hereinafter referred to as the "Liquidity Risk Management Policy") and disseminated it throughout the institution? Is appropriateness of the Liquidity Risk Management Policy secured by, for example, including clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to liquidity risk management
- The policy on organizational framework, such as establishment of a division concerning liquidity risk management (hereinafter referred to as the "Liquidity Risk Management Division") and a division concerning funds management (hereinafter referred to as the "Funds Management Division) and the authority assigned thereto
- The policy on setting of liquidity risk limits
- The policy on the allocation of the roles and responsibilities of the Liquidity Risk Management Division and the Funds Management Division
- The policy on identification, assessment, monitoring, control and mitigation of liquidity risks
- The policy on liquidity crisis management

(4) Revision of Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of liquidity risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Manager of the Liquidity Risk Management Division develop internal rules that clearly specify the arrangements concerning liquidity risk management (hereinafter referred to as the "Liquidity Risk Management Rules") and disseminate them throughout the institution in accordance with the Liquidity Risk Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Liquidity Risk Management Rules after determining if they comply with the Liquidity Risk Management Policy after legal checks, etc.?

(2) Establishing of Appropriate Limits

Does the Board of Directors or equivalent organization to the Board of Directors in accordance with the Liquidity Risk Management Policy and the Liquidity Risk Management Rules, establish appropriate limits suited to the scale and nature of the institution's business and its risk profile, financial conditions and fund-raising capacity (funding gap limits from the viewpoint of funds risk and position limits from the viewpoint of market liquidity risk)? Does the Board of

Directors or equivalent organization to the Board of Directors revise the method of establishing limits and the limits established in a regular and timely manner or on an as needed basis?

(3) Establishment of Liquidity Risk Management and Funds Management Divisions

(i) Does the Board of Directors or equivalent organization to the Board of Directors have a Liquidity Risk Management Division and a Funds Management Division established and have the divisions prepared to undertake appropriate roles in accordance with the Liquidity Risk Management Policy and the Liquidity Risk Management Rules?[1]

(ii) Has the Board of Directors allocated to the Liquidity Risk Management Division and the Funds Management Division Managers with the necessary knowledge and experience to supervise these divisions and enabled the Managers to implement management business by assigning them the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated in the Liquidity Risk Management Division and the Funds Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing the operations?[2]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors secure a check-and-balance system of the Liquidity Risk Management Division by ensuring its independence from the Funds Management Division, the Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc.?

(4) Development of Liquidity Risk Management System in Funds Management Division, Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide arrangements to fully disseminate the relevant internal rules and operational procedures to divisions exposed to liquidity risks subject to risk management (e.g. Funds Management Division, Office (Trading, Banking) Divisions, Marketing and Sales Divisions) and have such divisions observe them? For example, does the Board of Directors or equivalent organization to the Board

[1] When the liquidity risk management division and the funds management division are not established as independent divisions (e.g. when divisions in charge of other business also take charge of liquidity risk management and funds management operations or when Managers, instead of divisions or departments take charge of liquidity risk management and funds management), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing independent divisions commensurate with the scale and nature of the institution and its risk profile.

[2] When a department or a person in a post other than those relating to the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structures of the Liquidity Risk Management Division and the Funds Management Division are reasonable in terms of a check-and-balance system and other aspects.

of Directors instruct the Manager of the Liquidity Risk Management Division to identify the internal rules and operational procedures that should be observed by such divisions and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of liquidity risk management in the Funds Management Division, the Office (Trading, Banking) Divisions, Marketing and Sales Divisions, etc. through the Manager or the Liquidity Risk Management Division ?

(5) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Managers of the liquidity risk management and Funds Management Divisions report the current status to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Managers seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters? In particular, does it ensure that the Managers report to the Board of Directors or equivalent organization to the Board of Directors without delay any matters that would seriously affect corporate management?

(6) System for Reporting to Corporate Auditor

In the case that the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager of the Liquidity Risk Management Division directly report such matters to the auditor?[3]

(7) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to liquidity risk management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as “Internal Audit Guidelines”) and an internal audit plan, and approve such guidelines and plan?[4] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

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[3] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

[4] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

- Status of development of the liquidity risk management system
- Status of compliance with the Liquidity Risk Management Policy, Liquidity Risk Management Rules, etc.
- Appropriateness of the liquidity risk management computer system[5]
- Appropriateness of the liquidity risk management processes commensurate with the scale and nature of the business and risk profile
- Validity of the methods of liquidity risk analysis and assessment and the underlying assumptions, etc.
- Validity of the method of liquidity risk measurement (technique, assumptions, etc.)(in the case where liquidity risk is measured)
- Effectiveness of the liquidity crisis management
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(8) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of liquidity risk management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Liquidity Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the liquidity risk management system and the particulars thereof, and appropriately review their causes by precisely analyzing the status of liquidity risk management and assessing the effectiveness of liquidity risk management, based on all information available regarding the status of liquidity risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

[5] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type. The same shall apply hereafter.

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of liquidity risk management in a regular and timely manner or on an a needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the liquidity risk management system identified through the analysis, assessment and review referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of liquidity risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Liquidity Risk Management System by Managers

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities that must be performed by the Liquidity Risk Management and Funds Management Divisions as well as their Managers. The inspector should bear in mind that the scope of the roles and responsibilities of such divisions varies according to the scale and nature of businesses of financial institutions and their risk profile, etc. and review whether the liquidity risk management as a whole is functioning effectively.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Managers of the Liquidity Risk Management Division and the Funds Management Division

(1) Development of Liquidity Risk Management Rules

Has the Manager, in accordance with the Liquidity Risk Management Policy, identified risks, decided the methods of assessment and monitoring thereof and developed the Liquidity Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on a full understanding of the scope, types and nature of risk and the relevant liquidity risk management technique?

Have the Liquidity Risk Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Liquidity Risk Management Rules

Do the Liquidity Risk Management Rules exhaustively cover the arrangements necessary for the liquidity risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business and its risk profile? Do the rules specify the following items, for example:

- Arrangements on the roles, responsibilities, and organizational framework of the Liquidity Risk Management Division and Funds Management Division
- Arrangements on criteria for identifying and reporting factors that may affect liquidity risks
- Arrangements on the methods of liquidity risk analysis and assessment
- Arrangements on the liquidity risk monitoring method
- Arrangements on the establishing of liquidity risk limits
- Arrangements on categorization of the urgency level of funds needs and judgment criteria
- Arrangements on the methods of management, reporting, decision-making and response with regard to the urgency level categorization of funds needs
- Arrangements on response by the financial institution as a whole in the event of a liquidity crisis
- Arrangements on reporting to the Board of Directors or equivalent organization to the Board of Directors

(3) Development of Contingency Plan for Liquidity Crisis

Does the Manager of the Liquidity Risk Management Division develop a contingency plan for a liquidity crisis in accordance with the Liquidity Risk Management Policy and the Liquidity Risk Management Rules? Does the contingency plan clearly specify the definition of a liquidity crisis, the procedures for dissemination and reporting in the event of a liquidity crisis (such as procedures for reporting directly to the representative directors), the method to respond to a liquidity crisis (securing of fund-raising instruments), the decision-making authority/the line of command, etc.? Is the contingency plan disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(4) Development of Organizational Frameworks by Managers of the Liquidity Risk Management Division and Funds Management Division

(i) Do the Managers of the Liquidity Risk Management Division, in accordance with the Liquidity Risk Management Policy and the Liquidity Risk Management Rules, provide for measures to have the Liquidity Risk Management Division exercise a check-and-balance system in order to conduct liquidity risk management appropriately?

(ii) Does the Manager of the Liquidity Risk Management Division provide a system to report promptly to the Comprehensive Risk Management Division when detecting any weaknesses or problems of the liquidity risk management system that may affect comprehensive risk management?

(iii) Does the Manager of the Liquidity Risk Management Division provide a system to identify the risks inherent in New Products as specified in the Comprehensive Risk Management Policy, etc. in advance and report them to the Comprehensive Risk Management Division when requested to do so by the division?[6]

(iv) Do the Managers of the Liquidity Risk Management and Funds Management Divisions identify information necessary for conducting liquidity risk management in a manner suited to the institution's risk profile, such as information concerning movements in large-lot transactions, and provide a system to obtain such information from the divisions holding it in a regular and timely manner or on an as needed basis?

(v) Do the Managers of the Liquidity Risk Management and Funds Management Divisions have in place a liquidity risk management computer system with the high reliability suited to the scale and nature of the financial institution's business and its risk profile?

(vi) Do the Managers of the Liquidity Risk Management and Funds Management Divisions ensure the provision of training and education to enhance the ability of employees to conduct liquidity risk management in an effective manner, thus developing human resources with relevant expertise?

(vii) Do the Managers of the Liquidity Risk Management and Funds Management Divisions provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, do the Managers provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors without delay?

(5) Revision of Liquidity Risk Management Rules and Organizational Frameworks

Do the Managers of the Liquidity Risk Management Division conduct monitoring on an ongoing basis with regard to the status of the execution of business operations at the Liquidity Risk Management Division and the Funds Management Division? Do the Managers review the effectiveness of the liquidity risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Liquidity Risk Management Rules and the relevant organizational framework, or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

[6] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).

2. Roles and Responsibilities of Liquidity Risk Management Division

1) Identification and Assessment of Liquidity Risks

(1) Identification of Factors that May Affect Liquidity Risks

(i) Does the Liquidity Risk Management Division identify endogenous and exogenous factors that may affect liquidity risks? Does the division, based on an understanding that credit, market and operational risks may affect liquidity risks, identify large-lot fund movements, deterioration in the account settlement condition, a sharp market decline, and malfunctioning of the administrative processing computer system, for example, as factors that may affect liquidity risks?

(ii) Does the Liquidity Risk Management Division identify the focus of liquidity risks and their impacts in advance when the financial institution starts the handling of New Products, purchases new products, introduces a new computer system and begins business at overseas offices and subsidiaries?

(2) Comprehensive Management of Liquidity Risks

Does the Liquidity Risk Management Division, in addition to managing liquidity risks on an office-by-office basis and a currency-by-currency basis, manage liquidity risks in an integrated manner? Does the division have a grasp on the funds status of consolidated subsidiaries that may affect the financial institution's liquidity risks?

(3) Assessment of Liquidity Risks

(i) Does the Liquidity Risk Management Division conduct analysis and assessment of liquidity risks in a manner befitting the scale and nature of the institution's business and its risk profile? Does its assessment of liquidity risks reflect the analysis of the following items, for example?

- Nature of various currencies handled in and outside Japan
- Product-by-product liquidity status (market size, depth, etc)
- Deviation of loan provision and deposit-taking plans from the actual results
- Overall funds status of the institution as a whole and office-by-office and currency-by-currency funds status
- Breakdown of funds raised and invested by currency, product and maturity and outstanding amounts thereof
- Status of market-based fund-raising
- Balances of the credit received and provided on a contract basis
- Status of dependency on specific sources for fund procurement (concentration risk)
- Status of dependency on the Bank of Japan for fund procurement

- Outstanding amount of payment reserve assets
- Status of collateral management

(ii) Does the Liquidity Risk Management Division analyze and assess liquidity risks based on two or more scenarios that take account of both endogenous and exogenous factors commensurate with the status of assets and liabilities management and the capital status?

(4) Judgment of Urgency Level of Funds Needs

Does the Liquidity Risk Management Division, in coordination with the Funds Management Division, collect and analyze information concerning internal environments such as the institution’s risk profile and external environments such as the economic and market conditions and appropriately judge the current urgency level category of funds needs that should be applied to the institution?

(5) Method of Liquidity Risk Measurement

In the case where the Liquidity Risk Management Division measures liquidity risks as such and measures liquidity risks within the operational risk category, does it ensure the consistency of the measurement method (technique, assumptions, etc.) with the methods of monitoring various liquidity risks and evaluating capital buildup?

2) Monitoring

(1) Monitoring of Liquidity Risks

Does the Liquidity Risk Management Division, in accordance with the Liquidity Risk Management Policy and the Liquidity Risk Management Rules, obtain reports from the Funds Management Division, collect information concerning the internal environments such as the institution’s risk profile and external environments such as the economy and the market, analyze the reports and information and monitor these conditions on an ongoing basis? Is the information examined by the division useful for liquidity risk management?

(2) Monitoring of Status of Compliance with Limits

Does the Liquidity Risk Management Division appropriately monitor the status of compliance with the funds gap limits, limits on market-based fund-raising and position limits established by the institution and the status of the use thereof?

(3) Monitoring of Appropriateness of Judgment of Urgency Level Category of Funds Needs

Does the Liquidity Risk Management Division monitor the status of various indexes used as criteria for judging the urgency level category of funds needs and the appropriateness of the criteria?

(4) Reporting to Board of Directors or equivalent organization to Board of Directors

Does the Liquidity Risk Management Division, in accordance with the Liquidity Risk Management Policy and the Liquidity Risk Management Rules, provide in a regular and timely manner or on an as needed basis information necessary for the Board of Directors or equivalent organization to the Board of Directors to make an appropriate assessment and judgment with regard to the status of the liquidity risk management and the status of the risks? Does the division report the following items, for example?

- Factors that may seriously affect liquidity risks
- External environment conditions such as the economic and market conditions
- Urgency of funds needs
- Level and trend of liquidity risk
- Status of compliance with limits and use thereof

(5) Feedback to Funds Management and The Office (Trading, Banking) Divisions

Does the Liquidity Risk Management Division feed back the results of its assessment, analysis and examination of the status of liquidity risks to the Funds Management and the Office (Trading, Banking) Divisions, etc.?

3) Control and Mitigation

(1) Response to Breach of Risk Limits

In the case where the financial institution has exceeded the funds gap limits, limits on market-based fund-raising and position limits, etc., does the Liquidity Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors without delay to decide what measures should be taken?

(2) Response to Change in Urgency Level of Funds Needs

In the case where the urgency level category of funds needs applied to the institution changes or is likely to change, does the Liquidity Risk Management Division provide information concerning the urgency of funds needs, future prospects and other matters to the Board of Directors or equivalent organization to the Board of Directors without delay in order to enable the development of countermeasures?

(3) Securing of Funding Instruments in the Event of a Liquidity Crisis

Does the Liquidity Risk Management Division constantly keep track of the outstanding amount of assets that can be immediately sold or used as collateral in and outside Japan (e.g. government bonds) and the amount of funds that can be raised from yen investments, yen conversions, etc. and the possible timing of such funding? Does the division also secure funding instruments in anticipation of a future liquidity crisis, for example by having the Funds Management Division obtain credit lines from central banks and commercial banks?

4) Verification and Revision

(1) Verification of Validity of Identification of Factors Affecting Liquidity Risks and Revision of Criteria for Reporting Thereof

Does the Liquidity Risk Management Division verify and revise the validity of identification of endogenous and exogenous factors that may affect liquidity risks in a regular and timely manner or on an as needed basis?

Does it review the appropriateness of the criteria for reporting of such factors in a regular and timely manner or on an as needed basis in light of internal environments such as the scale and nature of the institution's business and its risk profile as well as external environments such as market and economic conditions, and revise the criteria?

(2) Revision of Methods of Liquidity Risk Analysis and Assessment

Does the Liquidity Risk Management Division review in a regular and timely manner or on an as needed basis whether the methods of analyzing and assessing liquidity risks are suited to the scale and nature of the institution's business and its risk profile as well as external environments, and revise the methods? In particular, is it ensured that the assumptions used in analysis and assessment remains effective on an ongoing basis?

(3) Revision of Method of Establishing Limits and Limits Established

Does the Liquidity Risk Management Division review in a regular and timely manner or on an as needed basis whether the method of establishing limits and the limits established are suited to the scale and nature of the institution's business and its risk profile, financial conditions and funding capacity by conducting an impact evaluation under two or more stress scenarios and analyzing and assessing endogenous and exogenous factors that may affect liquidity risks?

When a revision is deemed as necessary, does the Liquidity Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors without delay to make appropriate assessment and judgment?

(4) Revision of Urgency Level Category of Funds Needs and Judgment Criteria

Does the Liquidity Risk Management Division review the appropriateness of the urgency level category of funds needs, the judgment criteria and the methods of management, reporting and decision-making in a regular and timely manner or on an as needed basis by conducting an impact evaluation under two or more stress scenarios and verifying the effectiveness of countermeasures from the following viewpoints, and conduct a revision thereof?

- Is the categorization of the urgency level of funds needs an appropriate one that takes account of specific funds statuses (e.g. "normal" "needs care," and "crisis") and the corresponding countermeasures?
- Does the institution ensure that the categorization judgment criteria are sufficiently specific and easy-to-understand to enable appropriate and timely action? For example, does the institution set two or more judgment criteria items such as the ratings assigned to the institution by rating agencies, the institution's stock price, corporate bond spread, deposit balance trend, and extra interest cost imposed on its market-based funding and the shortening of the maturity of funds raised from the market as a way to determine the urgency level of its funds needs in an appropriate and timely manner or on an as needed basis?
- Are the methods of management, reporting and decision-making effective ones that take account of a broad range of countermeasures in terms of both assets and liabilities and enable responses suited to the urgency level of funds needs?

(5) Revision of Liquidity Crisis Contingency Plan

Does the Liquidity Risk Management Division regularly review the effectiveness of a contingency plan to be implemented in the event of a liquidity crisis by having the Funds Management Division, Marketing and Sales Division, etc. conduct crisis simulation exercises? When a need to revise the contingency plan arises due to a change in the environment surrounding the institution, does the division revise without any delay upon approval by the Board of Directors or equivalent organization to the Board of Directors (by the Board of Directors in the case of an important revision)?

3. Roles and Responsibilities of Funds Management Division

(1) Appropriate Funds Operation and Management

Does the Funds Management Division, in accordance with the liquidity strategy, the Liquidity Risk Management Policy, the Liquidity Risk Management Rules, etc., conduct appropriate funds operation based on the analysis of information collected with regard to internal environment such as the institution's risk profile and external environment such as the economic and market environments? In its funds operations, does the division conduct liquidity assessment in terms of both assets and liabilities and comprehend the status of securing of liquidity such as the amount of funds that can be raised and the timing thereof and the value of collateral that can be provided and the timing thereof?

(2) Compilation of Funds Timetable

Does the Funds Management Division compile a timetable of planned funds operations broken down by office and currency on daily, weekly, monthly and quarterly bases?

(3) Grasp of Impact on Funds Management

Does the funds management manage the following items so as to grasp their impact on funds management?

- Centralized control of large-lot fund movements
- Management of procurement of market-based funds
- Management of the structure of funds invested and raised broken down by product, currency and maturity
- Management of collateral
- Management of deposit maturity
- Balances of the credit received and provided on a contract basis
- Management of payment reserve assets
- Cash management (including management of ATMs)
- Currency-by-currency funds management
- Funds management with due consideration for exchanges between different currencies

(4) Grasp of Amounts of Planned Fund Investment and Possible Funding

Does the Funds Management Division, based on information from Marketing and Sales Division, etc., keep track of the amount of funds to be invested (the amount of loans and guarantees to be provided) and the amount of funds that can be raised (funds that can be raised from the interbank and open markets, deposits expected to be taken and cancelled, etc.)? Does the Funds Management Division make sure to obtain necessary reports and information from Marketing and Sales Division in a timely manner so as to accurately grasp the amounts of funds to be invested and funds that can be raised? In order to grasp these amounts, does the division give due consideration to the following items?

- Off-balance sheet transactions
- Commitment lines
- Current account overdrafts
- Grasp of actual investment maturities (e.g. in the case where funds are nominally invested for the short term but actually invested for the long term)

- Status of dependency on specific sources for fund procurement (concentration risk)
- Dependency on the Bank of Japan for fund procurement
- Urgency level of funds needs (e.g. “normal,” “needs care” and “crisis”)
- Reserves for deposit withdrawals (cash on hand, funds deposited at other institutions)

(5) Liquidity Crisis Management

Does the Funds Management Division at all times conduct funds management in light of the trading environment so as to keep the institution ready to liquidate assets smoothly in the event of a liquidity crisis through means such as the sale of securities?

(6) Control and Mitigation of Liquidity Risks

(i) Does the Funds Management Division control liquidity risks in accordance with the liquidity strategy, the Liquidity Risk Management Policy, the Liquidity Risk Management Rules, etc.?

(ii) Does the Funds Management Division conduct funds operations in a manner complying with the limits set?

(7) Securing of Funding Instruments in the Event of Liquidity Crisis

Does the Funds Management Division constantly keep track of the outstanding amount of assets that can be immediately sold or used as collateral in and outside Japan (e.g. government bonds) and the amount of funds that can be raised from yen investments, yen conversions, etc. and the possible timing of such funding? Does it also secure funding instruments in anticipation of a possible liquidity crisis by obtaining credit lines from central banks and commercial banks?

(8) Reporting to Liquidity Risk Management Division

Does the Funds Management Division report to the Liquidity Risk Management Division on a regular basis or as necessary according to the level of urgency the results of its analysis of information collected with regard to internal environment such as the institution’s risk profile and external environment such as the economic and market conditions as well as the current status of funds management and future prospects?

(9) Reporting to Board of Directors or equivalent organization to Board of Directors

Does the Funds Management Division report to the representative directors and the director in charge the current status of funds management and future prospects on a regular basis or as necessary according to the level of urgency? Does it also make such a report to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? Does the Board of Directors or equivalent organization to the Board of Directors review whether the findings of such reports are in compliance with the Liquidity Risk Management Policy?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of liquidity risk management.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter 1. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of The Office (Trading, Banking) Divisions and The Marketing and Sales Divisions

(1) Investment with Due Consideration for Market Liquidity Risk

Do the Office (Trading, Banking) Divisions make investments with due consideration for the size and depth of the market and liquidity for each product? When investing in a long-term investment product for which early redemption of the contract is difficult[7], for example, do the Office (Trading, Banking) Divisions take account of various risks (credit, market risks, etc) involved in the gap between the maturities of funds invested and raised and consider an extraordinary long-term financing plan?

(2) Reporting of Factors Affecting Liquidity Risks

In the case where a factor affecting liquidity risks and meeting the criteria for reporting arises, do the Office (Trading, Banking) Divisions and The Marketing and Sales Divisions report it

[7] Including structured bonds and loans which require high fees and penalties in the event of an early redemption

promptly to the Liquidity Risk Management Division and the Funds Management Division in accordance with the relevant internal rules and operational procedures?

2. Roles and Responsibilities of ALM Committee, etc.[8]

(1) Development of Liquidity Strategy

(i) Is an ALM Committee, etc., as an entity that participates in the development and implementation of the investment strategy, involved in the development of a liquidity strategy?

(ii) Does the ALM Committee, etc., in accordance with the liquidity strategy, the Liquidity Risk Management Policy and the Liquidity Risk Management Rules, discuss the management of assets and liabilities, including long term investment for business relationships and off-balance sheet assets and liabilities, from the viewpoint of liquidity by making effective use of the findings of the analysis and examination conducted by the relevant divisions? Does the ALM Committee, etc. report its findings to the Board of Directors?

(2) Framework of ALM Committee, etc.

Is there a system to ensure that important information related to the Funds Management Division and the Office (Trading, Banking) Divisions is provided to the ALM Committee, etc. in a timely and appropriate manner? Is the definition of the important information that must be provided to the ALM Committee, etc. specified by the internal rules?

[8] In the case where an ALM Committee, etc. is not in place, the inspector should review whether an alternative risk management process is performing necessary functions.

Checklist for Operational Risk Management

I. Development and Establishment of Comprehensive Operational Risk Management System by Management

【Checkpoints】

- Operational risk is the risk of loss resulting from inadequate operation processes, inadequate activities by officers and employees and inadequate systems or from external events (the type of risk included in the calculation of the capital adequacy ratio) and the risk defined by the financial institution as operational risk (the type of risk not included in the calculation of the capital adequacy ratio).

- Comprehensive Operational Risk Management refers to identification, assessment, monitoring, control and mitigation regarding operational risk in a comprehensive manner as a financial institution as a whole.

- The development and establishment of a system for comprehensive operational risk management is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- When reviewing a financial institution's comprehensive operational risk management system, the inspector should examine whether the system is an appropriate one commensurate with the scale and nature of the institution's business and its risk profile as well as the levels of complexity and sophistication of the operational risk quantification（measurement）technique used by the institution (including The Basic Indicator Approach and The Standardized Approach).
It should be noted that the type and level of the operational risk quantification technique to be used by a financial institution should be determined according to the institution's strategic objectives, the diversity of its business and the level of complexity of the operational risks faced by it and therefore a complex or sophisticated operational risk quantification technique is not necessarily suited to all financial institutions.

- The inspector should determine whether the comprehensive operational risk management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to those issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to comprehensive operational risk management, fully recognizing that the lack of such an approach could seriously hinder attainment of strategic objectives? In particular, does the director in charge of such risk management examine the policy and specific measures for developing and establishing an adequate comprehensive operational risk management system with a full understanding of the scope, types, and nature of operational risks and the techniques of identification, assessment, monitoring and control regarding operational risks as well as the importance of comprehensive operational risk management, and with precise recognition of the current status of the comprehensive operational risk management system within the financial institution based on such understanding?

(2) Development and Dissemination of Operational Risk Management Policy

Has the Board of Directors established a policy regarding operational risk management (hereinafter referred to as the "Operational Risk Management Policy") and disseminated it throughout the institution? Is the appropriateness of the Operational Risk Management Policy being secured by way of, for example, clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to comprehensive operational risk management

- The definition of operational risk at the financial institution
- The policy on organizational framework, such as establishment of a division concerning comprehensive operational risk management (hereinafter referred to as the "Comprehensive Operational Risk Management Division") and the authority assigned thereto
- The policy regarding identification, assessment, monitoring, control and mitigation of operational risks

(3) Revision of the Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of comprehensive operational risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Manager of the Comprehensive Operational Risk Management Division (hereinafter simply referred to as the "Manager" in this checklist) develop internal rules that clearly specify the arrangements concerning comprehensive operational risk management (hereinafter referred to as the Operational Risk Management Rules") and disseminate them throughout the institution in accordance with the Operational Risk Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Operational Risk Management Rules after determining if they comply with the Operational Risk Management Policy after legal checks, etc.?

(2) Establishment of the System of Comprehensive Operational Risk Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have a Comprehensive Operational Risk Management Division established and have the division prepared to undertake appropriate roles in accordance with the Operational Risk Management Policy and the Operational Risk Management Rules.[1]

[1] When the Comprehensive Operational Risk Management Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of comprehensive operational risk management or when a Manager or Managers take charge of comprehensive operational risk management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division in light of the scale and nature of the institution and its risk profile.

(ii) Has the Board of Directors allocated to the Comprehensive Operational Risk Management Division a Manager with the necessary knowledge and experience to supervise the division and enable the Manager to implement management operations by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Comprehensive Operational Risk Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing the business?[2]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors secure a check-and-balance system of the Comprehensive Operational Risk Management Division against operational divisions?

(3) Development of Comprehensive Operational Risk Management System in Operational Divisions, Sales Branches, etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to operational divisions, sales branches, etc. and have them observe the rules and operational procedures? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager to identify the internal rules and operational procedures to be observed by operational divisions and sales branches and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of comprehensive operational risk management in operational divisions, sales branches, etc. through the Manager or the Comprehensive Operational Risk Management Division? For example, is a person in charge of comprehensive operational risk management assigned to each operational division and sales branch for coordination with the Manager?

(4) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager

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[2] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Comprehensive Operational Risk Management Division is reasonable in terms of a check-and-balance system and other aspects.

report the current status to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors without delay any matters that would seriously affect corporate management or significantly undermine customer interests?

(5) System for Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor?[3]

(6) Development of Internal Audit Guidelines and Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to comprehensive operational risk management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and approve such guidelines and plan?[4] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the comprehensive operational risk management system
- Status of observance of the Operational Risk Management Policy, the Operational Risk Management Rules, etc.
- Appropriateness of the comprehensive operational risk management processes commensurate with the scale and nature of the business, and its risk profile
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(7) Revision of the Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing its effectiveness based on reports and findings on the status of comprehensive operational risk management in a regular and timely manner or on an as needed basis?

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[3] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

[4] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Comprehensive Operational Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the comprehensive operational risk management system and the particulars thereof, and appropriately review their causes by precisely analyzing the status of comprehensive operational risk management and assessing the effectiveness of comprehensive operational risk management, based on all information available regarding the status of comprehensive operational risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of comprehensive operational risk management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the comprehensive operational risk management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of comprehensive operational risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Comprehensive Operational Risk Management System by Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Comprehensive Operational Risk Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to those issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Operational Risk Management Rules

Has the Manager, in accordance with the Operational Risk Management Policy, identified the risks, decided the methods of assessment and monitoring thereof and developed the Operational Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on a full understanding of the scope, types and nature of risks and the comprehensive operational risk management technique? Have the Operational Risk Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Operational Risk Management Rules

Do the Operational Risk Management Rules exhaustively cover the arrangements necessary for comprehensive operational risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business, and its risk profile? Do the rules specify the following items, for example?

- Arrangements on the roles, responsibilities and the organizational framework of the Comprehensive Operational Risk Management Division
- Arrangements on the framework for comprehensive management by the Comprehensive Operational Risk Management Division of the Administrative Risk Management Division and the Information Technology Risk Management Division (hereinafter referred to as the "Operational Risk Management Divisions")
- Arrangements on the identification of risks to be subjected to comprehensive operational risk management
- Arrangements on the qualitative risk management technique for operational risks
- Arrangements on the scope of the quantification of operational risk and the technique thereof
- Arrangements on reporting of loss incidents to the Comprehensive Operational Risk Management Division
- Arrangements on the method of risk monitoring
- Arrangements on reporting to the Board of Directors or equivalent organization to the Board of Directors
- Arrangements on the procedures for allocating gross profit to the operation categories listed in Attachment 1 of "Criteria for Judging Whether A Financial Institution's Capital Is Sufficient in Light of the Assets Held, etc. under the Provision of Article 14-2 of the Banking Law" (Notification No. 19 of 2006, the Financial Services Agency)" (hereinafter referred to as the "Notification") and on the criteria for revising the procedures. This shall apply to financial institutions that use The Standardized Approach.

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with the Operational Risk Management Policy and the Operational Risk Management Rules, provide for measures to have the Comprehensive Operational Risk Management Division exercise a check-and-balance system in order to conduct comprehensive operational risk management system appropriately?

(ii) Does the Manager make sure to report without delay to the Comprehensive Risk Management Division when detecting any limitations or weaknesses of the comprehensive operational risk management system that may affect comprehensive risk management?

(iii) Does the Manager provide a system to identify risks inherent in New Products as specified in the Comprehensive Risk Management Policy, etc. in advance and report them to the Comprehensive Risk Management Division when requested to do so by the division?[5]

[5] See "Checklist for Business Management (Governance) (for Basic Elements)," I. 3. (4).

(iv) Does the Manager have in place an operational risk management computer system[6] with the high reliability suited to the scale and nature of the financial institution's business, and its risk profile?

(v) Does the Manager ensure the system of training and education to enhance the ability of employees to conduct comprehensive operational risk management in an effective manner, thus developing human resources with relevant expertise?

(vi) Does the Manager provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors without delay?

(4) Revision of Operational Risk Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of execution of operations at the Comprehensive Operational Risk Management Division?

Does the Manager review the effectiveness of the comprehensive operational risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Operational Risk Management Rules and the relevant organizational frameworks or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Comprehensive Operational Risk Management Division

1) Risk Identification and Assessment

(1) Identification of Operational Risk

(i) Does the Comprehensive Operational Risk Management Division obtain data collected by operational divisions and sales branches, etc. as necessary to identify operational risk?

(ii) Does the Comprehensive Operational Risk Management Division, in accordance with the Operational Risk Management Policy and the Operational Risk Management Rules, broadly specify internal and external factors that may produce adverse effects on the financial institution's business based on an understanding of the possibility that operational risk may emerge in any division or department?

(iii) Does the Comprehensive Operational Risk Management Division identify operational risk when the financial institution starts the handling of New Products, introduces a new computer

[6] It should be noted that the computer system may be a centralized dataprocessing environment system, distribution processing system, or EUC (end user computing) type.

system and begins business at overseas offices and subsidiaries?

(2) Operational Risk Assessment

(i) Does the Comprehensive Operational Risk Management Division appropriately assess operational risk with the use of scores (CSA, etc.) and financial and management indicators?

(ii) Does the Comprehensive Operational Risk Management Division analyze the causes of operational risk loss incidents during the operational risk assessment process, thus fully grasping the financial institution's operational risk?

(3) Operational Risk Quantification (Measurement)

Does the Comprehensive Operational Risk Management Division quantify (measure) operational risk in a manner suited to the scale and nature of the financial institution's business, and its risk profile?

(i) When calculating the operational risk quantity by applying weighting factors to financial indicators (gross profit, expenses, etc.) as a quantification technique, does the Comprehensive Operational Risk Management Division appropriately determine the type of indicators used and the level of weightings applied? Does the division revise the indicators used and the weightings applied in light of improvement in the level of comprehensive operational risk management, changes in internal and external environments and occurrence of significant internal losses with the use of a scoring technique?

(ii) Does the Comprehensive Operational Risk Management Division pay attention to the check items listed in Chapter III. 2. of this checklist when using the operational risk measurement technique?

2) Monitoring

(1) Monitoring of the Operational Risk

Does the Comprehensive Operational Risk Management Division, in accordance with the Operational Risk Management Policy and the Operational Risk Management Rules, conduct monitoring with regard to the status of operational risks with an appropriate frequency in light of the financial institution's internal environment (risk profile, etc.) and external environment?

(2) Reporting to Board of Directors or equivalent organization to Board of Directors

Does the Comprehensive Operational Risk Management Division, in accordance with the Operational Risk Management Policy and the Operational Risk Management Rules, report in a regular and timely manner or on an as needed basis information necessary for the Board of Directors or equivalent organization to the Board of Directors to make an appropriate assessment and judgment with regard to the status of the comprehensive operational risk management?

(3) Feedback to Operational Risk Management Divisions

Does the Comprehensive Operational Risk Management Division feed back the results of its assessment, analysis and review with regard to the status of operational risks to the relevant Operational Risk Management Divisions?

3) Control and Mitigation

(1) Operational Risk Control

Does the Comprehensive Operational Risk Management Division provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to make decisions with regard to how to control the important operational risk assessed?

(2) Operational Risk Mitigation

Does the Comprehensive Operational Risk Management Division pay attention to the possible occurrence of new risk when implementing measures to mitigate operational risk (including insurance contracts)?

4) Review and Revision

Does the Comprehensive Operational Risk Management Division grasp changes in operational environment and risk profile as well as the limitations and weaknesses of the operational risk assessment method, and regularly review whether the method suits the scale and nature of the financial institution's business and its risk profile, and revise the method?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of comprehensive operational risk management.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapter I. and II are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to those issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Appropriateness of Calculation of Operational Risk Equivalent Amount

1) Checkpoints for Institutions in Case of The Use of The Basic Indicator Approach and The Standardized Approach

Has the institution decided whether or not to exclude expenses that do not constitute outsourcing costs from services transaction expenses? In the case where such costs are excluded from services transaction expenses, has the institution developed criteria that specify expenses that do not constitute outsourcing costs? (Expenses that constitute outsourcing costs may be restrictively specified.)

2) Checkpoints for Institutions in Case of Use of The Standardized Approach

(1) Has the institution calculated gross profits generated from all its business without any overlap based on the procedures for allocating gross profits to the operation categories listed in Attachment 1 of the Notification?

(2) When an allocated value for a certain business category of Attachment 1 of the Notification (a figure obtained by multiplying the allocated profit with the weighing factor applicable according to

the business category in Attachment 1 of the Notification) is a negative number, does the institution decide whether or not to offset the negative number with a positive number for another operation category? When conducting such offsetting, does the institution ensure that objective judgment can be made?

(3) In the case where a category in the criteria used for the calculation of the credit risk asset amount and market risk equivalent amount is similar to a category in Attachment 1 of the Notification, are the two categories compatible? When that is not the case, is the reason thereof explicitly specified?

(4) Does the institution have objective criteria for judging whether or not a certain business is attendant to business included in any of the business categories listed in Attachment 1 of the Notification? When there is a business attendant to business included in two or more of those business categories, does the institution have criteria for allocating gross profits from such a business?

(5) In the case where gross profits from a certain business cannot be allocated to a specific business category, does the institution specify the name of the business and the reason for the inability to allocate gross profits?

(6) Has the institution developed its criteria for allocating gross profits to two or more of the categories listed in Attachment 1 of the Notification based on financial accounting or management accounting?

2. Check Items in Case of Employment of Operational Risk Measurement Technique

1) Establishment of Operational Risk Measurement System

(i) Is the operational risk measurement system conceptually sound and implemented with integrity?

(ii) Is the role of the operational risk measurement technique (model) clearly positioned under the Operational Risk Management Policy and implemented based on an understanding of the items listed below, for example? Does it determine if it is implemented with integrity to consolidated Subsidiaries as well?

(a) The financial institution’s strategic objectives, the scale and nature of its business, and its risk profile

(b) The fundamental design concept of the operational risk measurement technique based on (a)

(c) Identification and measurement of operational risk based on (b) (scope, techniques, assumptions, etc.)

(d) The nature (limitations and weaknesses) of the operational risk measurement technique that derives from (c) and the validity of the technique

(e) Details of the method of validating (d)

(iii) In the case where capital allocation management[7] is employed, has the capital allocation management policy been developed based on the outcomes obtained through the calculation of the operational risk measurement technique? When there are risks which are not measured with this technique, are there any reasonable grounds for excluding them from the measurement? Is the risk capital allocated with due consideration for the risks excluded from the measurement?

2) Appropriate Involvement of Directors and Corporate Auditors

(1) Understanding of Operational Risk Measurement Technique

(i) Do directors understand that decisions concerning the operational risk measurement technique as well as the risk limits and the risk capital limits (in the case where capital allocation management is employed) have serious implications for the financial institution's corporate management and financial conditions?

(ii) Does the director in charge of operational risk management understand the operational risk measurement technique required for the business of the financial institution and comprehend the nature (limitations and weaknesses) thereof?

(iii) Do directors and corporate auditors seek to enhance their understanding of the operational risk measurement technique by participating in training or through other means?

(2) Approach to Comprehensive Operational Risk Management

Do directors involve themselves actively in comprehensive operational risk management based on the operational risk measurement technique?

3) Operational Risk Measurement

(1) Measurement of Operational Risk Quantity with Universal Yardstick

Does the institution grasp the operational risk quantity with the use of a uniform standard applicable to various types of operational risk? It is desirable that the uniform yardstick is used to grasp and measure all necessary operational risk elements. If there are risks that are not sufficiently grasped and measured with the uniform yardstick, does the institution ensure that all necessary elements are taken into consideration in corporate management decisions by utilizing supplementary information?

Is the measurement of the operational risk quantity conducted with a rational, objective and precise statistical technique such as a VaR method, for example?

(2) Appropriateness of Measurement Technique

In the case where the measurement technique involves calculation of the maximum loss at a

[7] See Checklist for Capital Management.

certain confidence level as the operational risk quantity by processing individual operational loss incidents statistically, is attention paid to the following matters?

- Are internal loss incidents used appropriately? Are scenarios formulated based on the results of the assessment of external information and operational processes, etc. taken into consideration as loss incidents?
- Is the confidence level and holding period set by the institution appropriate?
- Is the measurement technique a rational one that appropriately covers low-frequency, large-scale loss incidents?

(3) System to Verify and Manage Operational Risk Measurement Technique, etc.

Are the validity of the operational risk measurement technique and the assumptions thereof, etc. verified during the development of the technique and thereafter on a regular basis by a person or persons with no involvement in the development and with sufficient capabilities? If any deficiency is recognized in the operational risk measurement technique or the assumptions thereof, is a corrective action taken appropriately?

Are there frameworks and internal rules in place to prevent the operational risk measurement technique and the assumptions thereof from being altered on unreasonable grounds, and is the operational risk measurement technique managed appropriately in accordance with the internal rules?

4) Records on Operational Risk Measurement Technique

Is there a system to keep records, for future reference, on the review process with regard to the selection of operational risk measurement technique and the assumptions thereof and the grounds for the selection process, in order to enable a follow-up review and utilize the records to make the measurement more sophisticated and elaborated?

5) Audit

(1) Development of Auditing Program

Has the institution developed an audit program that exhaustively covers audits of the operational risk measurement technique?

(2) Scope of Internal Audit

Is auditing conducted to check the following items?

- Consistency of the operational risk measurement technique with the strategic objectives, the scale and nature of the business, and the risk profile
- Appropriateness of employing the operational risk measurement technique in light of the nature (limitations and weaknesses) thereof

- Appropriate documentation of records on the operational risk measurement technique and timely updating thereof
- Appropriate reflection of any modification of the process of comprehensive operational risk management in the measurement technique
- Validity of the scope of measurement conducted with the operational risk measurement technique.
- Absence of any deficiency in the information system for the management

(3) Utilization of the Results of Audits

Does the Comprehensive Operational Risk Management Division appropriately revise the operational risk measurement technique based on the results of audits?

6) Operational Risk Measurement Model Developed by Outsourcing Contractor[8]

(1) Appropriateness of Operational Risk Measurement System

(i) Does the person in charge of operational risk measurement at the financial institution have sufficient knowledge with regard to the measurement technique and understand the modeling process of operational risk measurement?

(ii) Do the institution's Comprehensive Operational Risk Management Division and the Internal Audit Division conduct a theoretical and empirical validate of the validity of the measurement technique?

(2) Appropriateness of Operational Risk Measurement Model

(i) Is there not any "black box" with regard to the measurement model? If there is one, has the validity of the measurement model been validated?

(ii) Are the consistency and the accuracy of external data, internal data and scenario data secured ?

(iii) Is the measurement model selected suited to the scale and nature of the financial institution's business, and its risk profile?

(3) Management of Developer of Operational Risk Measurement Model

(i) Is the developer consigned with the development of the operational risk measurement model capable of ensuring continuous management of the model and promoting sophistication and elaboration of the model? Does the institution regularly evaluate the developer?

(ii) Does the developer provide sufficient user support (training, consulting and maintenance) with regard to operational risk measurement?

(iii) Is it ensured that the developer reports to the institution on the status of its validation of the validity of the measurement model in a regular and timely manner or on an as needed basis?

[8] When the operational risk measurement is outsourced, the verification should be conducted by using the check items listed in this paragraph.

3. Operational Risk Management Concerning Outsourced Business[9]

(1) Selection of Outsourcing Contractors

Before a business is outsourced, does the Comprehensive Operational Risk Management Division, in coordination with the Outsourcing Manager,[10] identify the operational risk inherent in the outsourced business and ensure the business is consigned to a party capable of implementing the business aptly, fairly and efficiently after recognizing possible risk management problems related to the quality of service, the reliability of service continuity, etc.? In selecting the outsourcing contractor, does the division check the following points, for example, from the viewpoint of operational risk management?

- Is the outsourcing contractor capable of providing a sufficient level of service in terms of reasonableness as a service provided by a financial institution?
- Are the financial and corporate management conditions of the outsourcing contractor sufficient to allow it to provide service and bear possible losses in accordance with the outsourcing contract?
- Is there not any problem from the viewpoint of the reputation of the employing financial institution?

(2) Terms of Outsourced Contract

Does the Comprehensive Operational Risk Management Division, in coordination with the Outsourcing Manager, provide for measures to make sure that the outsourced contract specifies the level of service to be provided by the outsourcing contractor and the sharing of responsibilities (e.g. the responsibility of the outsourcing contractor in the case where the service provided fails to meet the contract terms and the arrangement for sharing losses that may arise in relation to the outsourcing)

(3) Monitoring of Outsourcing Contractors

Does the Comprehensive Operational Risk Management Division provide for measures to regularly conduct monitoring with regard to the outsourced business in coordination with the Outsourcing Manager?

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[9] As the forms of outsourcing and the types of outsourced business are diverse, it is necessary in the verification of operational risk management concerning outsourced business to make verification in light of the details of the outsourced business and the level of importance thereof, for the outsourcing institution, etc.

[10] It should be noted that this shall not prevent the Manager of the Comprehensive Operational Risk Management Division from concurrently serving as the Outsourcing Manager.

(4) Correction of Problems

Does the Comprehensive Operational Risk Management Division provide for measures to take corrective action without delay in coordination with the Outsourcing Manager when detecting any problems?

4. Administrative Risk Management System

With regard to the administrative risk management system, see Attachment 1.

5. Information Technology Risk Management System

With regard to the information technology risk management system, see Attachment 2.

6. System for Managing Other Operational Risks

With regard to a system for managing operational risks as defined by the financial institution other than administrative risks and information technology risks (hereinafter referred to as the "Other Risk Management System"), see Attachment 3.

(Attachment 1)

I. Development and Establishment of Administrative Risk Management System by Management

【Checkpoints】

- Administrative risk is the risk of a financial institution incurring a loss from the neglect by officers and employees to conduct administrative work properly, accidents caused by them and violation of Laws conducted by them in the course of the administrative work process.

- The development and establishment of a system for managing administrative risks is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- The inspector should determine whether the administrative risk management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to examine in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to those issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to administrative risk management, fully recognizing that the lack of such an approach could seriously hinder attainment of strategic objectives? In particular, does the director in charge of administrative risk management examine the policy and specific measures for developing and establishing an adequate administrative risk management system with a full understanding of the scope, types and nature of administrative risks, and the identification, assessment, monitoring and control technique as well as the importance of administrative risk management, and with precise recognition of the current status of administrative risk management within the financial institution based on such understanding?

(2) Development and Dissemination of Administrative Risk Management Policy

Has the Board of Directors established a policy regarding administrative risk management (hereinafter referred to as the "Administrative Risk Management Policy") and disseminated it throughout the institution? Is the appropriateness of the Administrative Risk Management Policy secured by way of, for example, clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to administrative risk management
- The policy on organizational framework, such as establishment of a division concerning administrative risk management (hereinafter referred to as the "Administrative Risk Management Division") and the authority assigned thereto
- The policy regarding identification, assessment, monitoring, control and mitigation of administrative risks

(3) Revision of the Policy Development Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of administrative risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the

Manager of the Administrative Risk Management Division (hereinafter simply referred to as the "Manager" in this checklist) develop internal rules that clearly specify the arrangements concerning administrative risk management (hereinafter referred to as the "Administrative Risk Management Rules") and disseminate them throughout the institution in accordance with the Administrative Risk Management Policy? Does the Board of Directors or equivalent organization to the Board of Directors approve the Administrative Risk Management Rules after determining if they comply with the Administrative Risk Management Policy after legal checks, etc.?

(2) Establishment of the System of Administrative Risk Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have an Administrative Risk Management Division established and have the division prepared to undertake appropriate roles in accordance with the Administrative Risk Management Policy and the Administrative Risk Management Rules?[1]

(ii) Has the Board of Directors allocated to the Administrative Risk Management Division a Manager with the necessary knowledge and experience to supervise the division and enable the Manager to implement management operations by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Administrative Risk Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing operations?[2]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors secure a check-and-balance system of the Administrative Risk Management Division against operational divisions?

(3) Development of Administrative Risk Management System in Operational Divisions and Sales Branches, etc.

[1] When the Administrative Risk Management Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of administrative risk management or when a Manager or Managers take charge of administrative risk management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[2] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Administrative Risk Management Division is reasonable in terms of a check-and-balance system and other aspects.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to operational divisions and sales branches, etc. and have such divisions and branches observe them? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager to identify the internal rules and operational procedures that should be observed by operational divisions and sales branches and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of administrative risk management in operational divisions and sales branches, etc. through the Manager or the Administrative Risk Management Division?

(4) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division in a regular and timely manner or on an as needed basis or have the Manager seek the approval on the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division without delay any matters that would seriously affect corporate management or significantly undermine customer interests?

(5) System for Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor?[3]

(6) Development of Internal Audit Guidelines and Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to administrative risk management, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and

[3] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

approve such guidelines and plan?[4] For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the administrative risk management system
- Status of observance of the Administrative Risk Management Policy, Administrative Risk Management Rules, etc.
- Appropriateness of the administrative risk management processes commensurate with the scale and nature of the business, and the risk profile
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(7) Revision of the Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing its effectiveness based on reports and findings on the status of administrative risk management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Administrative Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the administrative risk management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of administrative risk management and assessing the effectiveness of administrative risk management, based on all information available regarding the status of administrative risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of the Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of administrative risk management in a regular and timely manner

[4] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the administrative risk management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing effectiveness based on reports and findings on the status of administrative risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Administrative Risk Management System By Manager

【Checkpoints】
- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Administrative Risk Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Administrative Risk Management Rules

Has the Manager, in accordance with the Administrative Risk Management Policy, identified the risks, decided the methods of assessment and monitoring thereof and developed the Administrative Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on full understanding of the scope, types and nature of risks and the administrative risk management technique ?

Have the Administrative Risk Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors after confirmation by the Comprehensive Operational Management Division?

(2) Administrative Risk Management Rules

Do the Administrative Risk Management Rules exhaustively cover the arrangements necessary for the Administrative Risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business, and its risk profile? Do the rules specify the following items, for example?

- Arrangements on the roles, responsibilities and the organizational framework of the Administrative Risk Management Division
- Arrangements on the identification of risks to be subjected to the administrative risk management
- Arrangements on the method of the administrative risk assessment
- Arrangements on the method of risk monitoring
- Arrangements on reporting to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division.

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with the Administrative Risk Management Policy and the Administrative Risk Management Rules, provide for measures to have the Administrative Risk Management Division exercise a check-and-balance system in order to conduct administrative risk management system appropriately?

(ii) Does the Manager ensure the system of training and education to enhance the ability of employees to conduct administrative risk management in an effective manner, thus developing human resources with relevant expertise?

(iii) Does the Manager provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division without delay?

(iv) Does the Manager provide arrangements, in coordination with a person in charge of personnel management, etc., to ensure that employees (including Managers) stay away from the workplace for one full week on end at least once per year for purposes such as holidays, training or provisional internal transfer from the viewpoint of preventing inappropriate incidents? Does the Manager oversee such arrangements and ensure the implementation of the relevant measures?

(v) Does the Manager, in coordination with a person in charge of personnel management, etc., ensure that personnel rotations are conducted appropriately so as to prevent a certain employee from engaging in the same business at the same department for a long period of time from the viewpoint of preventing inappropriate incidents? In the case where an employee must engage in the same business at the same department for a long period of time for an unavoidable reason, are there other arrangements to ensure the prevention of inappropriate incidents? Does the Manager oversee such arrangements and ensure the implementation of the relevant measures?

(vi) With regard to contract workers, etc., does the Manager oversee personnel management with due consideration for the following points from the viewpoint of preventing inappropriate incidents?

- Is the scope of business that can be undertaken by contract workers, etc. clearly defined?
- Is there a system to ensure that personnel and labor management (including the provision of training) is conducted in light of the nature of contract workers, etc. such as a lack of personnel information concerning them compared with regular employees and the fact that a check-and-balance system functions against such workers on a daily basis?

(4) Revision of Administrative Risk Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of the execution of operations at the Administrative Risk Management Division? Does the Manager review the effectiveness of the administrative risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Administrative Risk Management Rules and the relevant organizational frameworks or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Administrative Risk Management Division[5]

1) Roles and Responsibilities of Administrative Supervisory Division

(i) Does the Administrative Supervisory Division have administrative rules in place? Are the administrative rules comprehensive, appropriately specified in accordance with Laws (including but not limited to laws and regulations, etc.) and suited to the scale and nature of the financial institution's business, and its risk profile? Do the rules stipulate matters concerning administrative work not only at sales branches, etc. but also at operational divisions?

Do the administrative rules stipulate the following items clearly and exhaustively?

- Procedures for handling of cases not covered by the administrative rules and cases where there are differences of interpretation concerning the administrative rules.
- Procedures concerning exceptional cases such as handling of cash, physical certificates, and important documents

(ii) Does the Administrative Supervisory Division, in coordination with other relevant risk management divisions, etc. provide a system to analyze the causes of problems detected as a result

[5] It should be noted that the purpose of this inspection item is not to review whether or not divisions such as the Administrative Supervisory Division and the admintrative guidance division have been established as administrative risk management divisions but to review whether or not the functions required for such divisions are being performed.

of auditing, inappropriate incidents, accidents related to operational processes, complaints and inquiries, etc. and consider measures to prevent the recurrence thereof? Does the division revise and improve the administrative rules as necessary?

(iii) Does the Administrative Supervisory Division revise and improve the administrative rules as necessary according to changes in external environments such as legal amendments?

(iv) Does the Administrative Supervisory Division provide for measures to consistently check the administrative risk management system at operational divisions and sales branches, etc.?

(v) Does the Administrative Supervisory Division provide a system to prevent the Managers of operational divisions and the heads of sales branches from concealing violation of Laws?

(vi) Has the Administrative Supervisory Division developed standards and guidelines for implementing self-inspections by operational divisions and sales branches, etc. based on the opinions of the Internal Audit Division?

(vii) Does the Administrative Supervisory Division receive reports on the results of self-inspections by operational divisions and sales branches, etc.? Does it review the effectiveness of the self-inspections?

2) Roles and Responsibilities of Administrative Guidance Division

(i) Does the Administrative Guidance Division provide guidance and training to ensure appropriate administrative processes at operational divisions and sales branches, etc.?

(ii) Does the Administrative Guidance Division utilize the results of auditing by the Internal Audit Division to enhance the level of administrative work at operational divisions and sales branches, etc.?

(iii) Does the Administrative Guidance Division promptly and accurately respond to inquiries from operational divisions and sales branches, etc.?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of administrative risk management.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapter I. and II are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Administrative Process System at Operational Divisions and Sales Branches, etc.

1) Roles of Operational Division and Sales Branch Managers

Do the Managers of operational divisions and sales branches, etc.

(i) maintain a constant grasp of administrative risks related to administrative processes?

(ii) check the status of administrative processes and compliance with the administrative rules and items involving various risks?

(iii) endeavor to prevent situations in which persons in charge of examining administrative processes and giving approval thereof fail to perform their proper functions because of excessive workloads?

(iv) have a grasp on problems related to administrative processes at the operational divisions or sales branches of which they are in charge and make improvements?

(v) strictly handle exceptional cases in particular?

(vi) handle cases not covered by the administrative rules in a responsible manner in coordination with the Administrative Supervisory Division and the relevant operational divisions?

2) Strict Administrative Management

(i) Are administrative processes conducted strictly?

(ii) Is it ensured that examination and approval procedures are implemented strictly, rather than conducted formally or perfunctorily?

(iii) When accidents or inappropriate incidents involving cash occur, are they immediately communicated to the Managers of the Operational Division or sales branch and also reported to the Administrative Supervisory Division and the Internal Audit Division, etc.?

(iv) Are exceptional cases always processed upon approval from the Operational Division Managers, sales branch Managers or Managers in charge of relevant business, etc.?

(v) When operational divisions or sales branches handle cases not covered by the administrative rules, are such cases always processed based on the instructions from the operational division or sales branch Manager in coordination with the Administrative Supervisory Division and other relevant operational divisions?

(3) Appropriateness of Self-Inspection

(i) Are effective self-inspections conducted in a regular and timely manner or on an as needed basis by operational divisions and sales branches, etc. in accordance with the standards and guidelines for implementing such inspections in order to prevent accidents, inappropriate incidents and violation of Laws and avoid the spread of damage to customers?

(ii) Are the results of self-inspection reported in a regular and timely manner or on an as needed basis by the relevant operational divisions and sales branches to the Administrative Supervisory Division and the Internal Audit Division?

(iii) Are the results of self-inspection utilized to improve administrative work at operational divisions and sales branches?

2. Administrative Management System Concerning Market Transactions

1) Strict Administrative Processes

Are foreign exchange, fund, securities transactions and derivatives thereof handled strictly in accordance with the internal rules and operational procedures concerning the market transactions as follows, for example?

(i) Does the Administrative Management Division of Market-Trading have an exhaustive grasp on all transactions (e.g. final confirmation of system input, confirmation with ticket stamping and serial numbers, etc.)

(ii) Are transaction details input without delay?

(iii) Are corrections of dealing ticket errors detected in the confirmation and adjustment stages approved by the Manager of the Administrative Management Division of Market-Trading?

(iv) Are dealing tickets marked as pending for future processing stored and recorded appropriately?

(v) Is confirmation transmitted by someone other than the person responsible for the transaction?

(vi) Are confirmations and dealing tickets checked against each other appropriately?

(vii) Are dealing tickets, dealing sheets and confirmations kept and stored appropriately?

(viii) Is documentary evidence such as transaction data held at the Office (Trading, Banking) division and the Administrative Management Division of Market-Trading subjected to checks by the Internal Audit Division and stored for a period specified by the internal rules and operational procedures, etc. (minimum of one year)?

2) Check of Transaction Details and Balance, etc.

Are transaction data from the Office (Trading, Banking) Division and the Administrative Management Division of Market-Trading cross-checked? When errors are detected, are the causes examined promptly and supplementary measures taken in accordance with the prescribed methods?

For example, in securities trading, does the institution regularly (at least once per month) check positions as shown in the dealing system of the Office (Trading, Banking) Division against the securities balances on the accounts of the Back-Office Division that have been confirmed with securities companies and the Custody Division, etc.?

3. Checklist for Field Inspection

1) This checklist provides examples of items to be checked when the inspector conducts field inspections on the status of administrative risk management of financial institutions, and it does not exhaustively cover all business of financial institutions.

2) In conducting field inspections on a financial institution, the inspector should not necessarily examine all of the items listed in this checklist if it has been confirmed that the Internal Audit Division of the institution is functioning effectively, because checks on the actual status of administrative processes are conducted by the division. On the other hand, if the Internal Audit Division is not functioning effectively, it is necessary to conduct more in-depth inspections with regard to items not listed in this checklist as well.

3) When the institution inspected has only recently begun to engage in new business and handle new products, checks should be conducted thereon even if those business and products are not covered by this checklist.

4) It should be noted that the purpose of this checklist is not pointing out minor administrative mistakes but reviewing the functioning of the risk management system.

Items	Details
1. Internal Operations	Is attention paid to the following matters, for example, in handling of internal operations? 1) Management of cash and physical certificates etc. (1) Balance management by executive personnel (2) Communication of incidents involving cash 2) Transactions treated as exceptional cases (1) Details of criteria for handling of exceptional cases (2) Causes of exceptional cases and records thereof (3) Approval of branch Managers or other executives and a follow-up review (4) Appropriateness of supplementary processing of exceptional cases (5) Incidents such as high frequency of exceptional cases 3) Transactions using executive keys (1) Checks for base-date transactions and other unusual transactions (2) Selection of important transactions requiring executive keys 4) Status of overdrafts (1) Determination of customers allowed overdrafts, such as customers for whom there is no settlement concern (2) Prior approval of transactions that involve financial burdens

	5) Handling of documents and passbooks, etc. 6) Collection of fees, payment of costs 7) Handling of loss of certificates, passbooks, cards, etc. (status of setting of codes) 8) Management of general transfers and transfers prior to liquidation 9) Management of objects held in custody at branches 10) Management of CD cards 11) Handling of bills and checks, domestic exchange/transfer, foreign exchange 12) Items related to terrorism financing and money laundering (1) Customer Identity verification, compilation and storage of records on Customer Identity verification, storage of transaction records (2) Notification by financial institutions, etc. to the authorities with regard to suspicious transactions (Article 54, Law for Punishment of Organized Crimes, Control of Crime Proceeds and other matters) (3) Concealment and receipts of criminal profits (Articles 10 and 11, Law for Punishment of Organized Crimes, Control of Crime Proceeds and other matters) 13) Status of management and adjustment of pending cases 14) Personnel management of employees
2. Outside Liaison Work	Is attention paid to the following matters, for example, in handling of outside liaison work? (1) Allocations of roles and job rotation for outside liaison personnel (2) Complaints and inquiries from customers (3) Delivered funds and transfer requests made via telephone (4) Issuance and collection of receipts (5) Handling of physical certificates etc. between the outside liaison division and internal administrative divisions (6) Long-term custody of cash, passbooks, and ledgers, etc. (7) Prevention of incidents at customers using cash collection service (8) Outside payments
3. Deposit Business	Is attention paid to the following matters, for example, in handling of deposit business? 1) Provision of information to depositors (1) Display of major deposit interest rates at branches (2) Fee lists for perusal in branches (3) Indication of deposit products covered by deposit insurance

	(4) Provision of information regarding details of the entire product lineup (5) Appropriate provision of information concerning interest rates used as a basis for setting floating deposit rates and the methods of setting fixed deposit rates when there are such interest rates and methods 2) Cooperative deposits, "Buzumi-Ryodate" deposits (1) Prevention of excessive cooperative deposits, excessive "Buzumi-Ryodate" deposits, "Buzumi" deposits, and excessive "Ryodate deposits. (2) Measures to prevent deposit solicitation campaigns from becoming excessive (3) Due consideration for business plans that emphasize term-end figures 3) "Betsudan" deposits and provisional receipts and payments 4) Handling of products without principal guarantee 5) Illegal practices such as the provision of loans tied to deposits
4. Lending Business	Is attention paid to the following matters, for example, in handling of lending business? 1) Identity verification (confirmation of the intentions of the borrower, guarantor, and provider of collateral, etc.) 2) Appraisal and management of collateral property (1) Appropriateness of objective appraisals made by real estate appraisers or made with the use of standard values etc. and self appraisal by branches (2) Recording of data concerning collateral property and guarantee certificates, etc. on collateral ledgers, management ledgers, and the like (3) Provision and renewal of fire insurance (4) Collateral value and probability of recovering loans via collateral (5) Confirmation of intentions of joint guarantors (guarantee confirmation) 3) Loans for insurance premium payment 4) Management of progress with regard to loan applications 5) Status of handling of rejected applications 6) Credit management of large-lot borrowers and loss-making borrowers 7) Management of late repayments 8) Exclusive jurisdiction of branch Managers
5. Securities Business	Is attention paid to the following matters, for example, in handling of securities business? 1) Over-the-counter bond sales

	(1) Securing of business operations pertaining to prohibited acts such as providing false indications with regard to transactions, promoting large-volume sales of specific securities held by the institution, and acts involving the use of credit provision. (2) Development of internal rules and operational procedures that are in accordance with laws and rules such as the Securities and Exchange Law and rules set by the Japan Securities Dealers Association and the like (3) Full dissemination to all employees 2) Investment trust sales (1) Appointment of internal control supervisory Managers, sales Managers, internal control Managers, etc. (2) Securing of business operations pertaining to prohibited acts such as solicitation of investment with positive judgment statements, discretionary account trading, loss compensation, provision of additional profits, etc., based on the principles of “self responsibility” and “suitability”. (3) Development of internal rules and operational procedures that are in accordance with laws and rules such as the Securities and Exchange Law, the Law concerning Investment Trusts and Investment Corporations and rules set by the Japan Securities Dealers Association and the like. (4) Appropriate and sufficient explanation to customers of the risk of principal loss (5) Establishment of a space dedicated to direct sales and redemptions, etc. of investment trusts that is separated from spaces for other services (This shall apply to institutions lending spaces for investment trust sales) (6) Full dissemination to all employees
6. Insurance Business	Is attention paid to the following matters, for example, in handling of insurance business? 1) Establishment of the system of allocation of responsibilities such as the appointment of Managers in charge, etc. 2) Development of internal rules and operational procedures in accordance with the Insurance Business Law, etc. 3) Full dissemination to all employees 4) Securing of appropriate operations (1) Full implementation of measures to prevent inappropriate practices such as taking advantage of a superior position to offer insurance products (2) Provision of appropriate and sufficient explanation of risks, etc. involved

	in insurance products to customers
7. Other Business	Is attention paid to the following matters, for example, in handling of other business? 1) Derivatives products (1) Qualifications and product knowledge of persons selling derivatives products (2) Appropriate and sufficient explanation to customers with regard to the fact that derivative products involve the risk of principal loss, etc. (3) Status of sending and storing of market price reports 2) Commodities funds (1) Securing of business operations pertaining to the protection of investors, including those concerning the prohibition of practices such as lending names, lending money and mediating loans, and inappropriate solicitation. (2) Appropriate and sufficient explanation to customers with regard to the fact that derivative products involve the risk of principal loss, etc. (3) Full dissemination to all employees 3) Mortgage securities (1) Securing of business operations functions pertaining to rules intended to protect purchasers, including those concerning the prohibition of lending names and inappropriate solicitation (2) Appropriate and sufficient explanation to customers with regard to the details of products, including explanation of whether the contract guarantees the principal (3) Full dissemination to all employees 4) Loan cash receipts and disbursements trusts (1) Solicitation suited to the knowledge and experience of the customer (2) Appropriate and sufficient explanations to customers (3) Full dissemination to all employees 5) Small-lot credit sales 6) Liquidation of credits from local public bodies etc. 7) Liquidation of general loan credits 8) Loan participation 9) Foreign exchange 10) Money exchange

(Attachment 2)

I. Development and Establishment of Information Technology Risk Management System by Management

【Checkpoints】

- Information technology risk is the risk that a financial institution will incur loss because of a breakdown or malfunctioning of computer systems or other computer system inadequacies, or because of improper use of computer systems.

- The development and establishment of a system for information technology risk management is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- The inspector should determine whether the information technology risk management system is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If any problem is detected in the information technology risk management system and it is necessary to conduct more in-depth, detailed reviews, the inspector should refer to "Safety Standards for the Computer Systems of Financial Institutions," "the accompanying explanatory materials of Safety Standards for the Computer Systems of Financial Institutions" (edited by the Center For Financial Industry Information System), etc.

- The inspector should also use this checklist to examine the risk that information held by the institution that must be protected will be altered, deleted or leaked to the outside by officers and employees of the institution or outsiders.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

- The inspector should pay sufficient attention to the level of importance and nature of individual computer systems in conducting inspection of Information Technology Risk Management.
  - The level of importance of computer systems refers to the scale of effects of the systems on customer transactions and corporate management decisions.

  - The nature of computer systems refers to specific features of centralized dataprocessing environment systems, decentralized systems such as client/server computer systems configurations, End-user systems and the like, and the suitable management technique differs according to the system type.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to information technology risk management, fully recognizing that the lack of such an approach could seriously hinder the attainment of strategic objectives? In particular, does the director in charge of information technology risk management examine the policy and specific measures for developing and establishing an adequate information technology risk management system with a full understanding of the scope, types and nature of risks, and the techniques of risk identification, assessment, monitoring and control regarding information technology risk, as well as the importance of information technology risk management, and with precise recognition of the current status of information technology risk management within the financial institution based on such understanding?

(2) Clarification of Strategic Objectives

Does the Board of Directors, in light of information technology innovation, treat an information technology strategy as part of the strategic objectives that are in accordance with the financial institution's corporate management policy? Does it clearly specify the following items in the information technology strategy, for example?

- Priorities concerning computer system development
- Programs to promote efficient use of information
- Computer system investment plans

(3) Development and Dissemination of Information Technology Risk Management Policy

Has the Board of Directors established a policy regarding information technology risk management (hereinafter referred to as the "Information Technology Risk Management Policy") and disseminated it throughout the institution? Is the appropriateness of the Information Technology Risk Management Policy being secured by way of, for example, including clear statements on the following matters?

- The roles and responsibilities of the director in charge and the Board of Directors or equivalent organization to the Board of Directors with regard to information technology risk management
- The policy on organizational framework, such as establishment of a division concerning information technology risk management (hereinafter referred to as the "Information Technology Risk Management Division") and the authority assigned thereto
- The policy regarding identification, assessment, monitoring, control and mitigation of information technology risks
- The security policy (basic policy concerning the proper protection of the institution's information assets that stipulates (1) information assets to be protected, (2) reasons for protection and (3) the locus of responsibility for protection, etc.)[1]

(4) Revision of the Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of information technology risk management in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

[1] - "Security policy" covers not only information stored in computer systems and recording media but also information printed on paper.
- Refer to "Handbook for Security Policy Development in Financial Institutions" (edited by the Center For Financial Industry Information System)

(1) Development of Internal Rules

Has the Board of Directors or equivalent organization to the Board of Directors had the Manager of the Information Technology Risk Management Division (hereinafter simply referred to as the "Manager" in this checklist) develop internal rules that clearly specify the arrangements concerning information technology risk management (hereinafter referred to as the "Information Technology Risk Management Rules") and disseminated them throughout the institution in accordance with the Information Technology Risk Management Policy? Has the Board of Directors or equivalent organization to the Board of Directors approved the Information Technology Risk Management Rules after determining if they comply with the Information Technology Risk Management Policy after legal checks, etc.?

(2) Establishment of System of Information Technology Risk Management Division

(i) Does the Board of Directors or equivalent organization to the Board of Directors have the Information Technology Risk Management Division established and have the division prepared to undertake appropriate roles in accordance with the Information Technology Risk Management Policy and the Information Technology Risk Management Rules?[2]

(ii) Has the Board of Directors allocated to the Information Technology Risk Management Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management operations by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Information Technology Risk Management Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing the operations?[3]

(iv) Does the Board of Directors or equivalent organization to the Board of Directors secure a check-and-balance system of the Information Technology Risk Management Division against operational divisions?

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[2] When the Information Technology Risk Management Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of information technology risk management or when a Manager or Managers take charge of information technology risk management instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

[3] When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Information Technology Risk Management Division is reasonable in terms of a check-and-balance system and other aspects.

(3) Development of Information Technology Risk Management System in Operational Divisions, Sales Branches, etc.

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures to operational divisions, sales branches, etc. and have such divisions and branches observe them? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager to identify the internal rules and operational procedures that should be observed by operational divisions, sales branches, etc. and to carry out specific measures for ensuring observance such as providing effective training on a regular basis?

(ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of information technology risk management in operational divisions, sales branches, etc. through the Manager or the Information Technology Division?

(4) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Does the Board of Directors or equivalent organization to the Board of Directors appropriately specify matters that require reporting and those that require approval and have the Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division in a regular and timely manner or on an as needed basis or have the Manager seek the approval on the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division without delay any matters that would seriously affect corporate management or significantly undermine customer interests?

(5) System for Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to have the Manager directly report such matters to the auditor?[4]

(6) Development of Internal Audit Guidelines and an Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to information technology risk management, develop guidelines that specify the matters subject to internal audit and

[4] It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

the audit procedure (hereinafter referred to as "Internal Audit Guidelines") and an internal audit plan, and approve such guidelines and plan? [5]For example, does it have the following matters clearly specified in the Internal Audit Guidelines or the internal audit plan and provide a system to have these matters appropriately audited?

- Status of development of the information technology risk management system
- Status of observance of the Information Technology Risk Management Policy, the Information Technology Risk Management Rules, etc.
- Appropriateness of the information technology risk management processes commensurate with the scale and nature of the business and risk profile
- Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection

(7) Revision of the Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing its effectiveness based on reports and findings on the status of information technology risk management in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Information Technology Risk Management

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the information technology risk management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of information technology risk management and assessing the effectiveness of information technology risk management, based on all information available regarding the status of information technology risk management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees etc. consisting of non-interested persons?

(2) Revision of the Analysis and Assessment Processes

[5] The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of information technology risk management in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the information technology risk management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of information technology risk management in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Information Technology Risk Management System by Manager

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Information Technology Risk Management Division.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

(1) Development and Dissemination of Information Technology Risk Management Rules

Has the Manager, in accordance with the Information Technology Risk Management Policy, identified the risks, decided the methods of assessment and monitoring thereof and developed the Information Technology Risk Management Rules that clearly define the arrangements on risk control and mitigation, based on a full understanding of the scope, types and nature of risks and the technique of managing information technology risk? Have the Information Technology Risk Management Rules been disseminated throughout the institution upon approval from the Board of Directors or equivalent organization to the Board of Directors after confirmation by the Comprehensive Operational Risk Management Division?

(2) Information Technology Risk Management Rules

Do the Information Technology Risk Management Rules exhaustively cover the arrangements necessary for information technology risk management and specify the arrangements appropriately in a manner befitting the scale and nature of the financial institution's business, and its risk profile. Do the rules specify the following items, for example?

- Arrangements on the roles, responsibilities and organizational framework of the Information Technology Risk Management Division
- Arrangements on the identification of risks to be subject to the information technology risk management
- Arrangements on the method of assessing information technology risks
- Arrangements on the method of monitoring information technology risks
- Arrangements on system to report to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division

(3) Development of Organizational Frameworks by Manager

(i) Does the Manager, in accordance with the Information Technology Risk Management Policy and the Information Technology Risk Management Rules, provide for measures to have the Information Technology Risk Management Division exercise a check-and-balance system in order to conduct information technology risk management appropriately?

(ii) Does the Manager ensure the system of training and education to enhance the ability of employees to conduct information technology risk management in an effective manner, thus developing human resources with relevant expertise?

(iii) Does the Manager provide a system to ensure that matters specified by the Board of Directors or equivalent organization to the Board of Directors are reported to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division in a regular and timely manner or on an as needed basis? In particular, does the Manager provide a system to ensure that matters that would seriously affect corporate management are reported to the Board of Directors or equivalent organization to the Board of Directors and the Comprehensive Operational Risk Management Division without delay?

(iv) Has the Manager assigned a security Manager responsible for overseeing appropriate management to ensure that security is maintained in accordance with the prescribed policies, standards and procedures and assigned the security Manager the authority necessary for implementing management business?

(v) Has the Manager, with a view to securing safe and smooth operation of computer systems and the prevention of violation of Laws, specified the procedures for computer system management, assigned a computer system Manager responsible for ensuring appropriate system management and assigned the said Manager the authority necessary for implementing management operations? Has the Manager also assigned system Managers with regard to systems designed, developed and operated by user divisions on their own, such as an end-user computing (EUC) system? It is desirable that a system Manager be assigned to all systems and operations.

(vi) Has the Manager assigned a data Manager responsible for securing the confidentiality, completeness and usability of data and assigned the data Manager the authority necessary for implementing management operations?

(vii) Has the Manager assigned a network Manager responsible for overseeing the status of network operation and controlling and monitoring access and assigned the network Manager the authority necessary for implementing management operations?

(4) Revision of Information Technology Risk Management Rules and Organizational Frameworks

Does the Manager conduct monitoring on an ongoing basis with regard to the status of the execution of operations at the Information Technology Risk Management Division? Does the Manager review the effectiveness of the information technology risk management system in a regular and timely manner or on an as needed basis, and, as necessary, revise the Information Technology Risk Management Rules and the relevant organizational framework or present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement?

2. Roles and Responsibilities of Information Technology Risk Management Division

1) Awareness and Assessment of Information Technology Risk

(i) Is the Information Technology Risk Management Division aware of risks common to computer systems in general, and does it conduct assessments thereof, including an assessment of risks involved in various systems for different operational functions, such as the accounting system, information support system, external settlement system, securities system, and international system?

(ii) Is the Information Technology Risk Management Division aware of risks concerning computer systems developed by user divisions on their own such as an EUC system, and has it assessed the risks?

(iii) Is the Information Technology Risk Management Division aware that expansion of networks and progress in technology have led to a diversification of and increase in risks and has it made a relevant assessment?

(iv) Is the Information Technology Risk Management Division aware of risks involved in transactions conducted over the Internet, and does it understand the scope of the risks and assessed the risks? For example, is the division aware of the risk that problems related to the absence of face-to-face contact, troubleshooting, and involvement of third parties, etc. may arise and has it assessed the risk?

2) Monitoring of Status of Information Technology Risks

(i) Does the Information Technology Risk Management Division conduct monitoring with regard to the status of information technology risks of the financial institution with an appropriate frequency in accordance with the Information Technology Risk Management Policy and the Information Technology Risk Management Rules, etc.?

(ii) Does the Information Technology Risk Management Division, in accordance with the Information Technology Risk Management Policy and the Information Technology Risk Management Rules, etc., provide information necessary for the Board of Directors or equivalent organization to the Board of Directors to make appropriate assessments and decisions with regard to the status of information technology risks in a regular and timely manner or on an as needed basis?

3) Review and Revision

Does the Information Technology Risk Management Division, in accordance with the Information Technology Risk Management Policy and the Information Technology Risk Management Rules, etc., regularly review whether the information technology risk management method is suited to the scale and nature of the financial institution’s business, and its risk profile, and revise the method?

III. Specific Issues

【Checkpoints】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of information technology risk management.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapter I. and II. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Information Security Management

1) Roles and Responsibilities of Security Manager, etc.

(1) Roles and Responsibilities of Security Manager

(i) Does the security Manager oversee security related to all the following areas: system planning, development, operation and maintenance?

(ii) Does the security Manager report security problems related to serious system malfunctioning, accidents and crime, etc. to the Information Technology Risk Management Division?

(iii) Does the security Manager ensure security with regard to the following items, for example?

a. Physical security

- Measures to prevent physical intrusion and crime prevention equipment
- Enhancement of computer operation environment
- System for maintenance and inspection of equipment, etc.

b. Logical security

- The check-and-balance between the divisions involved in system development and operation and within each division

- System for development management
- Measures to prevent electronic intrusion
- Program management
- Response to system problems
- Assessment and management of outside software packages at the time of introduction
- Operational security management, etc.

(iv) Does the security Manager supervise security matters related to system, data and network management?

(2) Roles and Responsibilities of System Manager

(i) Does the system Manager regularly inspect computer system assets and make appropriate adjustments by procuring new assets and disposing of unnecessary ones?

(ii) Does the system Manager conduct appropriate and sufficient management with regard to all facilities and equipment installed at operational divisions, sales branches, etc. and computer centers?

(iii) Does the system Manager conduct appropriate and sufficient management with regard to computers used outside the premises of the institution?

(3) Roles and Responsibilities of Data Manager

(i) Does the data Manager ensure safe and smooth management of data by specifying procedures for data management and approval of data use, etc. as part of the internal rules and operational procedures and the like and fully disseminating them to relevant parties?

(ii) Does the data Manager conduct appropriate and sufficient management to ensure protection of data and prevention of unauthorized use of data?

(4) Roles and Responsibilities of Network Manager

(i) Does the network Manager ensure appropriate, efficient and safe network operation by specifying procedures for network management and approval of network use, etc. as part of the internal rules and operational procedures and the like and fully disseminating them to relevant parties?

（ii） Does the network Manager have in place measures to provide a backup in the event of a network breakdown?

2) Prevention of Unauthorized Use

(i) Does the institution have in place a system to verify the authenticity of the user or the computer terminal connected with the computer system in a manner suited to the nature of the relevant business and the connection method in order to prevent unauthorized use?

(ii) Does the institution regularly obtain records of system operations as evidence for future audits and regularly check them in order to keep surveillance on the status of unauthorized access?

(iii) Does the institution specify the methods of establishing and managing the rights to the use of computer terminals and access to data and files in light of the level of importance thereof?

3) Computer Viruses, etc.

Does the institution provide for a system to prevent the intrusion of computer viruses and other unauthorized programs and promptly detect such an intrusion if any and remove the intruding program?

- Infection with computer viruses
- Registry of programs that have not undergone legitimate procedures
- Intentional alteration of legitimate programs

4) Management of Transactions Conducted over Internet

(i) Does the institution provide a system to accept complaints and consultations from customers?

(ii) Does the institution have in place a supplementary system in case a system breakdown or malfunctioning makes appropriate processing impossible? Is the allocation of responsibilities in the event of a system breakdown specified?

(iii) Does the institution provide countermeasures to prevent misrecognition of the service provider that may arise from Web site links, etc.?

(iv) Does the institution disclose, on its Web site, for example, information concerning details of its financial conditions and business as well as details of the services provided through transactions conducted over the Internet?

(v) Does the institution verify the customer identification from the viewpoint of preventing money laundering?

(vi) Does the institution provide a system to prevent leakage of customer information and alteration etc. thereof, etc. attempted by intruding outsiders and insiders using unauthorized access?

(vii) Does the institution, in light of the fact that transactions conducted over the Internet involve no face-to-face contact, store records on transactions with customers for a certain period of time as necessary without alteration or deletion?

(viii) Does the institution protect customers against unauthorized use by providing the function of allowing them to check the status of their own use.

(ix) Does the institution seek to prevent phishing in a manner befitting its business, by, for example, providing for measures to allow users to verify the authenticity of the Web site accessed?

5) Measures to Cope with Forged or Stolen Cash Cards

(i) Does the institution assess the security level of the ATM system, etc. according to a prescribed standard in order to prevent use of forged or stolen cash cards? Does the institution take appropriate measures after considering what to do in terms of organizational and technical aspects based on the security level assessment?

(ii) Does the institution provide for measures to prevent unauthorized withdrawals, such as adopting an appropriate identification technology and installing information systems equipped with the function of preventing information leakage?

(iii) Does the institution make sure to take appropriate measures when abnormal transactions are detected by establishing criteria for abnormal transactions and specifying how to respond to such transactions?

2. System Planning, Development and Operation, etc.

1) System of Mutual Check and Balance between System Development and Operation Divisions

Does the institution have system development and operation divisions established separately with separate responsibilities in order to prevent personal mistakes and malicious acts? In the case where it is difficult to establish clearly separate divisions for system development and operation due to the lack of a sufficient number of staff members, does the institution seek to introduce a check-and-balance system by rotating persons in charge of system development and operation regularly, for example? With regard to EUC and other systems for which organizational division of system development and operation is difficult, does the institution use the Internal Audit Division, etc. to exercise check and balance?

2) System of System Planning and Development

(1) Planning and Development System

(i) Does the institution have in place internal rules and operational procedures with regard to system planning and development with a view to introducing highly reliable and efficient systems?

(ii) Does the institution establish a cross-divisional examination organization, such as computerization committees, and conduct deliberations when engaging in system planning and development, for example?

(iii) Does the institution have medium and long-term development plans in place?

(iv) Does the Board of Directors receive information concerning deliberations on effects of investment in each system as necessary according to the level of the importance of the relevant system? (The Board of Directors should always receive reports concerning deliberations on effects of investment in the system division as a whole.)

(v) Does the institution have clear rules concerning deliberations and approval with regard to system development projects?

(vi) Is a revision of a product system implemented upon approval?

(2) Development Management

(i) Is the method of documentation and programming related to system development standardized?

(ii) Is a Manager assigned for each development project, and does the Board of Directors or equivalent organization to the Board of Directors check the progress status in light of the level of importance and nature of the relevant system?

(3) Development of Internal Rules and Operational Procedures, etc.

(i) Has the institution developed internal rules and operational procedures, etc. concerning system design, development and operation and does it revise the rules and operational procedures in a manner befitting its actual operating conditions?

(ii) Has the institution established standard documentation rules concerning system design plans, and does it compile documents in accordance with the rules?

(iii) Do the computer systems developed leave auditing trails (journals and other records that allow tracing of the processing history) according to the purpose of the use, etc.?

(vi) Are manuals and documents related to development compiled in ways that can be easily understood by third parties with relevant expertise?

(4) Tests, etc.

(i) Is appropriate and sufficient testing conducted according to testing plans?

(ii) Is a system for testing structured in a way to prevent inadequate tests and reviews that would cause problems with long-lasting effects on customers or serious miscalculations in risk management-related documents and materials that are used for corporate management decision-making?

(iii) Is general testing conducted appropriately, with involvement of user divisions, for example?

(iv) Is acceptance made by executives and employees with sufficient knowledge?

(5) Decision on System Transition

(i) Does the institution have a Manager assigned with clear responsibility for system transition?

(ii) Does the institution develop system transition plans? Has it assigned clear roles and responsibilities to the system development and operation, user divisions, etc.?

(iii) Does the institution have criteria for judgments with regard to system transition and make decisions based on them?

(6) Post-System Transition Review

(i) Does the institution conduct a post-system transition review after a certain period from the start of operation?

(ii) Does the institution conduct examination and assessment with regard to the fulfillment of the user requirements and the cost-effectiveness in the post-system transition review?

(iii) Are the results of the post-system transition review reflected in future improvement plans for the relevant system?

(iv) Are the results of the post-system transition review reported to the Managers of the system development division and user divisions, etc?

(v) Does the institution have user divisions conduct sample checks as necessary after news products and arrangements are introduced?

(7) Human Resource Development

Does the institution provide training in ways to nurture staff adept not only in technology but also in the function skills for which system development is conducted? Does it train staff adept in derivatives, electronic payments, electronic transactions and other areas requiring high degrees of specialization, as well as in new technologies, for example?

3) System of System Operation Framework

(1) Clarification of Separation of Responsibilities

(i) Does the institution clearly separate responsibilities for system data reception, operation, operation results verification, and data and program storage?

(ii) Does the institution ban system operators from accessing data and programs outside of their areas of responsibility?

(2) System Operation Management

(i) Are regular operations implemented based on work schedules, instructions, etc.?

(ii) Are operations implemented based on approved work schedules, instructions, etc?

(iii) Are all operations recorded, and does the Manager of the system operation division check them with the use of prescribed checklists?

(iv) Does the institution have important operations conducted by two or more persons? Are operations automated as much as possible?

(v) Does the institution provide arrangements to prepare report outputs and obtain and keep work histories so as to enable the Manager of the system operation division to check the results of operation processes?

(vi) Does the institution in principle ban system developers from accessing operations? When a developer must access operations for reasons such as system problems, does the institution ensure that the Manager of the relevant operation verifies the identity of the developer and conducts follow-up inspections of the access records?

(3) Product Data Management

(i) Has the institution specified the policy and procedures concerning the provision of product data for use in system testing?

(ii) Is management of product data provided for use in system testing conducted appropriately, in accordance with the policy and procedures specified by the institution?

(4) System Problem Management

(i) Does the institution provide a system to ensure that system problems are recorded and reported to the Information Technology Risk Management Division as necessary?

(ii) Does the institution regularly analyze the details of system problems and take measures to resolve them?

(iii) Does the institution ensure that the Information Technology Risk Management Division and other relevant divisions promptly work together to resolve major system problems that may seriously affect corporate management and report such problems to the Board of Directors?

(iv) Does the institution provide a system to ensure that problems occurring at the outsourcing contractor consigned with system operation are reported to the institution?

4) System Audit

(i) Does the Internal Audit Division independent from the system division regularly conduct a system audit?

(ii) Does the Internal Audit Division have staff adept in system-related matters? Is an external audit with regard to information technology risk management conducted by accounting auditors, etc. as necessary?

3. Crime Prevention, Back-up and Prevention of Unauthorized Use

1) Crime Prevention

(i)Does the institution have an anti-crime organization and have a Manager with clear responsibility thereof?

(ii) Does the institution exercise appropriate and sufficient supervision over entry into and exit from work areas, handling of important keys, etc. in order to prevent acts that may threaten the safety of computer systems?

2) Computer Crimes and Accidents

Does the institution provide a system to ensure that sufficient attention is paid to the risk of computer crimes and accidents (intrusion of unauthorized programs such as viruses, destruction of CDs/ATMs and cash theft therefrom, card fraud, theft of information by outsiders, leakage of information by insiders, hardware problems, software problems, operation errors, transmission line failures, power outages, external computer failures etc.) and that follow-up checks such as inspections are conducted?

3) Disaster Mitigation

(i) Does the institution have a disaster mitigation organization in place to mitigate damage and help continue business in the event of disaster and have a Manager assigned with clear responsibility thereof?

(ii) When there is a disaster-mitigation organization, is it organized along the line of the institution's business and is there a Manager with clear responsibility for all business categories?

(iii) Does the institution have measures in place to cope with fire, earthquakes, and flooding?

(iv) Does the institution have prescribed emergency evacuation areas for important data etc.?

4) Back-up

(i) Does the institution create back-ups to prepare for damage to and failure of important data files and programs and have a management method thereof specified?

(ii) Does the institution take care to ensure decentralized storage and remote-location storage with regard to the back-ups created?

(iii) Does the institution have off-site back-up systems with regard to important systems?

(iv) Does the institution document its back-up cycle?

5) Development of Contingency Plan

(i) Does the institution have contingency plans in place to prepare for malfunctioning of computers systems due to disaster and other events?

(ii) Does the institution seek approval of the Board of Directors when it develops contingency plans or conduct important revisions of the plans? (Does it seek the approval of the Board of Directors or equivalent organization to the Board of Directors for other, less important revisions?)

(iii) Does the institution refer to the "Handbook for Contingency Planning in Financial Institutions" (edited by the Center for Financial Industry Information System) when developing contingency plans?

(iv) When developing contingency plans, does the institution assume emergencies arising not only from disasters but also from other factors within and outside the institution?

(v) When developing contingency plans, does the institution analyze possible effects on the settlement systems and possible damage to customers?

(iv) Does the institution regularly conduct practices based on contingency plans? Are such practices conducted on a company-wide basis and, as necessary, with the involvement of outsourcing contractors, etc.?

4. Name Gathering of Deposit Account

1) Does the institution provide a system to ensure compliance with Paragraph 4, Article 55-2 and Paragraph 1, Article 58 of the Deposit Insurance Law?

2) Does the institution provide a system to ensure that data concerning name gathering are appropriately maintained and registered?

3) Are data concerning name gathering (names written in "kana" letters for name gathering and birth dates, etc.) accurately registered? Does the institution verify the status of registration?

4) Does the institution take appropriate system measures in response to programming modification related to the introduction of new products and system upgrades?

5) Does the institution have in place a manual for procedures to be followed in the event of an incident covered by insurance before the submission of magnetic tapes, etc. to Deposit Insurance Corp.? Are similar manuals in place for procedures to be followed before data based on Item 1, Paragraph 1 and Paragraph 2 of the cabinet ordinance concerning measures specified in Paragraph 1, Article 58-3 of the Deposit Insurance Law are reflected on systems and for the process of refunding deposits for settlement without the use of the data?

5. Verification at System-Related Outsourcing Contractor

1) Is the outsourcing contractor aware of information technology risk with regard to the system in its entirety for which it has begun operations and does it assess the risk?

2) Does the outsourcing contractor regularly subject the operations to audits by way of outsourcing institutions or external audits? In the case of an external audit, does the outsourcing contractor report the results of the audit to the outsourcing institution?

3) Does the outsourcing contractor meet the security level required by the financial institution, etc.

and is there a prior agreement on the details thereof between the outsourcing contractor and the financial institution, etc.?

4) Is it ensured that user review or testing by the financial institution, etc. are conducted at the planning, design/development and testing stages?

5) Is it ensured that objective assessment is conducted the Quality Control Division, etc. with regard to the status of compliance with standard development rules and the status of quality control?

6) With regard to the status of system operation, have matters to be reported to the financial institution, etc. been specified, and does the outsourcing contractor report regularly?

7) Are there a prescribed system and procedures for the outsourcing contractor to report system problems?

8) When the outsourcing contractor undertakes business with two or more financial institutions, does it provide a system to make judgments with regard to the effects of a problem in a system for one of the institutions in regards to the business of others and take appropriate measures?

6. Risk Management System Concerning System Integration

Verification with regard to risk management related to system integration should be conducted based on “Checklist for System Integration Risk Management (Approval No. 567 dated Dec. 26, 2002).

(Attachment 3)

Development and Establishment of Other Operational Risks

【Checkpoints】

- "Other operational risks" of a financial institution are the risks defined by the institution as operational risks excluding administrative risks or information technology risks.

- The development and establishment of a system for managing operational risks other than administrative and information technology risks is extremely important from the viewpoint of ensuring the soundness and appropriateness of a financial institution's business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing such a system.

- The inspector should determines whether the system for managing other operational risks is functioning effectively and the roles and responsibilities of the management are being performed appropriately by referring, as necessary, to the checklists for the administrative risk management system and the information technology risk management system, etc.

1. Roles and Awareness of Directors

Do directors attach importance to the management of operational risks as defined by the institution excluding administrative and information technology risks, fully recognizing that the lack of such an approach could seriously hinder the attainment of strategic objectives? In particular, does the director in charge of such risk management examine the policy and specific measures for developing and establishing an adequate system for managing other operational risks with a full understanding of the scope, types, and nature of other operational risks and the techniques of identifying, assessing, monitoring and controlling the said risks as well as the importance of the risk management, and with a precise recognition of the current status of the risk management within the financial institution based on such understanding?

2. Roles and Responsibilities of Major Divisions Responsible for Managing Other Operational Risks

1) Legal Risk Management Division

With regard to legal risks as defined by the financial institution, such as loss and damage arising from failure to perform duties owed to customers due to negligence and inappropriate business market practices (including fines imposed as a regulatory measure or in relation to dispute settlement, penalties for breach of contract and damages), is a division in charge of legal risk management aware of risks faced by the institution and does it appropriately conduct management thereof? For example, with regard to items listed in the “Checklist for Legal Compliance” and the “Checklist for Customer Protection Management” does the Legal Risk Management Division recognize risks that constitute legal risks as defined by the institution as such and appropriately conduct management thereof?

2) Human Risk Management Division

With regard to human risks as defined by the financial institution such as loss and damage arising from complaints/unfair treatment (issues related to pay, allowances dismissal, etc.), discriminatory practices (sexual harassment and the like), is a division in charge of human risk management aware of risks faced by it and does it conduct appropriate management thereof? As a way to ensure appropriate risk management, does the institution provide training and education so as to enhance the ability of operational divisions and sales branches, etc. to manage such risks, for example?

3) Tangible Asset Risk Management Division

With regard to tangible asset risks as defined by the financial institution such as destruction of and damage to tangible assets arising from disasters and other events, is a division in charge of tangible risk management aware of risks faced by the institution and does it conduct appropriate management thereof?

4) Reputational Risk Management Division

With regard to reputational risks as defined by the financial institution such as loss and damage arising from deterioration in the institution’s reputation and circulation of unfounded rumors, is a division in charge of reputational risk management aware of risks faced by the institution and does it conduct appropriate management thereof? As a way to ensure appropriate risk management, does the division take the following measures, for example?

- Has the Reputational Risk Management Division specified how operational divisions and sales branches, etc. are to respond to circulation of unfounded rumors?
- Does the Reputational Risk Management Division regularly check whether there are unfounded rumors circulating in each media category (e.g. the Internet, speculative news reports, etc.)?

3. Appropriateness of Crisis Management System

(i) Does a person or division in charge of crisis management conduct regular inspections and practices in normal times as part of efforts to avoid or mitigate risk in the event of an emergency?

(ii) Do the crisis management manual and the like note the importance of initial responses such as accurate grasp of the situation, objective judgment of the situation, and information dissemination immediately after the occurrence of the emergency?

(iii) Are the crisis management manual and the like constantly revised in light of changes in the actual status of business and risk management?

(iv) Do the crisis management manual and the like clarify the system of assignment of responsibilities in the event of an emergency and specify a system and procedures for communication of the emergency within the institution and to other parties concerned (including the relevant authorities)?

(v) Does the business continuity plan (BCP) provide for measures to enable early recovery from damage caused by terrorism, large-scale disasters, etc. and continuance of the minimum necessary business for the maintenance of the functions of the financial system? Does the BCP have clear provisions with regard to the following matters, for example?

- Measures to secure the safety of customer data and the like in the event of disasters, etc. (storage of information printed on paper in electronic media, creation of back-ups of electronic data files and programs, etc.)
- Measures to secure the safety of computer system centers, etc. (allocation of back-up centers, securing of staff and communication lines, etc.)
- Avoidance of geographical concentration of back-up measures
- A specific target period for recovery, through provisional measures such as manual operations and processing by back-up centers, of operations vital for the maintenance of the functions of the financial system, such as acceptance of individual customers' requests for cash withdrawal and remittance and processing of large-lot, large-volume settlements conducted through the interbank market and the interbank settlement system?

(vi) Are a system and procedures for communicating and collecting information in the event of an emergency sufficient in light of the level of crisis envisioned and typical cases of emergency assumed? Does the institution make daily efforts to disseminate and collect information in a sophisticated manner?