

## **Basic Policy for Financial Inspections in Program Year 2009**

### **I. Foreword (Objectives of Financial Inspections and the Better Regulation Initiative)**

The Financial Services Agency (FSA) is not only making efforts to ensure the stability of the financial system and the protection of users, but is also engaging in vigorous activities to strengthen the competitiveness of the Japanese financial and capital markets while working hard to establish reliable and transparent financial regulations.

There are signs that the Japanese economy is recovering despite remaining in a difficult condition. However, in light of the impact of the global financial crisis and the possibility of a further downturn in the global economy over the coming year, it is necessary to keep in mind that risk faced by financial institutions may grow while financial institutions are required to make further efforts to fully exercise the financial intermediary function that supports economic activity.

Therefore, the basic objectives of financial inspections should be encouraging financial institutions to (i) fully exercise the financial intermediary function, (ii) ensure robust and comprehensive risk management and (iii) handle customers with due consideration of their standpoint.

In order to achieve these objectives, it is necessary for the FSA to enhance its sensitivity to risk so as to anticipate problems and share the recognition thereof with financial institutions through in-depth dialogue so that improvement can be made quickly. Therefore, the FSA regards the Better Regulation initiative as a permanent guideline on financial administration and will accelerate activities to implement and improve it (Action Plan II).

It should be noted that this basic policy for financial inspection was drawn up in light of the circumstances that surrounded financial institutions as of August 2009, and may be subject to review as necessary.

### **II. Basic Policy for the Conduct of Inspections**

#### **1. Promoting the Implementation of the Five Principles Prescribed in the Preamble of the Inspection Manual**

When conducting daily inspection activities, each inspector should strive to conduct more in-depth inspections through dialogue with financial institutions based on the following principles.

##### **(1) Inspection Focusing on Important Risks**

The FSA will conduct inspections with a priority-driven approach focusing on risks that are particularly important for the managing of individual financial institutions, by precisely identifying where risks lie based on information regarding business operations of individual financial institutions and market conditions.

(2) In-Depth Analysis and Clarification of Causes of Problems Necessary for Fundamental Improvement

The FSA will conduct in-depth analysis and clarification of the cause of problems through effective dialogue with the financial institution concerned, so that the two sides can form a consensus on the course of improvement.

(3) Identification of Problems, Evaluation of Appropriate Improvement Efforts and Examination of Static and Dynamic Aspects

While the FSA evaluates financial institutions' appropriate efforts toward improving and enhancing their internal control systems, it will fully examine not only the static aspect of the problems identified in the inspection, but also the dynamic aspect such as progress in the improvement of the internal control system, for instance.

(4) Explanation of the Basis for Ratings and Pointing out Problems, and Clarification of Items to Be Considered for Improvement

When holding dialogue and discussions with financial institutions about the issues pointed out in inspections and inspection rating results, the FSA will explain specifically and logically why those issues have been raised and why those inspection rating results have been given.

Also, when pointing out problems, the FSA will focus on issues that are important for the management of the financial institution. When notifying the inspection results, the FSA will clarify the items that need to be improved in order for the financial institutions to achieve higher inspection rating results.

(5) Accurate Understanding of Examination Findings (Sense of Satisfaction)

While proceeding with its examination with the points described in (1) to (4) above in mind, the FSA will help financial institutions obtain an accurate understanding (a sense of satisfaction) on the findings of the examination through enhanced dialogue with the management and at the working level, thereby prompting improved management efforts.

2. Systematic Activities to Develop the Better Regulation Initiative (Action Plan II)

In the future, the FSA should aim to conduct inspections that contribute more to voluntary improvement efforts by financial institutions. To that end, it is necessary not only to continue and strengthen existing administrative measures but also to improve the capabilities of individual inspectors. Under a comprehensive package of measures adopted from this viewpoint (Action Plan II; see the attachment), the FSA will (i) implement and strengthen the Better Regulation initiative, and (ii) enhance dialogue with financial institutions and strengthen the dissemination of information. In addition, as future central tasks, the FSA will (iii) improve the inspection capability and (iv) enhance human resource development and increase the staff. Starting in the current program year, the FSA will implement the measures under Action Plan II in a consistent and systematic manner so as to upgrade the Better Regulation initiative.

### III. Basic Framework for Various Inspections

As stated in Action Plan II, the FSA will aim to establish the following new framework of inspections so as to further improve the effectiveness of financial inspections and reduce the burden imposed by inspections on financial institutions.

#### 1. Integration of onsite and offsite monitoring

- The FSA will conduct on-site and off-site monitoring in an integrated manner by strengthening cooperation between the Inspection and Supervisory Bureaus through measures such as having the staff of Inspection Planning and Data Analysis Office (Inspection Bureau) concurrently serving in posts at the Supervisory Bureau and having the staff of the Office for Supervisory Policy, Financial Market & Risk Analysis (Supervisory Bureau) concurrently serving in posts at the Inspection Bureau.
- In doing the above, the FSA will first enhance efforts to more precisely identify risks faced by individual financial institutions. It will aim to insight the entire financial system from the macroscopic view whether the system will develop persistently and stably.

#### 2. Inspections of Major Banks

- To enhance the system where the chief inspector is charged with examining a major bank on a multi-year basis (a Japanese equivalent to the “Examiner-in-Charge”; hereinafter referred to as “EiC”), the FSA will create the post of assistant to the EiC at the Inspection Planning and Data Analysis Office. Such assistant will provide support in various ways when the EiC conducts in-depth analysis concerning the financial institution of which he/she is in charge.
- The FSA will inspect major banks basically through targeted inspections and conduct theme-specific inspections covering all major banks as necessary.

#### 3. Inspections of Regional Financial Institutions

- The FSA will conduct targeted inspections more actively than before.
- The FSA will more actively conduct simplified inspections of small financial institutions, such as credit associations serving customers engaging in particular occupations or those working in particular business sectors.

#### 4. Inspections of Insurance Companies

- The FSA will strengthen its function of analyzing pre-inspection information by creating the post of data analysis officer at the Inspection Planning and Data Analysis Office.
- The Inspection Bureau will conduct offsite hearings in cooperation with the Supervisory Bureau.
- The FSA will start for a full revision of the Insurance Inspection Manual.

## 5. Inspections of Foreign Banks

- The FSA enhance its function of analyzing pre-inspection information by creating the post of data analysis officer at the Inspection Planning and Data Analysis Office.
- The Inspection Bureau will conduct offsite hearings in cooperation with the Supervisory Bureau.
- The FSA will conduct simplified inspections more actively with regard to foreign banks whose operations in Japan are small.

## 6. Inspections of Large Financial Groups (Including both Domestic and Foreign Groups)

- The FSA will examine the governance and risk management systems of financial institutions on a group basis.
- In doing so, the FSA will conduct inspections of banks and securities companies seamlessly in cooperation with the Securities and Exchange Surveillance Commission.

## 7. Response to Financial Institutions' Global Business Expansion

- The FSA will further strengthen cooperation with foreign authorities in supervising the overseas operations of Japanese major banks, etc. and the Japanese operations of foreign financial institutions.
- The FSA will attempt to identify global risks at an early stage by dispatching staff at the Supervisory Bureau and making strategic use of resident examiners in abroad.

# IV. Priority Inspection Items

## 1. Development of Governance System

The leadership and commitment of the management is critically important for governance.

Therefore, when conducting a financial inspection, the FSA will focus on examining the following points through dialogue with the management.

- Whether the financial institution adequately analyzes and deliberates strategic objectives (earnings, costs, capital policy, etc.) based on its management policy in light of the medium-term business outlook and from the viewpoint of their rationality and sustainability.
- Whether the strategic objectives set for individual businesses based on the strategic objectives for the financial institution as a whole are consistent with risk management policies concerning various risks.
- Whether the financial institution has established a robust governance system regarding risk taking, risk management, legal compliance and the protection of customers, including at foreign establishments, and whether the system is functioning properly.
- Whether the effectiveness of internal audits (whether the audits are based on a risk-focused, forward-looking approach and whether their coverage and depth are adequate) is ensured and whether the checking and monitoring function of the audits is used to improve management.

In addition, the FSA will examine whether directors are holding substantive discussions at meetings of the board of directors and performing the duties of making decisions concerning business execution and supervising business execution.

## 2. Development of Risk Management System

### (1) Comprehensive Risk Management

As transactions made between financial institutions are becoming more and more advanced and complex due to the evolution of financial engineering, financial institutions whose risk profiles are complex need to develop a risk management system while taking into consideration the possibility that risk that does not fit any conventional risk category will arise and that risks will amplify and spread in a chain reaction as a result of stress events in the financial and capital markets. Therefore, in the current program year, the FSA will focus on examining in particular whether a comprehensive risk management system based on a viewpoint that covers various risk categories has been developed.

In addition, the FSA will focus on examining whether financial institutions have recognized the limits of statistical risk measurement techniques and have established appropriate risk management systems commensurate with the size, characteristics and risk profile of their businesses based on the experience of the recent turmoil in the financial and capital markets by conducting stress tests based on forward-looking scenarios and using the test results

Especially, regarding risk management concerning financial products which involve various risks, including credit risk of underlying assets, counterparty risk, funding and market liquidity risk, the FSA will pay particular attention to whether financial institutions are taking into consideration those risks in a comprehensive manner.

### (2) Credit Risk Management

In light of the importance of credit risk management by financial institutions, the FSA will focus on examining whether financial institutions have developed a credit risk management system with due consideration of their management strategies as well as their own scale and characteristics, whether they adequately grasp the actual state and risk profiles of schemes related to large-lot credit exposure and complex forms of credit exposure and properly conduct screening and manage credit exposure in a manner suited to their own circumstances.

In addition, as the importance of risk management regarding the credit exposure to non-Japanese customers is growing as a result of the rapid downturn of overseas economies, the FSA will focus on examining whether financial institutions have developed a inclusive risk management system that covers overseas branches with regard to the credit exposure to non-Japanese customers by making use of on-site examinations of foreign establishments.

Furthermore, regarding banks that adopt the Internal Ratings-Based approach under Basel II, the FSA will examine whether they properly operate their internal ratings system and whether they properly verify parameter estimates.

### (3) Group-Wide Risk Management

With the growing potential impact that major financial groups could have on the financial system as a result of the conglomeratization of financial institutions, it is becoming difficult for such groups to identify group-wide risks because of the enormous size and compartmentalization of their organizations. Meanwhile, the trend of managing a bank and a securities company within the same major financial group in an integrated manner is expected to grow further following the relaxation of the firewall regulation. Therefore, in the current program year, the FSA will focus on examining, in cooperation with the Securities and Exchange Surveillance Commission as necessary, whether a inclusive risk management system has been properly developed on a group-wide basis and whether the management is proactively involved in establishing an appropriate internal control system regarding the management of the conflict of interests and the management of customer information in accordance with the purpose of the relaxation of the firewall regulation.

### (4) Risk Management Systems at Insurance Companies

In conducting inspection of insurance companies in the current program year, the FSA will continue to focus on examining whether insurance companies have developed systems to manage asset management risk, insurance underwriting risk and policy reserves in light of the significant changes occurring in the domestic and foreign economic and financial environments surrounding insurance companies. It will also examine whether insurance companies are making efforts to develop a comprehensive risk management system and whether they are conducting stress tests and using the test results in light of the purposes of the revisions of the Comprehensive Guidelines for Supervision of Insurance Companies and the Inspection Manual for Insurance Companies concerning comprehensive risk management and the implementation of stress tests.

### (5) Information Technology Risk Management

Financial institutions' computer systems constitute the infrastructure of their business operations. In line with the increase in sophistication and complexity of the systems, the potential impact of system failures on transactions with customers is growing.

Therefore, in the current program year, the FSA will focus on examining the following points:

- Whether the management has adequately committed itself to information technology risk management, rather than leaving it to experts.
- Whether the financial institution is giving consideration to strategically using IT systems as an important business infrastructure.
- Whether the financial institution has developed management systems required as a result of joint operation of a computer system or outsourcing of computer system operation, such as a system for managing the outsourcing contractor.
- Whether risks related to the upgrading of a computer system and the integration of computer systems are properly recognized at the senior management level and project management is properly conducted.

- Whether the financial institution has identified all risk events that could have a significant impact on or cause a significant problem to customers or settlement systems and has taken measures to deal with such events.
- Whether the financial institution has adopted an effective contingency plan in preparation for a possible computer system failure.

### 3. Promotion of Smooth Exercise of the Financial Intermediary Function

#### (1) Smooth Exercise of the Financial Intermediary Function for small and medium-sized enterprises (SMEs), Individuals (Housing Loan), etc.

Exercising the financial intermediary function for SMEs and individuals is one of the most important functions of financial institutions. SMEs and individuals continue to face a severe financing environment due to the recent difficult economic and employment situations. In this situation, it is strongly desirable that financial institutions actively exercise an adequate financial intermediary function by taking risks appropriately and actively based on their own responsibility and judgment and by conducting appropriate risk management.

In the last program year, the FSA regarded it as priority inspection items whether financial institutions have developed systems that enable them to smoothly and actively exercise the financial intermediary function based on appropriate risk management while taking into consideration the actual circumstances of SMEs and individuals. In April to June 2009, the FSA assessed whether financial institutions make effort to fully exercise the financial intermediary function, whether financial institutions are not inappropriately curbing on new loans and forcibly withdrawing outstanding loans, including the review of the adequacy of the financing for medium and large-sized enterprises. In the current program year, the FSA will continue to focus on examining those points with particular focus on the following points.

##### (i) Loans to SMEs

Regarding loans to SMEs, the FSA will focus on examining whether financial institutions have established procedures and arrangements for providing loans in line with the purposes of the Supplement to the Financial Inspection Manual (the borrowing company should be evaluated with due consideration of unquantifiable factors such as technological capability and the abilities of managers, rather than based merely on formal facts, such as incurring losses and being in a state of negative net worth) while making conscientious efforts to grasp the actual circumstances of the debtors.

In addition, the FSA will focus on examining whether financial institutions have made necessary preparations, including at branch offices, and provided adequate consultations and explanations to customers in response to the revision of the requirements for restructured loans, whether they have established procedures and arrangements for preventing inappropriate practices, such as replacement of existing loans with new loans, following the creation of an emergency guarantee scheme, and whether they have established procedures and arrangements for handling requests from customers and providing adequate explanations when denying applications for loans.

## (ii) Housing Loans

Regarding housing loans, the FSA will focus on examining whether financial institutions have established procedures and arrangements for taking conscientious measures to deal with debtors, including revising the repayment terms, with due consideration of the debtors' economic and living conditions.

## (2) Provision of Financing Methods Suited to SMEs

Financial institutions should encourage SME borrowers to grow and improve by providing them with management support suited to their life-cycle stages. From this viewpoint, in the current program year, the FSA will focus on whether the financial institution has come up with innovative ideas to perform diverse functions and provide diverse services that help to increase corporate value added, such as business matching services and providing information concerning mergers and acquisitions, by enhancing the "information creation function," which is a primary role expected of the financial industry, and whether the financial institution is supporting business rehabilitation by providing continuous guidance to debtors in cooperation with relevant parties. If superior initiatives and innovative ideas are recognized in supporting business rehabilitation, the FSA will make them widely known by describing them in a collection of examples of issues pointed out in financial inspections, and will positively evaluate them in inspections and clearly reflect the results in financial inspection ratings.

## (3) Conscientious Efforts to Grasp the Actual Circumstances of SME Debtors and Appropriate Risk Management

Financial institutions need to make conscientious efforts to grasp the actual circumstances of SME debtors and conduct appropriate risk management. Therefore, in the current program year, the FSA will focus on examining whether financial institutions make conscientious efforts to grasp the actual circumstances of the debtors, including their business and financing conditions, and provide necessary advice and guidance to the debtors with due consideration of the conditions and characteristics specific to SMEs (e.g. the tendency to incur temporary losses due to their susceptibility to economic cycles and the tendency to fall into a state of negative net worth due to the small amount of their capital) during the process of screening and managing the credit exposure. It will also examine whether they have developed an appropriate credit risk management system and whether they make appropriate loan write-offs and loan provisions.

## 4. Protection of Customers and Improvement of Users' Convenience

The protection of customers and the improvement of users' convenience by financial institutions contribute not only to the sound development of the national economy but also to the stability of the financial system by increasing the trust of the people in them. It is important that financial institutions enhance their competitiveness by providing financial products and services using innovative ideas based on the principle of ensuring a sense of security and trust through the implementation of measures to thoroughly protect customers, including strict management of customer information,

prevention of abuse of a superior position and control of the conflict of interests. Therefore, in the current program year, the FSA will focus on examining financial institutions' following activities related to the protection of customers and the improvement of users' convenience.

(1) Protection of Customers

As financial services become more and more diverse and complex, financial institutions need to establish procedures and arrangements for protecting customers. The FSA, which has been responsible for protecting depositors, insurance policyholders, securities investors and loan borrowers, will focus on examining the following points, in addition to checking whether financial institutions have developed systems related to the protection of customers, including systems for strict management of customer information, prevention of abuse of a superior position and control of the conflict of interests. In doing so, it will cooperate, as necessary, with the planned Consumer Affairs Agency, which is expected to exercise central control over the conduct of consumer-related administration.

(i) Ensuring Appropriate and Safe Financial Transactions

Ensuring safe financial transactions is essential for the protection of customers. From this viewpoint, the FSA will focus on examining whether financial institutions have taken measures necessary for the prevention of financial damage that may be caused by illegal uses of deposit accounts, including "furikome" billing fraud, and whether they have made preparations for enhancing information security measures, including measures to protect information used for identity verification, in light of the high incidence of crimes using forged or stolen cash cards and crimes related to Internet banking in recent years.

In addition, the FSA will focus on whether financial institutions, as part of the anti-money laundering initiative, have developed procedures and arrangements for preventing transactions involving anti-social forces by gathering and analyzing information concerning such forces in close cooperation with relevant organizations.

(ii) Appropriate Responses to Consultation Requests and Complaints

In order to gain the trust of customers and reflect their needs in business operations, it is very important for financial institutions to proactively make timely and appropriate responses to consultation requests and complaints from customers. From this viewpoint, the FSA will focus on examining whether financial institutions are meeting customers' consultation requests and dealing with their complaints properly. To be more specific, the FSA will examine whether financial institutions properly analyze the causes of such complaints, adopt measures to prevent their recurrence, raise institution-wide awareness about the measures and follow up on their implementation.

(iii) Appropriate Explanations to Customers

Amid the increasing complexity and diversity of financial products and services, users expect and demand higher standards from financial institutions as well as from financial products and

services. When financial institutions sell insurance products and risky products, they need to provide accurate explanations concerning the characteristics of the products and where risks reside while taking into consideration customers' actual needs. In the current program year, the FSA will continue to focus on examining substantially whether financial institutions act appropriately and flexibly in dealing with customers while sufficiently considering each customer's knowledge, experience and understanding of risk etc, in accordance with the purpose of relevant laws and regulations. In addition, the FSA will pay adequate attention to whether financial institutions are not imposing an excessive burden on customers in terms of time and procedures.

When revising loan contracts or business relationships, financial institutions need to provide accurate explanations concerning the contract terms. In the current program year, in light of the revision of Comprehensive Guideline for Supervision of Money Lenders, the FSA will focus on examining whether moneylenders have improved procedures and arrangements for providing explanations with due consideration of the borrower's knowledge, experiences and asset status.

## (2) Improvement of Convenience for Users

In light of the increasingly high standards that the people expect and demand from financial institutions, financial institutions need to make further efforts to improve convenience for users by developing new products and services if they are to obtain the support and trust of customers and maintain their business foundation. Therefore, in the current program year, the FSA will positively evaluate excellent financial institutions' activities to improve convenience for users.

(End)

# Measures to Promote the Better Regulation Initiative in Inspections (Action Plan II)

## 1. Implementation and Enhancement of the Better Regulation Initiative

- (1) Inspections focusing on important matters ((1) and (2) of the five principles of the inspection manual)
  - (i) Holding dialogue between the chief inspector and the management at an early stage and enhancing such effective dialogue (continued measure)
  - (ii) Establishing inspection teams in charge of major banks and management inspections in line with the introduction of the Examiner-in-Charge (hereinafter referred to as the “EiC”) system (increasing the frequency of monitoring, strengthening cooperation between the inspection and supervisory departments, conducting comprehensive/partial inspections and theme-specific, sector-wide inspection and enhancing the staff supporting the EiC) (continued and strengthened measure)
  - (iii) Considering appointing EiCs at Local Finance Bureaus (strengthening the information-collecting function through the appointment of EiCs at Local Finance Bureaus, strengthening cooperation with supervisory departments and the FSA, and fostering core personnel) (continued and strengthened measure)
  - (iv) Promoting partial inspections of regional banks (continued measure)
  - (v) Promoting simplified inspections of credit associations serving customers engaging in particular occupations or those working in particular business sectors and foreign financial institutions whose Japanese operations are small, as well as making more efficient use of manpower (continued measure)
  - (vi) Improving and enhancing the use of interim reports (continued and strengthened measure)
- (2) Inspections that lead to voluntary management improvement efforts by financial institutions ((3) and (4) of the five principles of the inspection manual)
  - (i) Clarifying the notification of inspection results (indicating the degree of importance of a problem in terms of risk category and the direction of improvement) (continued and strengthened measure)
  - (ii) Considering how the Financial Inspection Rating System should be operated (clarifying the criteria for the “B” and “C” ratings, taking into consideration the dynamic aspect of financial institutions’ improvement efforts and adopting an evaluation yardstick that takes account of the size and characteristics of financial institutions) (new measure)
  - (iii) Providing information concerning excellent cases of activities (new measure)
- (3) Inspections that provide a high sense of satisfaction ((5) of the five principles of the inspection manual)
  - (i) Fully implementing on-site and off-site monitoring of inspection (including cross monitoring) (continued measure)
  - (ii) Enhancing the opinion submission system (increasing the number of outside expert members (to 10 members) and extending the deadline for submitting opinions (to within two weeks) (new measure)
- (4) Establishment of the headquarters for the promotion of the Better Regulation initiative and enhancement of external assessment
  - (i) Ensuring that the progress in the Better Regulation initiative is presented and debated at meetings of the Directors-General of Local Finance Bureaus and meetings of the directors of financial departments and inspection supervisors (continued measure)
  - (ii) Considering the establishment of a committee of external experts on the assessment of the implementation of the Better Regulation initiative (new measure)

## 2. Enhancement of Dialogue with Financial Institutions and Dissemination of Information

- (i) Enhancing collections of example cases of issues pointed out in inspections and example cases of issues related to financial ratings (establishing “Facilitation of Financing for Small and Medium-Size Enterprises” as an independent category, increasing the number of example cases and publishing collections of example cases twice a year) (continued and strengthened measure)
- (ii) Visiting regional banks and holding hearings with top managers (as part of the risk-focused, forward-looking approach to identify management tasks) (continued and strengthened measure)

- (iii) Strengthening networks between Local Finance Bureaus and financial industry organizations and holding meetings for exchanges of opinions (particularly with Shinkin banks and Credit cooperatives and at the working level) (continued and strengthened measure)
- (iv) Holding meetings for exchanges of opinions with associations of foreign financial institutions (considering holding such meetings periodically) (continued measure)
- (v) Holding meetings for exchanges of opinions with the Japanese Institute of Certified Public Accountants and the four major accounting firms (considering holding such meetings periodically) (continued measure)
- (vi) Holding briefings on the Supplement to the Financial Inspection Manual “Financing for Small and Medium-Size Enterprises” (continued measure)
- (vii) Disseminating inspection-related information through Chambers of Commerce and Industry, and strengthening efforts to collect information concerning inappropriate curbs on new loans and forcible withdrawals of outstanding loans (continued measure)

## 3. Enhancement of Inspection Capability: Central Point of Tasks in 2nd Stage

- (1) Enhancement of pre-inspection analysis
  - (i) Enhancing and strengthening pre-inspection analysis and increasing checkpoints of back-office operations (concerning major banks’ foreign establishments, insurance companies and foreign financial institutions) (continued and strengthened measure)
  - (ii) Reducing analysis materials conducted by FSA for Local Finance Bureaus in order to inspection of regional banks (continued and strengthened measure)
  - (iii) Considering holding periodic hearings with insurance companies and foreign financial institutions (in cooperation with the Supervisory Bureau) (new measure)
  - (iv) Strengthening the Office for Instruction on Inspection of Information Technology Risk (collecting information concerning computer system integration and drawing up multi-year inspection plans) (new measure)
- (2) Building a database of inspection know-how (accumulation, sharing and utilization of information and compilation of training materials) (considering new measures to be taken in relation to the start of the operation of a new computer system scheduled for 2012 and temporary measures to be in place until then) (new measure)
- (3) Establishment of new inspection ways and new inspection systems
  - (i) Enhancing an inspection technique concerning the smooth of financing to Small and Medium-Size Enterprises (new measure)
  - (ii) Enhancing an inspection technique concerning restructured loans (new measure)
  - (iii) Developing and enhancing a technique for analyzing information related to market risk management and comprehensive risk management by small financial institutions (continued and strengthened measure)
  - (iv) Considering having an expert inspection team conduct sector-wide inspections (considering and conducting theme-specific inspections covering financial institutions in a particular sector or of a particular type (mainly major banks) (new measure)
  - (v) Considering conducting principles-based inspections (new measure)
  - (vi) Considering revising the Inspection Manual for Insurance Companies and the Inspection Manual for Trust Banking Companies (new measure)
  - (vii) Considering how inspections should be conducted in light of financial regulatory reforms implemented abroad (new measure)
- (4) Enhancement and strengthening of instruction on inspections

- (i) Enhancing support for inspections and holding cross inspections (continued measure)
- (5) Strengthening cooperation with supervisory departments and relevant organizations
  - (i) Strengthening cooperation with the Supervisory Bureau (strengthening cooperation between the Inspection Bureau's Planning and Data Analysis Office and the Supervisory Bureau's Office for Supervisory Policy, Financial Market & Risk Analysis [joint implementation of risk assessment and joint collection and sharing of information concerning financial institutions subject to supervisory college]) (new measure)
  - (ii) Strengthening cooperation with the Securities and Exchange Surveillance Commission (SESC) (discussing with the SESC how to cooperate in inspections [inspections of financial conglomerates, major Japanese securities companies, etc.] and implementing such cooperation) (new measure)
  - (iii) Cooperation with the Bank of Japan (continued measure)
  - (iv) Strengthening cooperation with foreign authorities (enhancing channels of communication with foreign authorities, such as the FRB (Federal Reserve Board), the OCC (Office of the Comptroller of the Currency), the UKFSA (UK Financial Services Authority) and the HKMA (Hong Kong Monetary Authority) and implementing cooperation by dispatching inspectors to foreign establishments of Japanese financial institutions and resident examiner in abroad) (new measure)

- (i) Commending personnel for excellent inspections, making such inspections well-known, and reflecting the commendations in personnel performance evaluation (continued and strengthened measure)
- (ii) Reflecting the progress in the implementation of the Better Regulation in personnel performance evaluation and assignment (continued and strengthened measure)

#### 4. Enhancement of Personnel Training: Central Point of Tasks in 2nd Stage

- (1) Enhancement of practical training
  - (i) Collecting example cases of excellent inspections and communicating them through training (continued measures)
  - (ii) Expanding practical training based on example cases of issues pointed out in inspections (continued measure)
  - (iii) Enhancing training for personnel in departments related to the insurance business and foreign financial institutions (new measure)
  - (iv) Considering conducting joint training with the SESC (new measure)
  - (v) Having personnel receive external expert training (training related to computer systems and risk management) and lessons in general-interest matters (continued and strengthened measure)
  - (vi) Conducting joint training of personnel of the FSA and Local Finance Bureaus (continued and strengthened measure)
  - (vii) Increasing the number of trainees accepted from Local Finance Bureaus (for training related to computer systems and market risk) (continued measure)
  - (viii) Diversifying and advancing the contents of training materials, preparing training materials in-house, simplifying and integrating training materials (continued and strengthened measure)
- (2) Securing and fostering personnel
  - (i) Fostering inspectors in charge of loans (new measure)
  - (ii) Fostering and assigning personnel so as to strengthen inspections of insurance companies and foreign financial institutions (e.g. employing people with the experience of working for private insurance companies or engaging in financial business abroad) (new measure)
  - (iii) Extending the period of personnel assignment and the interval between rotations (e.g. considering career paths from a long-term perspective, extending the interval between rotations and actively employing experts) (continued and strengthened measure)
  - (iv) Securing personnel with expert knowledge and skills (e.g. experts in computer systems and market risk, actuaries, lawyers and accountants) (continued measure)
  - (v) Exchanging personnel with the SESC (new measure)
- (3) Appropriate evaluation of personnel and enhancement of motivation

## Basic Plan for Financial Inspections for PY2009

		Number of institutions to be inspected	The previous program year (PY 2008)	
			Number of institutions to be inspected	Actual number of inspected institutions
	Banks	100	95	104
	Shinkin banks Credit cooperatives	170	175	168
	Labor banks (Rokin) Federation of agricultural co-operatives associations and Federation of fishery co-operative associations	15	15	13
Total of deposit-taking financial institutions		285	285	285
Insurance companies		20	20	19
	Non-banking money lenders	100	120	121
	Issuers of prepaid cards	165	155	154
	Others	25	10	6
Total of other financial institutions		290	285	281

Note:

(1) These inspection numbers may be changed as necessary.

(2) The figure on "Banks" is the aggregated number of banks and bank holding companies. That of "Insurance companies" is the aggregated number of insurance companies and insurance holding