

<Provisional Translation>

Guideline for Financial Conglomerates Supervision

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## Guideline for Financial Conglomerates Supervision

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## Guideline for Financial Conglomerates Supervision

### I Basic Concepts concerning Financial Conglomerates Supervision

#### I-1 Definition of Financial Conglomerates

“Financial Conglomerates” refer to financial conglomerates set forth in Article 8, paragraph 4, item 1 of the Financial Services Agency Organization Rules (hereinafter referred to as “the Rules”). More specifically, they are categorized into the following four groups.

##### (1) Financial Holding Company Group

“Financial holding company group” refers to a corporate group set forth in Article 8, paragraph 4, item 1(d) of the Rules in which a financial holding company (Note 1) serves as the management company (Note 2).

(Note 1) “Financial holding company” refers to a holding company that falls under one or more of the following categories: “Bank Holding Company” set forth in Article 2, paragraph 13 of the Banking Law; “long-term Credit Bank Holding Company” set forth in Article 16-4 of the Long-term Credit Bank Law; “Insurance Holding Company” set forth in Article 2, paragraph 16 of the Insurance Business Law; “Small-claims and Short-term Insurance Holding Company” set forth in Article 272, paragraph 37-2 of the said Law; or a holding company that owns, as a subsidiary, a securities firm set forth in Article 59, paragraph 1 of the Securities and Exchange Law (a holding company set forth in Article 9, paragraph 5, item 1 of the Law relating to Prohibition of Private Monopoly and Methods of Preserving Fair Trade), and has subsidiaries (referring to subsidiaries set forth in Article 8, paragraph 3 of the Rules Concerning Terms and Forms to Be Used in, and Method of Preparation of, Financial Statements, etc.) engaged in at least two different types of the following businesses: banks (including long-term credit banks), insurance companies (including small-claims and short-term insurance businesses), securities firms, etc. (securities firms, securities investment advisers and investment trust management companies) (hereinafter referred to as “financial institutions”).

(Note 2) “Management company” refers to a company (including corporations other than companies) managing the operations of a financial conglomerate that corresponds to either “financial holding company,” “de-facto holding company,” “financial institution parent company” or “foreign holding company, etc.” Companies other than the management company within the group are called “group companies”.

#### (2) De-facto Holding Company Group

“De-facto holding company group” refers to a corporate group set forth in Article 8, paragraph 4, item 1(d) of the Rules in which a de-facto holding company (Note 3) serves as the management company.

(Note 3) “De-facto holding company” refers to a company that does not correspond to a Financial Holding Company, and is a non-financial institution whose subsidiaries are financial institutions that engage in at least two different types of the said businesses.

#### (3) Financial Institution Parent Company Group

“Financial institution parent company group” refers to a corporate group set forth in Article 8, paragraph 4, item 1(d) of the Rules in which a financial institution parent company (Note 4) serves as the management company.

(Note 4) “Financial institution parent company” refers to a company that corresponds to one of the types of financial institutions whose subsidiaries are financial institutions that engage in types of the said businesses that are different from its own.

#### (4) Foreign Holding Company, etc. Group

“Foreign holding company, etc. group” refers to a corporate group set forth in Article 8, paragraph 4, item 1(e) of the Rules in which a foreign holding company, etc. (Note 5) serves as the management company.

(Note 5) “Foreign holding company, etc.” refers to a corporation whose head office or

principal place of business is in a foreign country and owns financial institutions in the form of subsidiaries or branches in Japan, and the corporation and its subsidiaries in Japan or in a foreign country are financial institutions engaged in at least two different types of the said businesses.

(Reference)

Financial Services Agency Organization Rules (Ordinance No.81 of Prime Minister's Office, 1998)

Article 8

4. The Financial Conglomerate Office shall be in charge of the following affairs under the jurisdiction of the Supervisory Coordination Division.

i. Matters relating to the general coordination of the supervision process targeted at entities referred to in (a) through (c) below (referred to as "banks, etc." in this paragraph) that constitute a financial conglomerate (refers to a corporate group set forth in (d) or (e) below, hereinafter the same).

(a) An entity engaging in banking business

(b) An entity engaging in insurance business

(c) An entity engaging in securities business, investment trust management business or investment advisory business (referring to investment advisory business set forth in Article 2, paragraph 2 of the Law Concerning Regulation, etc. of Investment Advisory Business Relating to Securities (Law No.74, 1986))

(d) A corporate group consisting of entities referred to in (1) and (2) below (including entities referred to in (3) or (4), if any)

(1) A corporation whose head office or principal place of business is in Japan, and the corporation and its subsidiaries (referring to subsidiaries set forth in Article 8, paragraph 3 of the Rules concerning Term and Forms to Be Used in, and Method of Preparation of, Financial Statements, etc. (Ordinance of Ministry of Finance No.59, 1963, referred to as "Rules Concerning Financial Statements, etc." in (3)), hereinafter the same) include at least two entities referred to in (a) through (c) above.

(2) A subsidiary of the entity referred to in (1).

(3) An affiliate of the entity referred to (1) (referring to affiliate set forth in Article 8, paragraph 5 of the Regulations Concerning Financial Statements, etc., same as in (e)(3)).

(4) Other than the entities referred to in (1) through (3), a company in which directors or employees who perform internal control operations are the same as the entity referred to in (1) or its subsidiary bank, etc.

(e) A corporate group consisting of the entities referred to in (1) and (2) below (including entities referred to in (3) or (4), if any).

(1) A corporation whose head office or principal place of business is in a foreign country, owns banks, etc. in the form of subsidiaries or branches in Japan, and the corporation and its subsidiaries include at least two entities referred to in (a) through (c) above.

(2) A subsidiary or branch in Japan of the entity referred to in (1).

(3) An affiliate of the entity referred to (1).

(4) Other than the entities referred to in (1) through (3), a company in Japan in which directors or employees who perform internal control operations are the same as the entity referred to in (1), or a bank, etc. which is its subsidiary or branch in Japan.

ii. Matters relating to the oversight of affairs concerning the formulation of guidelines for the supervision process targeted at banks, etc. that constitute a financial conglomerate

iii. Matters relating to the planning, formulation and promotion of basic policies for matters requiring general processing for measures associated with the supervision process targeted at banks, etc. constituting a financial conglomerate (including risk management measures for operations or assets of a financial conglomerate)

## I-2. Purpose and Methods of Supervision

### (1) Purpose of Supervision

Japan has adopted a single-business scheme in which banks are exclusively engaged in banking business, insurance companies in insurance business, and securities firms in securities business. However, with the lifting of the ban on the mutual business entries through subsidiaries in respective business fields as a result of the financial reform in 1993, the lifting of the ban on financial holding companies and the development of regulations concerning subsidiaries by the Financial System Reform Law in 1998, the present financial system in Japan is undergoing conglomeritization and other new developments.

Every group within the so-called four major banking groups has a securities firm and trust bank under the holding company system with its bank forming its core. In addition, some groups other than the four major banking groups have banks and insurance companies within their groups, whereas some securities firms or insurance companies form groups with financial institutions which are engaged in different types of business. Thus, groups encompassing different types of business are widely observed, and furthermore, foreign financial institutions conducting business in Japan often take the form of conglomerates having a bank, insurance company and securities firm within their groups. In light of these emerging trends, it becomes necessary to clarify from what standpoints administrative financial supervision shall be organized.

Even if a business complex consisting of financial institutions engaged in different types of business is formed, respective group financial institutions are independent entities and required to ensure their own financial soundness and enhance customer protection and provide better services under the principle of self-responsibility and market disciplines. The first and foremost goal of administrative financial supervision is to ensure the financial soundness and operational appropriateness of group financial institutions, and through which to ultimately ensure the soundness of the financial system as a whole and proper financial functions.

Accordingly, insofar as there exists no concern about the soundness of individual financial institutions or the financial system as a whole, it is a matter of business judgment of individual financial institutions under the principle of self-responsibility to adopt what form of business management in terms of their business development, which will be basically respected by financial authorities, and the financial authorities will not opt to take the initiative for encouraging conglomeratization or on the contrary to

curbing conglomeratization. As far as the financial supervisory authorities are concerned, it is deemed important to identify the unique risks arising in connection with conglomeratization and properly cope with them from the standpoint of ensuring the soundness and appropriateness of financial institutions.

On one hand, financial conglomeratization may help strengthen the business structure of financial institutions and improve the quality of services. On the other hand, new risks associated with the grouping of companies may surface. For example, it has been pointed out that among the risks associated with financial conglomerates are inefficient business operations resulting from the complex organizational structures, occurrence of conflicts of interest, increased inducements for tie-in sales, intra-group risk contagion, risk concentration and so on.

As discussed above, the basic goal of financial supervision is to ensure the soundness and appropriateness of individual, group financial institutions. However, the presence of these risks may make it impossible to ensure the financial soundness and operational appropriateness of the group as a whole by solely pursuing the soundness, etc. of individual financial institutions, and as a result, it may affect the group financial institutions and the financial system as a whole. Consequently, for the purpose of enabling individual financial institutions or the group to appropriately cope with the foregoing risks associated with financial conglomerates, it is important for financial authorities to fully grasp the actual state of affairs concerning the management system of the group as a whole, and the financial soundness and operational appropriateness as a group, in accordance with the focal points described in this Guideline and take timely and appropriate supervisory measures as necessary.

## (2) Supervision Techniques

In the event that any concern arises as to the governance system, financial soundness and operational appropriateness of a financial conglomerate as a group in connection with the supervisory focal points described in this Guideline, in-depth hearings, concerning the causes and remedial measures, with a management company, group financial institutions or other group companies shall be conducted, and in cases where necessary, reporting pursuant to applicable laws and regulations shall be requested, among others measures, to urge effective improvements. Furthermore, in cases where it is deemed that there exists a serious concern about ensuring the soundness of group financial institutions, business improvement orders or other administrative action shall be taken pursuant to applicable laws and regulations.

### (3) Focal Points

Financial conglomerates may vary in form, and so do the characteristics of risks and the risk contagion process of each group. Consequently, the management system of each group and the roles of management companies have varied characteristics. This Guideline was prepared fully taking into consideration the actual state of affairs at these financial conglomerates so that they can be applied to various cases, and not all of the supervisory evaluation points described in this Guideline are to be uniformly applied to all of the Management Company and group companies.

Accordingly, when applying this Guideline, it should be noted that even in cases where all evaluation points are not observed to the letter, the situation shall not be judged inappropriate insofar as there is no concern from the viewpoint of ensuring the financial soundness and the operational appropriateness of group financial institutions, and due consideration shall be paid so that the Guideline shall not be applied in a mechanical and uniform fashion. On the other hand, it should be noted that even if the functions concerning evaluation points are perfunctorily satisfied, there could be cases which may not be deemed adequate from the viewpoint of ensuring the financial soundness and the operational appropriateness of group financial institutions.

## II. Evaluation Points for Financial Conglomerates Supervision (Viewpoints)

### II-1. Governance

In order to ensure the soundness and appropriateness of financial institutions within a group, it is important that, firstly, the management team of each financial institution fully understands its role, has established and properly implements an effective and responsible governance system, including enforcing management discipline. (Note)

Furthermore, the management company such as the holding company in a financial conglomerate must fulfill its role responsibly to establish and execute an appropriate governance system on a group-wide scale. The responsibilities to be fulfilled by the representative directors, directors, the board of directors, auditors, the board of auditors and the internal audit division of the management company are crucial to this end.

Moreover, if internal control operations are performed by the same directors and/or employees within a group, it is necessary that such concurrent post system is functioning in a sound and appropriate manner.

With this in mind, monitoring of the governance of a group shall involve checking whether such functions are properly being fulfilled based, for example, on the following viewpoints.

(Note) Especially in cases where the management of a financial institution within a group is practically intervened by individuals who are not members of the management team of the financial institution or its management company or by a company, etc. other than the management company of the financial institution such that the financial institution itself is deemed to be failing in establishing and executing an effective and responsible governance system, special attention needs to be paid as a supervisory authority.

#### (1) Representative Directors, Directors and Boards of Directors

- ① Whether the directors of a management company (hereinafter referred to as “Directors”) are knowledgeable and experienced enough to properly, fairly and efficiently implement the governance of group financial institutions and other companies, and possess sufficient social trustworthiness.
- ② Whether the representative directors of a management company (hereinafter

referred to as “Representative Directors”) understand the importance of internal audits, appropriately set forth the objectives of internal audits; establish functions so that the functions of internal audit divisions are adequately discharged (including the assurance of the independence of internal audit divisions); and checking how such functions are operating on a regular basis. Furthermore, whether they take appropriate measures based on the results of internal audits.

- ③ Whether the Directors check and restrain the arbitrary actions of Representative Directors empowered to administer business operations and actively participate in the decision making for the administration of business operations and the supervision of the administration of business operations by Directors by the boards of directors of a management company (hereinafter referred to as the “Boards of Directors.”)
- ④ Whether the Board of Directors clearly sets forth business policies in line with the overall picture the group shall strive to achieve. Whether business plans in line with such business policies are set forth and cause them to be understood throughout the group as a whole. Whether the extent to which such business plans are achieved is checked on a regular basis and reviewed as may be necessary.
- ⑤ Whether the Directors and the Board of Directors faithfully take the initiatives in observing laws and regulations and are appropriately discharging their functions to establish internal control systems of a management company and the group as a whole.
- ⑥ Whether the Directors and the Board of Directors grasp the business condition and financial position of the group, fully understand the characteristics of the risks assumed by the group and appropriately grasp the risk condition. Whether they adequately recognize that paying little attention to risk management divisions may have a material effect on corporate earnings and place importance on risk management divisions. Especially, the directors in charge understand where the risks of the group lie and the types of such risks, and have deep recognition and understanding concerning the techniques of measuring, monitoring and managing various risks.
- ⑦ Whether the Directors and the Board of Directors fully understand the increasingly

complex structures of organizations associated with the formation of financial conglomerates and the increasingly difficult business governance associated with that, and develop an appropriate business governance system.

- ⑧ Whether the Directors and the Board of Directors make an appropriate allocation of management resources of the group as a whole in line with the strategies and established a system capable of managing the situations in a flexible manner.
- ⑨ Whether the Directors and the Board of Directors understand the importance of a capital policy commensurate with risks and strive to substantiate the capital and maintain an appropriate level of capital.

## (2) Auditors and the Board of Auditors

- ① Whether the independence of the boards of auditors of a management company (hereinafter referred to as the “Board of Auditors”) is ensured in accordance with the purport of the system.
- ② Whether the Board of Auditors is appropriately discharging a wide scope of authorities empowered bestowed upon it, conducting business audits in addition to accounting audits.
- ③ Even if the Board of Auditors is established, whether each auditor is aware that an auditor is ultimately a single-person organ and conducting active audits based on his/her responsibility.

## (3) Internal Audit Divisions

- ① Whether an internal audit division responsible for evaluating the internal control system of the group as a whole (hereinafter referred to as the “Internal Audit Division”) is established
- ② Whether the Internal Audit Division of the management company is organized in such a way as to conduct independent and effective internal audits so as to exert adequate checking functions with respect to audited divisions.

- ③ Whether the Internal Audit Division grasps the risk management situation of audited divisions, establishes internal audit plans which take into consideration the frequency and depth in accordance with the nature and degree of risks involved, and conducts efficient and effective internal audits in accordance with such internal audit plans.
- ④ Whether a system for the Internal Audit Division to conduct audits in cooperation with the internal audit divisions of group financial institutions within the confines of laws and regulations to properly cope with risks within the group is established. Especially, whether a system for the Internal Audit Division to conduct direct audits as may be necessary within the confines of laws and regulations is established, when certain operations of group financial institutions have material risk exposures.
- ⑤ Whether the Internal Audit Division reports without delay the important matters pointed out in audits to representative directors and the board of directors. Whether a system for the Internal Audit Division to appropriately grasp the improvements at audited divisions concerning the points pointed out in internal audits.

(Note) When a management company is a committee system company, it should be checked from the standpoint of whether committees, executive officers and other organs are appropriately discharging their authorities endowed upon them. In these cases, actual situations need to be checked in accordance with the purport of these Supervision Guideline.

#### (4) Concurrent Post System for Internal Control of Financial Institution within Group

Essentially, it is necessary that systems execute internal control operations independently and properly in each financial institution are being developed.

On the other hand, there are cases in which internal control operations of a financial institution within a group are performed by the same directors and/or employees as the management company or other group companies. The proviso to Article 45 of the Securities and Exchange Law provides for the approval of exemptions from measures to prevent harmful effects, allowing the exchange of undisclosed information on customers, etc. relating to internal control operations between a security firm and a bank, etc. in a parent-subsidary relationship if certain conditions are met and the Prime Minister's approval is obtained (Note). This provision was

established based on the view that it would enable the efficient and proper execution of internal control and thereby help further enhance internal control operations within the group, only in cases where it is deemed not to undermine public interest or protection of investors, assuming that internal control operations are strictly implemented at each financial institution.

If internal control operations of a financial institution within the group are performed by the same directors and/or employees as the management company or other group companies by such means as obtaining approval under the said provision, it shall be checked whether the following systems have been developed in consideration of the original positioning and the purpose of the provision of such proviso.

(Note) The provision or receipt of undisclosed information on customers, etc. between a securities company and a bank, etc. in a parent-subsidiary relationship is permitted only for the purpose of performing internal control operations in cases where approval has been obtained under the proviso to Article 45 of the Securities and Exchange Law, and due consideration needs to be given to the fact that in principle, provision or receipt of such information for commercial purposes is prohibited (except in cases where prior written consent has been obtained from the customer, etc.)

- ① A staffing and business operation system that is capable of executing internal control operations in a fair and precise manner shall be ensured.
  - (a) In particular, directors and/or employees who are concurrently serving in multiple positions regarding internal control operations of more than one financial institution within the group shall have the knowledge and experience required to execute such operations in a precise, fair and efficient manner.
  - (b) In addition, the staffing and business operation system shall be adequate in light of the scale and scope of operations of the financial institution, etc. within the group.
- ② Internal regulations to execute internal control operations shall be established.
- ③ Measures to prevent undisclosed information from being leaked from the division engaged in internal control operations shall be taken with precision.
- ④ Staff engaged in internal control operations shall be independent of the sales

division.

- ⑤ At each financial institution within the group that makes the same directors and/or employees perform internal control operations, the person responsible for overseeing a single internal control division shall develop a responsible system and exercise its authority in a proper fashion with respect to:
  - (a) Identification and management of the fulfillment status of employees' duties;
  - (b) Proper administration of internal control operations; and
  - (c) Effective functions to check the sales division.
  
- ⑥ If an application is to be made for the approval under the proviso to Article 45 of the Securities and Exchange Law, the matters referred to in III-2-2-3(2) and (3) of the Comprehensive Guidelines for Supervision of Securities Companies shall be properly ensured.
  
- ⑦ If approval under the proviso to Article 45 of the Securities and Exchange Law has been obtained, the system shall be reviewed in a timely and appropriate manner in the event of any subsequent changes in the scale or scope of the operations of the financial institution or the group, etc., and efforts shall be made for continual improvements, in addition to properly ensuring the matters referred to in ① through ⑥ above at the time of examination for approval.

## II-2. Financial Soundness

### II-2-1. Capital Adequacy

It is extremely important for each financial institution comprising financial conglomerate to strengthen capital adequacy and hold an adequate financial base commensurate with risks for the purpose of ensuring trust of the users in each institution and the group as a whole. Accordingly, the basic of financial conglomerate supervision is in the first place to examine whether group financial institutions satisfy the appropriate capital standards (in the case of insurance companies, the standards bases on solvency margin ratios) set forth by statutes governing respective business segments.

On the other hand, as financial institutions comprising financial conglomerate are exposed to the spread of reputation risk, risk concentrations and other additional risks as the group, it is necessary to examine the capital adequacy of the group as well as the capital adequacy of each financial institution for the supervision of financial conglomerates.

Based on this idea, the capital adequacy of financial conglomerates shall be checked from the following viewpoints.

#### (1) Capital Adequacy of Group Financial Institutions

- ① Whether each group financial institutions has adequate capital in accordance with the law and regulation of each business sector.
- ② Whether the directors of a management company properly grasp the capital adequacy of group financial institutions and take appropriate measures for ensuring the sound and appropriate operations of financial institutions.
- ③ Whether group financial institutions have a system for making timely, appropriate and accurate disclosure concerning equity ratios and so forth.
- ④ Whether intentional double gearing or multiple gearing through mutual share holding among group companies is appropriately eliminated when calculating non-consolidated equity ratios and so forth.

## (2) Capital Adequacy of Financial Conglomerates

- ① Excepting the cases where financial conglomerates are required to calculate consolidated equity ratios and consolidated capital adequacy pursuant to specific statutes concerning a management company or group financial institutions, they must take measures for securing the adequacy of combined capital so that the combined equity capital of the group calculated as follows does not fall below the requisite equity capital.

(Note 1) The calculation of combined equity capital shall always include the equity capital of banks, securities companies or financial holding companies included in the consolidated financial statements prepared by the management company (or in the case of a foreign holding company, etc., equivalent consolidated financial statements prepared by the company in a foreign country), but exclude the equity capital of companies located in countries where information required for the measurement of equity capital, etc. is legally difficult to obtain, companies whose size is so small as to be negligible for the calculation of equity ratios (except in cases where they cannot be ignored in size when added together), and companies whose inclusion in the calculation is deemed inappropriate or misleading.

(Note 2) With respect to group insurance companies, it is necessary that solvency in the form of capital and reserves is secured against risks which may arise beyond normal expectations.

### ② Calculation Method

#### 【Combined Equity Capital】

- The amount of combined equity capital shall be calculated based on the consolidated financial statements prepared by a management company.
- The amount of equity capital (excluding the deduction items set forth in respective industry-specific statutes) calculated pursuant to industry-specific statutes governing a management company or group financial institutions (relating to soundness) shall be incorporated into combined equity capital.
- With respect to the companies not subject to regulations concerning soundness (hereinafter referred to as “Non-regulated Companies”), the amount calculated in

accordance with the following provisions 【Treatment of Non-regulated Companies】 shall be incorporated.

**【Requisite Equity Capital】**

- The amount of requisite equity capital of a financial conglomerate shall be the aggregate amount of the requisite equity capital of the companies included in the consolidated financial statements prepared by a management company.
- The amount of requisite equity capital calculated pursuant to industry-specific statutes governing a management company or group financial institutions shall be incorporated into requisite equity capital.
- With respect to the Non-regulated Companies, the amount calculated in accordance with the following provisions 【Treatment of Non-regulated Companies】 shall be incorporated.

**【Treatment of Non-regulated Companies】**

- For the calculation of the amounts of equity capital and requisite equity capital of Non-regulated Companies, the soundness regulations of the country where such companies are located and which are applicable to appropriate financial institutions whose business is similar to that of such companies shall be applied with necessary modifications.
- When similar regulations do not exist in the country where they are located, or when the equity capital and the requisite equity capital calculated pursuant to the soundness regulations are inappropriate, appropriate laws and regulations of Japan shall be applied in lieu of the similar soundness regulations of the country where they are located.

- ③ Supervisory authorities may request a management company or group financial institutions to report about the combined equity capital and requisite equity capital of the group as may be necessary.

## II-2-2. Risk Management System

In financial conglomerates, as management of financial institutions with different risk exposures is conducted as one body, it involves more diversified risks compared to the management on a single-entity basis. On the other hand, as risks of financial institutions are appropriately diversified, the risks of financial conglomerates as a whole may be

alleviated. Also, cost reductions can be expected as a result of unified management of risks by a specific entity within the group.

In this way, in financial conglomerates how to grasp and manage risks in an appropriate manner becomes more important than the presence of risks. Accordingly, risk management systems of financial conglomerates shall be reviewed from the following viewpoints. (Incidentally, the risk management system herein includes the risk management system concerning the checking items in “II-1 Governance,” and the risk management system for intra-group transactions, operational risks, system risks and system integration risks in “II-3 Operational Appropriateness.”

- ① Whether the risk management policies of the group, based on the strategic goals of the group and incorporating all of the expected major risks, are clearly defined subject to the approval of the board of directors of a management company. Whether such policies are reviewed periodically (at least once a year) or from time to time in accordance with changes in strategic goals or as may be otherwise required.
- ② Whether the risk management policies of a management company are fully understood by officers and employees, and group companies, and whether risk management policies consistent with them are established by group financial institutions.
- ③ Whether risk management divisions which manage the risks inherent in the group are established within the group in accordance with the size and features of the group and the business of group companies.
- ④ Whether such risk management divisions grasp various risks in a timely and appropriate manner and report to the directors of a management company on a regular basis.
- ⑤ Whether the directors of a management company make necessary decisions based on the reporting of risks or otherwise utilize the grasped risk information for the execution of business and the development of risk management systems of the group.
- ⑥ Whether a system capable of checking the appropriateness of risk monitoring systems is in place. Whether the risk monitoring systems of group financial

institutions are unified in such a manner as to help the measurement, monitoring and management of group-wide risks by a management company.

#### II-2-2-1. Risk Management (General)

##### (1) Management System for Risk Contagion

A Management Company and group companies are separate legal entities. However, the risks which have surfaced within a management company or group companies may spread to other group companies through capital relationship, reputations among outside parties or group transactions, and thereby may cause damages to group financial institutions or the group as a whole. Whether a management company adequately understand how the risk contagion within the group affects the soundness of group financial institutions and have taken measures to appropriately cope with this.

##### (2) Management System for Uneven Distribution of Risks

Whether the directors of a management company understand how uneven distribution of risks in certain entities or fields within the group may cause material effects in terms of ensuring the soundness of group financial institutions or the group as a whole, and have established a system for appropriately monitor and manage this after identifying such uneven distribution of risks.

##### (3) Management System for Risk Concentrations

- ① Whether a management company has established a system for identifying risk concentrations of the group and appropriately measures, monitors and manages those. Specifically, whether the effects of value fluctuations, credit deterioration, natural disasters and other unfavorable situations on group financial institutions or the group as a whole are appropriately evaluated through a process for appropriately identifying risk concentrations of the group, a comprehensive risk measurement system, establishment of ceilings on large exposures and concentrations of other risks, stress testing, scenario analysis and correlation analysis processes.
- ② Whether the directors of a management company are fully aware that concerns arising from risk concentrations can be alleviated by superb risk management and

internal control policies, and can be complemented by securing an adequate capital base.

- ③ Whether the directors of a management company are fully aware of unquantifiable risks, and new risk concentrations arising when financial institutions engaged in different types of business effect business integrations.
- ④ Supervisory authorities shall request reports as may be required on exposures (credit risks, investment risks, insurance underwriting risks, other risks, or exposures arising out of a combination of these risks) which, when combined within the group, may have a material effect on the financial condition of the group as a whole.

#### (4) Management System for Other Risks

- ① Whether the directors of managing companies or the directors of group companies involved are fully aware of the risks expected to arise when group financial institutions develop financial products jointly with other group financial institutions or sell the financial products developed by other group companies, and take appropriate measures to cope with them. Whether explanatory systems appropriate from the viewpoint of customer protection are developed.
- ② Whether a management company has taken measures necessary and appropriate for the prevention of intra-group transactions which may have a material effect on the sound and appropriate business operations of group financial institutions.
- ③ When non-financial companies are included within the group (including when a management company is non-financial), whether a management company has built a system for appropriately manage the various risks arising from the existence of non-financial companies within the group.

#### II-2-2-2. Credit Risk Management System

- ① Whether the strategic goals of the group concerning credit extension which are in line with the business policies of the group are clearly defined. Whether such strategic goals are appropriate from the standpoint of credit risk management by precluding credit risk concentrations in certain business sectors or certain business

groups for the purpose of achieving short-term profits or otherwise.

- ② Whether the credit risk of the group is quantitatively measured by a management company or group companies and an appropriate limit on maximum credit risk commensurate with the capital base is established.
- ③ When the total credit risk assumed by the group exceeds the predetermined allowable limit, whether a system for taking appropriate measures is developed.
- ④ Whether a system capable of comprehensively managing credit extension within the group within the confines of laws and regulations is in place. Especially, whether credit portfolios of the group (credit concentrations in certain business sectors or certain business groups) are appropriately managed.
- ⑤ Whether the situations concerning the management and collection of problem loans held by a management company or group companies are properly grasped. Whether it is grasped that the risk management of such problem loans is appropriately conducted when they are transferred from a managing company or group companies to other group companies.

#### II-2-2-3. Market Risk Management System

- ① Whether the strategic goals for managing assets having market-related risks in line with the business policies of the group are clearly defined. Whether such strategic goals are appropriate from the standpoint of market-related risk management in that market-related risk concentrations for the purpose of achieving short-term profits are precluded or otherwise.
- ② Whether the market-related risk of the group is quantitatively measured by a management company or group companies and an appropriate limit on maximum market-related risk commensurate with the capital base is established.
- ③ When the total market-related risk assumed by the group exceeds the predetermined allowable limit, whether a system for taking appropriate measures is developed.

#### II-2-2-4. Liquidity Risk Management System

- ① Whether the liquidity risk management policies of the group are clearly defined and the degree of liquidity risk which can be assumed is timely grasped and clearly defined.
- ② Whether the cash flow situations of the group are classified in accordance with the tightness of cash flow in line with the liquidity risk management policies of the group, and the provisions concerning the management method, reporting method, and settlement method for each time period classified as such are established subject to the approval of the board of directors, etc.
- ③ Whether the divisions responsible for managing the liquidity risk of the group receive reports at reasonable intervals about the information concerning the liquidity risk management of group companies.
- ④ Whether the divisions responsible for managing the liquidity risk of the group continuously grasp the timings when and in what amounts funds can be raised and also grasp that fund-raising methods are secured at the time of emergencies.

#### II-2-3. Equivalence of Conglomerate Supervision by Foreign Supervisory Authorities

With respect to the financial soundness of financial conglomerates falling under the definition of the Foreign Holding Company, etc. Group, whether the system of conglomerate supervision by foreign supervisory authorities where the management company is located is equivalent to the supervisory system in Japan including the supervisory focal points set forth in these Supervisory Guidelines will be checked.

## II-3. Operational Appropriateness

### II-3-1. Compliance System

The compliance system of financial conglomerates as the group shall be checked based on the following viewpoints.

#### (1) Development of Compliance System by Management Companies

- ① Whether the board of directors of a management company places among the top priorities of business management the observance of laws and regulations and takes the initiatives in establishing the system of compliance with laws and regulations of the managing company and group companies.
- ② Whether the basic policies and standards of observance of the group concerning the compliance with laws and regulations are established by the boards of directors of a management company and thoroughly understood by group companies. Whether they contain not only a code of ethics but also specific guidelines and standards for action.
- ③ Whether a division responsible for overseeing and managing the compliance-related matters of the group (hereinafter referred to as the “Compliance Overseeing Division” is established at a management company to appropriately monitor the system of compliance with laws and regulations of the group or group companies.

#### (2) Establishment of Compliance System by group Companies

- ① Whether appropriate firewalls are established at group financial institutions and functioning.
- ② When personal information is shared by a management company and group companies, whether a system for appropriate safety management and joint use of the same is established pursuant to statutes regulating industries and the Law concerning the Protection of Personal Information.

- ③ Whether the conflicts of interest among a management company and group companies or business divisions are clarified and clearly understood among officers and employees; whether the potential risks associated with the conflicts of interest are clarified and specific measures for dealing with and avoiding them are defined.
- ④ Whether each group financial institution has established a compliance division and effective cooperation with the Compliance Overseeing Division is established.
- ⑤ Whether measures for preventing the occurrence of actions which fall under the unfair transaction method prohibited by the Anti-Monopoly Law (abuse of superior position) are taken within the group.
- ⑥ Whether measures for preventing the occurrence of actions which fall under the unfair transaction method prohibited by the Securities and Exchange Law (prohibition of insider transactions, representations of favorable purchases, etc.) are taken within the group.
- ⑦ Whether a management company and group companies confirm customer identification to appropriately cope with the prevention funding and money laundering of terrorism or otherwise establish an appropriate customer management system.
- ⑧ Whether a system for the group to take appropriate measures to cope with anti-social groups is developed. Whether a tough stance is taken against them in cooperation with the police and other agencies.

### (3) Response to Irregularities

The system of the group for dealing with irregularities when they surface at group companies shall be checked from the following viewpoints.

- ① Whether a management company is involved in these incidents. Whether there is organizational involvement in the incident.
- ② What effect these incidents may have on the operations of other group companies.

- ③ When such incidents have a material effect on the operations of financial conglomerates, whether a system for promptly reporting about such irregularities to the board of directors and the internal audit division of a management company is in place.
- ④ Whether the victims and customers are appropriately treated after such incidents come to light.
- ⑤ Whether such incidents are promptly reported to the authorities after they come to light.
- ⑥ Whether the measures for improvement and self-corrective function are adequate.

#### II-3-2. Appropriateness of Intra-group Transactions

Intra-group transactions will create synergy effects among a management company and group companies and help to ensure cost minimization and profit maximization, improved risk management, and effective management of capital and fund raising. On the other hand, intra-group transactions may involve the transfer of risks within the group, and consequently they may have a material effect on the soundness and appropriateness of the operations of financial institutions. Also, the fairness of transactions may be distorted within the group or the operational appropriateness of financial institutions may be impaired unless appropriate measures are taken in accordance with laws and regulations.

Accordingly, group financial institutions, to start with, are required to establish appropriate systems for the compliance of laws and regulations and risk management concerning intra-group transactions. In addition, a management company shall fully understand the effect intra-group transactions may have on the soundness and appropriateness of group companies and establish an appropriate management system.

##### (1) Appropriateness of Intra-group Transactions

The appropriateness of intra-group transactions shall be checked in accordance with the following viewpoints.

- ① Whether intra-group transactions which may have a material effect on the sound

and appropriate operations of group financial institutions are conducted for the purpose of improving the business of part of group companies.

- ② Whether transactions which are in violation of laws and regulations or deemed be inappropriate from the purport of laws and regulations are conducted among a management company and group companies.
- ③ Whether the dividends and revenues a management company receive from group financial institutions are not such that as to impair the sound and appropriate operations of such financial institutions.
- ④ Whether intra-group transactions bring about inappropriate transfers of capital or profits from group financial institutions.
- ⑤ Whether intra-group transactions are conducted under the terms and conditions or under the circumstances which will not be normally agreed upon if such transactions are conducted with non-group companies or which are unfavorable to group financial institutions.
- ⑥ Whether other intra-group transactions which may have an adverse effect on the solvency, liquidity and profitability are conducted.
- ⑦ Whether intra-group transactions are used as the means of supervisory arbitrage, thereby evading capital or other requirements.

## (2) Intra-group Transaction Management System of A Management Company

The appropriateness of intra-group transaction management systems of a management company shall be checked in accordance with the following viewpoints.

- ① Whether the directors of a management company recognize that intra-group transactions may have a material effect on the sound and appropriate operations of group financial institutions and establish a system for identifying such risks and appropriately measure, monitor and manage them. Whether the directors of a management company are fully aware of the presence of unquantifiable risks, and the potential increase in size, volume and complexity of group transactions arising

when financial institutions engaged in different types of business effect business integrations.

- ② Whether the directors of a management company adequately understand the possibility that conflicts of interests may occur in intra-group transactions. Whether they adequately understand the possibility that unsound intra-group transactions may take place, clearly define the basic policies concerning intra-group transactions, and have them known to officers and employees, and group companies.
- ③ Whether provisions calling for a management company and group companies to have prior consultations with the board of directors of a managing company when they are going to conduct intra-group transactions which may have a material effect on the operational appropriateness and financial soundness of group financial institutions are established.
- ④ With respect to intra-group transactions of financial conglomerates which may have a material effect on the financial position of the group as a whole, supervisory authorities shall request a management company or group companies to report about the details of such transactions as may be necessary.

(Note) Intra-group transactions may take place within financial conglomerates, for example, in such diverse forms as shown below:

- (a) Mutual share holdings;
- (b) When a group company conducts a transaction with another group company or a group company conducts trading on behalf of another group company;
- (c) Concentrated management of short-term liquidity within conglomerates;
- (d) Guarantees, loans, commitments received from or offered to other group companies;
- (e) Provision of management and other services, arrangements;
- (f) Extension of credit to major shareholders;
- (g) Extension of credit arising from assigning the management of customer assets to other group companies;
- (h) Purchase or sale of assets from and to other group companies;
- (i) Transfer of risks through reinsurance; and
- (j) Transactions for transferring risk exposures related to third parties among group

companies.

### II-3-3. Operational Risk Management System

- ① Whether the directors of a management company appropriately recognize the increased operational risks associated with increasingly complex organizational structures (blurred chains of command, occurrence of complex intra-group transactions) and take appropriate measures including the requisite delegation of authorities, clear division of responsibilities and clarification of ultimate management responsibilities.
- ② Whether the directors of a management company receive reports concerning the administrative risks of group companies on a regular basis, and make necessary decisions or otherwise utilize the obtained risk information for the execution of business and the development of risk management systems of the group.
- ③ Whether a management company analyzes the causes of irregularities occurring in the management company or group companies, feed back the results of analysis to the heads of operational divisions for the prevention of the same, and whether a system for checking if measures are swiftly taken to prevent the recurrence of the same is established.
- ④ Whether a management company establishes a clear processing procedure for handling complaints received from its own customers or customers of group companies, report them to the internal audit divisions or such group companies in accordance with such procedure, and keep records of such complaints.

### II-3-4. System Risk Management System

- ① Whether the boards of directors of a management company are fully aware that as a result of the ongoing networking of computer systems, in the event a risk surfaces, its effects tend to spread, causing wide-spread and serious results, and it may have a material effect on business management, and develop a risk management system of the group as a whole.
- ② Whether a management company has established strategic goals concerning the

system of the group. Whether such strategic goals include strategic system policies in which systems are defined as part of overall business strategies based on the information technology innovation.

- ③ Whether the system risk management policies of the group are clearly defined base on the strategic goals of the group. Whether such system risk management policies include security policies (basic policies for the appropriate protection of information assets of organizations) and policies concerning outside contract service providers.

#### II-3-4-1. System Integration Risk Management System

When the systems are integrated, divided, or newly established (including the joint development and operation of systems (hereinafter referred to as “System Integrations”) as financial institutions merge, transfer their business, become holding companies or subsidiaries, or enter in to business (hereinafter referred to as “Business Integrations”) during the process in which financial institutions are formed or in connection with a reorganization of financial conglomerates, the system integration risk management system shall be checked from the following viewpoints.

- ① Whether the directors of a management company and the financial institutions which are going to carry out system integrations (hereinafter referred to as “Directors”) are fully aware that inadequate preparation work for administration and system integrations, combined with unaccustomed clerical work, will cause officers and employees to mishandle clerical jobs, or lead to system failures or malfunctions, and cause a confusion of customer service, shake of the foundation as financial institutions, or ultimately have a material effect on settlement systems (system integration risks).
- ② Whether the officers and divisions responsible for the supervision and management of plans and operations concerning system integrations (hereinafter referred to as the “Supervising Officers and Divisions”) are established in a management company or in the financial institutions which are going to carry out system integrations so that a system for ensuring adequate communications among the financial institutions which are going to carry out system integrations is established. When operations concerning are to be outsourced to a third party,

whether a system for ensuring adequate communications between such outsourced parties and the supervising division is established.

- ③ Whether the board of directors and the Supervising Officers and Divisions have developed a system for properly grasping the progress of integration projects. Whether the progress on a stage-by-stage basis, including whether management resources are appropriately allocated at each stage of integration, is checked, and should any issues be identified, is it so arranged as to promptly take appropriate measures to cope with the same.
- ④ Whether the Supervising Officers and Divisions judge the appropriateness of shifting to the post-integration operational system including the system in accordance with the standards for shifting operations which have been appropriately defined and approved by the board of directors (including the system shifting standards) and carry them out subject to the approval of the board of directors.
- ⑤ Whether a testing system for the prevention of faults which will have an effect on customers and significant miscalculations in the materials for risk management purposes which will be used for business diagnoses is developed. Specifically, whether review implementation plans for checking the reviews conducted on a stage-by-stage basis and managing the quality condition, or a testing plan suitable for the development associated with system integrations is formulated and a system for implementation is developed.
- ⑥ Whether the board of directors and the Supervising Officers and Divisions have developed a system for appropriately coping with a delay in system integrations caused by any chance for one reason or another or the occurrence of other unexpected events. Specifically, when system integrations are behind schedule, whether standards for reviewing scheduling is established subject to the approval of the board of directors and a system for appropriately coping with the situation is developed.
- ⑦ Whether the existing contingency plans are reviewed based on the post-integration system and organizational structures, and such plans are approved by the board of directors.

- ⑧ Whether the plans to cope with unexpected situations before or after the system integration date (including a suspension of system integration) are formulated and approved by the board of directors.
- ⑨ Whether a system for promptly and accurately coping with the disclosure of information to customers and the inquiries from customers is developed.
- ⑩ Whether a system for the internal audit divisions of the financial institutions which are going to conduct system integrations to conduct operational audits and system audits in cooperation with each other is developed. Whether staff thoroughly knowledgeable about the development process and other process audits is secured.

#### II-3-5. Crisis Management System

- ① Whether it is fully understood that should a risk surface at one company of the group, not only such company but also other group companies or the group as a whole may suffer damages, and a system for properly coping with this situation is established.
- ② Whether the contingency plans of the group for properly dealing with crises (See Note below) are developed. Whether contingency plans clearly define the reporting and communications structure.
- ③ Whether contingency plans are reviewed from time to time in accordance with changes in the environment. Whether the standards for such reviews are established.
- ④ Whether group financial institutions conduct exercises based on contingency plans.
- ⑤ Whether a public relations system is developed assuming the occurrence of a situation which may have a material effect on the financial soundness and operational appropriateness of group financial institutions.

(Note) “Crisis” means, for example, a situation such as (i) a bankruptcy of large-lot borrowers which may lead to a deterioration of the financial condition to an extent where recovery becomes difficult if the situation is left unattended; (ii) a drastic

change in the fund-raising environment caused by rumors and the like, leading to a liquidity problem which may be difficult to cope with; (iii) system troubles or irregularities which may cause a significant loss of creditworthiness; and (iv) disasters and accidents such as large-scale natural disasters or acts of terrorism, causing damages to an extent where continued operations of business becomes difficult.

#### II-3-6. Capital Increases

Forms of capital increases of a management company or group companies include public offerings or third-party allocations of new shares. When the capital increase is conducted in the manner in which securities firms act as their underwriters, as in the case of public offerings etc., reasonable checking functions appear to operate from the standpoint of the observation of laws and regulations. (Note)

However, when capital increases of a management company or group companies are conducted in the form of third-party allocations of new shares allotted directly to business partners, and, for example, when group financial institutions are involved, greater management efforts are needed from the viewpoint of ensuring soundness and faithfulness with respect to the establishment of internal control systems concerning compliance with laws and regulations in connection with the “principle of capital substantiation” and the prevention of the “abuse of superior position.” Accordingly, their appropriateness shall be checked in accordance with the following viewpoints.

(Note) cf. ‘Regulations Concerning Underwriting of Securities (Fair Business Practice Regulations No.14, Japan Securities Dealers Association)’.

##### (1) Basic Business Policies

- ① Whether the boards of directors of a management company (hereinafter referred to as the “Boards of Directors”) understand the importance of compliance with laws and regulations concerning the capital increases of a management company or group companies by third party allocations of newly issued shares and have established group-wide systems including the clarification of where the decision-making authorities and responsibilities lie.
- ② Whether the Boards of Directors not only establish rules and issue notices, but

also seek to make them fully understood by officers and employees. Whether effective monitoring and checking functions are established.

- ③ Whether the Boards of Directors request written opinions of lawyers and auditing firms concerning the Corporate Code, the Anti-monopoly Law, the Securities and Exchange Law and other laws and regulations, as may be necessary, and take thorough measures for compliance.
- ④ When group financial institutions are involved in the capital increases of a management company or group companies by third party allocations of newly issued shares, whether the management company establishes a compliance system of laws and regulations so that such financial institutions take appropriate actions.

## (2) Items Calling for Special Attention

Whether adequate compliance with all laws and regulations which need to be observed in connection with capital increases is ensured. Especially, an adequate compliance system is established concerning the following points.

- (a) Whether the policies on the preparation of the list of parties to whom new shares are to be allocated and the solicitation of offers to purchase are adequately in accordance with the “principle of capital substantiation” and the policy of ensuring the soundness of capital.
- (b) Whether the treatment of the questionable cases as follows is clarified.
  - Cases where in light of actual financial conditions, it is suspected that group financial institutions extend direct or indirect loans or other form of credit to parties which are incapable of making repayment or unwilling to make repayment and have them make payment for subscription of new shares with the funds provided by such loans or other form of credit. Especially cases where it is suspected that group financial institutions and subscribers of new shares are undertaking fictitious capital increases.
  - Cases where it is suspected that the group is shouldering the share-holding risks of subscribers of new shares in some way or another.

## (3) Prevention of Unfair Transactions

- ① Whether measures for preventing the occurrence of actions which fall under the

unfair transaction method prohibited by the Anti-Monopoly Law (abuse of superior position) are taken within the group. Especially, measures for preventing inappropriate transactions with respect to the allocation of new shares to customers of group financial institutions.

- ② Whether measures for preventing the occurrence of actions which fall under the unfair transaction method prohibited by the Securities and Exchange Law (insider transactions, prohibition of representing favorable purchases, etc.) are taken within the group.

(4) Appropriate Disclosure (Securities and Exchange Law, etc.)

- ① Whether measures for observance of the procedures for capital increases set forth in the Securities and Exchange Law (filing of the securities registration statement and solicitation, preparation and delivery of the prospectus, taking effect of the securities registration statement) are taken.

- ② When preparing the securities registration statement and the prospectus, whether thorough measures for ensuring the protection of investors are taken. Whether truly important “risk information” is disclosed in a readily understandable and succinct manner.

- Even in cases where the securities registration statement and the prospectus are prepared in accordance with the “incorporation method” or “reference method,” whether it is understood that the “risk information” as of the date of filing the securities registration statement needs to be described and measures to cope with such requirement are taken.
- In the event that any significant events in terms of investors protection occur even after the filing of the securities registration statement, whether it is understood that the filing of a revised registration is required and measures to cope with such requirement are taken.

- ③ Whether measures for prevention of representations which may give misleading information concerning financial positions are taken.

- When the information other than prospectus (and the securities registration statement) is used for the solicitation of subscriptions to capital increases, whether the content of such information is not different from the content of the

prospectus.

- Whether appropriate measures for avoiding the materials for solicitation to give misleading information concerning financial position of the group.

#### (5) Appropriate Explanation of the Nature of Products (Consumer Compliance)

① Whether the explanation method and content is appropriate from the standpoints of the Civil Code and the Financial Products Sales Law is checked.

② Whether it is checked that the following measures are taken by group banks to prevent the misunderstandings with deposits.

- Whether explanations for the prevention of misunderstandings with deposits are given in light of the knowledge, experience and asset positions of the allocated parties are given by the delivery of documents or in other appropriate manner.
- Whether the explanations for the prevention of misunderstandings are sufficient in that they include the explanations that they are not deposits, not covered by deposit insurance, and principals are not guaranteed.

#### (6) Establishment of a System for Ex Post Facto Checking of Compliance

Whether a system for conducting appropriate ex post facto checking of compliance in accordance with the progress of capital increase procedures.

### II-3-7. Protection of Customer Information

Protection of customer information is an essential requirement for the proper conduct of business of individual financial institutions. In the case of financial conglomerates, it can be expected that customer information will be mutually utilized within the group in order to achieve synergy effects as a group. Accordingly, it is necessary to confirm whether customer information including that of individual customers is adequately protected pursuant to statutes regulating industries and the Law concerning the Protection of Personal Information.

Especially, when customer information is shared within the group, the appropriateness of customer information management shall be checked in accordance with the following viewpoints.

- ① When customer information is mutually used within the group, whether unified and specific handling regulations are established and clearly understood by officers and employees.
- ② When personal information of customers is to be jointly used within the group, whether such fact, items of such information to be jointly used, the scope of those who are going to jointly use such information, the purpose of use, and the personal name or the designation of those who are responsible for the management of such personal information are notified in advance to specific individuals who will be identified by such personal information or readily available to such specific individuals.
- ③ When measures set forth in item above are not taken, whether personal information of customers is to be jointly used within the group, whether the consent of the said person is to be obtained in advance excepting the cases enumerated in items of Article 23, paragraph 1 of the Law concerning the Protection of Personal Information, in paragraph 2 thereof and in paragraph 4, items 1 and 2 thereof. In the event that individual customer information is misused among group companies without consent, whether a system in which such situation is properly recognized as a leakage case and measures including reporting of the same to customers and authorities are promptly taken is developed.
- ④ When a management company by itself falls under the definition of the enterprise handling personal information set forth in Article 2, paragraph 3 of the Law concerning the Protection of Personal Information, whether a system for ensuring the compliance of the Law concerning the Protection of Personal Information is in place. Especially, when management companies fall under the definition of the enterprise handling personal information set forth in Article 1 of the Guidelines on Personal Information Protection in the Financial Industry, whether appropriate measures are taken pursuant to the Guidelines and the provisions of the Practical Guidance on Safety Management Measures for the Guidelines on Personal Information Protection in the Financial Industry.
- ⑤ When private personal information concerning individual customers (refer to the Note below) is used within the group, whether the measures for ensuring that such

information is not used excepting the cases enumerated in the items of Article 6, paragraph of the Guidelines on Personal Information Protection in the Financial Industry are taken.

(Note) Private personal information means the following information.

- Information concerning creed (including political opinion, religion, thought)
- Information concerning the membership of labor unions
- Information concerning race, ethnic group, family origin, legal domicile
- Information concerning health and medical treatment
- Information concerning sex life
- Information concerning criminal record

⑥ Whether a system in which reporting to authorities is promptly and appropriately made is developed when customer information is divulged, lost or damaged.

### III. Focal Points related to the Administration of Supervision

#### III-1. Closer Cooperation with Other Departments

##### III-1-1. Cooperation within Supervisory Departments

When conducting the supervision of financial conglomerates, it is necessary for the departments with authorities to supervise a management company and group financial companies to appropriately exchange information and try to share the presence of risks and an awareness of problems as a group which cannot be identified with the supervision of single businesses. To this end, cooperation among the departments responsible for the supervision of a management company and group financial institutions and among such departments and the Conglomerate Office shall be strengthened by an adequate and appropriate exchange of information and an active exchange of opinions.

Especially, the departments contemplating to impose improvement orders or other strict supervisory measures on a management company or one of the group financial institutions shall pay attention to the cooperation with the Conglomerate Office and other departments responsible for supervising other group companies.

##### III-1-2. Cooperation with Inspection Departments

It is important for supervisory departments and inspection departments (including the Securities and Exchange Surveillance Commission when securities firms are included in financial conglomerates) to properly cooperate with one another while maintaining their own independence and to achieve highly effective financial conglomerate supervision by properly combine both onsite and offsite monitoring techniques. To this end, supervisory departments shall pay adequate attention to the following points regarding the cooperation with inspection departments.

- (1) Supervisory departments shall follow up on improvements concerning the issues identified by inspections about financial conglomerates, and issue business improvement orders or otherwise take strict, supervisory measures as may be required to correct the issues. Specifically, for example,
  - (a) Based on the notification of inspection results and in accordance with the necessity of supervising financial conglomerates, supervisory departments shall request a

management company or group companies to submit a report consisting of confirmation of facts, analysis of causes, measures for improvement and coping with the situation and other items.

- (b) When the report of item a. above is submitted, conduct adequate hearings of a management company or group financial institutions. When conducting such hearings, closely cooperation with inspection departments shall be ensured.
- (c) When it is deemed that it will take a certain period of time to achieve the improvement of the system for the compliance of laws and regulation or the risk management system, periodic reports pending the next inspection shall be requested.

(2) The issues of the group identified by supervisory departments though offsite monitoring shall be fed back to inspection departments so that they can be utilized in the next inspection.

Specifically, supervisory departments (in the case of inspections by Local Finance Bureaus, Financial Supervisory Divisions of Local Finance Bureaus, and in the case of inspections by the Inspection Bureau of the Financial Services Agency or the Securities and Exchange Surveillance Commission, the Conglomerate Office of the Supervisory Bureau) shall brief inspection departments on the current status of financial conglomerates concerning the following points.

- (a) Major developments (business alliances, capital increases, change of management) after the previous inspection up to such point of time.
- (b) With respect to groups planning to effect systems integrations associated with mergers and other reorganizations, schedules of such business reorganizations.
- (c) Results of analysis concerning most-recent consolidated closing of accounts.
- (d) Results of analysis concerning off-site monitoring related to risk information.
- (e) Results of hearings.
- (f) Supervisory measures taken against a management company or group companies (request of reporting, administrative actions) and the status of follow-up action.
- (g) Items deemed to be emphasized in inspections from the viewpoints of supervising conglomerates.
- (h) Other

### III-1-3. Joint Meetings of Supervisory and Inspection Departments

In order to achieve highly effective supervision of financial conglomerate, joint meetings of the Supervisory Bureau, Inspection Bureau and Secretariat of the Securities

and Exchange Surveillance Commission shall be held. These meetings shall be normally held at the beginning of each administrative year and from time to time as may be required.

In these meetings, opinions concerning the issues related to the inspection and supervision of financial conglomerates and other matters as may be necessary shall be exchanged.

#### III-1-4. Cooperation with Foreign Supervisory Authorities

Information which will be helpful for the supervision of financial conglomerates by foreign authorities will be supplied to foreign supervisory authorities and they will be actively approached for exchange of opinions. Specifically, the following measures will be taken to ensure cooperation with them.

(1) When a management company is an entity incorporated under the laws and regulations of Japan.

In cases where the management company of a financial conglomerate engaged in global activities is an entity incorporated under the laws and regulations of Japan and has overseas offices, the following measures will be taken to ensure cooperation with foreign supervisory authorities.

- ① When inquiries about permits and licenses concerning the opening of overseas are received from foreign authorities, positive and appropriate responses will be made.
- ② When requested by foreign authorities to provide information, information concerning the financial soundness and operational appropriateness of the management company or the group will be provided actively.
- ③ Efforts will be made to inform foreign, local authorities of conglomerate supervision policies which may have a material effect on the operations of overseas offices. Furthermore, efforts will be made to conduct prior consultations with foreign, local authorities when taking measures which may have an effect on overseas offices.

(2) When a management company is a foreign holding company, etc.

When the management company of a financial conglomerate engaged in global activities is a foreign holding company, etc. and have offices in Japan, the following measures will be taken to ensure cooperation with foreign supervisory authorities.

- ① When permits and license concerning the opening of offices in Japan of the financial conglomerates are to be granted, efforts will be made to obtain the consent of the foreign authorities of the places where the management company is located. When positive responses are not obtained from foreign authorities or their responses are not satisfactory, such permits or licenses shall be refused or granted subject to certain conditions, as necessary.
- ② When issues related to financial conglomerates supervision, which are deemed necessary to be reported to foreign authorities, are identified or when it is found out that incorrect information is conveyed from domestic offices in Japan to the management company, active contact with foreign authorities shall be encouraged.
- ③ When it is deemed to be necessary to take certain remedial measures concerning supervisory focal points contained in this Supervision Guideline against management companies located overseas, efforts shall be made to contact foreign supervisory authorities in advance and work in cooperation with them.
- ④ When administrative actions are to be taken against group companies located in Japan, efforts shall be made to exchange information with foreign supervisory authorities and promote cooperation.
- ⑤ When domestic offices in Japan are not subject to consolidated audits by foreign authorities, such domestic offices in Japan shall be strictly inspected and supervised by the FSA as local supervising authorities.

### III-2. System for Exchange of Opinions

When it is requested by a managing company which has recognized that disadvantageous measures are likely to be taken to hold a meeting for exchanging opinions between the senior members of the supervisory authorities (Note 1) and the senior members of such management company (Note 2) during the process of hearings concerning the request of reports, and the supervisory authorities are going to take disadvantageous measures involving the granting of an opportunity of hearings or making explanations, unless it is necessary to take emergency measures, an opportunity for an exchange of opinions concerning the facts which constitute the cause of such disadvantageous measures to be taken and their seriousness prior to make a notification of holding hearings or granting an opportunity of making explanations.

(Note 1) Senior members of supervisory authorities include the chiefs of divisions in charge at the Financial Services Agency and Local Finance Bureaus

(Note 2) Requests from a management company shall be limited to those made from the time when supervisory authorities have received a legal report concerning the cause of such disadvantageous measures and to the time when a notification of hearings or a notification of granting an opportunity of making explanations is made.