

Summary of Annual Supervisory Policies for Major Banks for Program Year 2008

1. Financial Function and Security/Convenience for Users

- It is important that major banks conduct risk-taking and risk management carefully, in a manner suited to the actual conditions and characteristics of borrower companies, so that the banks' smooth provision of funds for the companies including small and medium-sized enterprises and the maintenance of the soundness of the banks' own financial positions may work in a virtuous cycle. The FSA will precisely understand the financing trends of major banks and the situation of borrower companies, and reflect the findings in its supervisory activities. The agency will also encourage major banks to carefully examine loan applications based on the actual business conditions and characteristics of borrower companies, and fully explain their decisions to customers.
- The FSA will verify whether major banks are explaining the risks accurately when selling investment trusts and on other such occasions, without imposing an excessive burden on customers in terms of time and procedures, so that the banks are dealing with them adequately and appropriately.
- The FSA will confirm the banks' system risk management, business continuity management in the event of earthquakes, pandemic influenza, etc, and preparedness for smooth shift to a paperless stock certificate system.
- The FSA will verify the management systems to prevent financial functions from being abused and to deal with victims properly with respect to (1) *furikome* fraud, (2) unauthorized withdrawals from bank account by using counterfeit/stolen cash cards, stolen passbooks, or Internet banking, (3) money laundering and terrorist financing, and (4) damage inflicted by antisocial groups.

2. Risk Management and Financial System Stabilization

- The FSA will verify whether lessons learnt from the experience of domestic and foreign financial institutions are reflected in the major banks' risk management related to securitized products, etc., at the practical level, and whether the banks are managing risks associated with new forms of credit in accordance with their product characteristics.
- The FSA will identify what strategies major banks have established to enhance their profit base. The FSA will encourage major banks to disclose necessary and sufficient information about risks.

3. Better Market Initiative – Business Environment that Vitalizes the Financial Services Industry and Promotes Competition

- The FSA will make preparations to facilitate broadening the scope of businesses permitted to banking groups, as well as revising the firewall regulations and other initiatives.
- The FSA will identify issues in making Japan's markets more attractive by engaging in dialogues with financial institutions.

4. Materializing “Better Regulation”

- The FSA will utilize “The Principles in the Financial Services Industry” in interpreting and implementing the rules as they were originally intended.
- The FSA will gather and analyze information on market trends and risks, and promptly reflect such information in its supervision; furthermore, it will encourage to cooperate more closely among supervisory divisions, inspection divisions, and the Securities and Exchange Surveillance Commission, and collaborate with foreign supervisors.
- The FSA will share the same recognition about rectifying problems with major banks through two-way dialogues.
- The FSA will improve the transparency and predictability by engaging in dialogues with major banks and distributing information to them.