The Implementation Framework of the Second Pillar of Basel II (Outline)

(1) Assessment of Comprehensive Risk Management System

Comprehensive Risk Management System

—Best Practice—

①The risk amount of each business department is assessed quantitatively.
②Capital is allocated to each business department in accordance with the risk amount within the core capital..
③Risk and return is appropriately managed in relation to the business plan and profit plan by using quantitative indicators such as risk-adjusted profit of each business department.

Risks are assessed and managed as a whole according to the scale of the financial institution and its risk profile.

- Profitability
- Credit risk
  - Credit concentration risk
- Other risks
- Market risk
  - Interest rate risk in the banking book

New addition

New addition

Evaluation and review by the FSA

Consideration for proportionality of small- and medium-sized and regional financial institutions

(2) Enhancement of the Early Warning System

Early Warning System

(Early Warning Thresholds)

- Profitability Improvement Measures
- Credit Risk Improvement Measures
  - The amount affected by the emergence of a large credit risk.
- Stability Improvement Measures
  - Outlier Level (Interest rate risk amount exceeds 20% of the sum of Tier1 and Tier2 capital)
- Cash Flow Improvement Measures

(Actions)

Interviews and requesting reports

More appropriate risk management is prompted.

Consideration for the stability of financial markets