

(Provisional translation)

August, 18, 2009

Financial Services Agency

Summary of Annual Supervisory Policies for Financial Instruments Business Operators, etc. for Program Year 2009

1. Experience of Financial Crisis and Basic Concepts on Supervision of Financial Institutions for the Future

- The FSA is placing “Better Regulation” as the basis and striving to further have it become embedded and enhanced. In doing so, the FSA will pay attention to the following points in particular.
 - 1) The FSA more than ever will strive to (i) conduct financial administration with a high risk sensitivity, (ii) conduct financial administration by looking at things from citizen’s and user’s point of view, (iii) conduct financial administration with an eye on the future, and (iv) help financial institutions autonomously improve management and make better business judgments.
 - 2) The FSA will encourage closer cooperation among the Securities and Exchange Surveillance Commission (SESC) and other affiliated divisions as well as with self-regulatory organizations (SROs) and the Bank of Japan (BOJ), and will also cooperate with overseas authorities.
 - 3) The FSA will redouble efforts for human resource development and permeate financial knowledge.

2. Risk Management and Stability of Financial System

- For securities companies, the FSA will operate the “early warning system” in an appropriate manner and analyze the latest business conditions of the securities companies on a cross-industrial basis in a chronological order.
- Among other things, for securities companies engaged in large-scale and complicated businesses, the FSA will investigate comprehensive risk management for the group overall.
- The FSA will continue to seek an understanding of the actual conditions of collective investment schemes (funds) and it will also attempt to obtain more information about the true state of the so-called hedge funds.

- The FSA will continue monitoring the status of fund-raising by J-REITs and encourage them to provide information to investors in an appropriate manner.
- The FSA will enforce the regulation and supervision of credit rating firms in a smooth and appropriate manner.
- The FSA will carefully observe the concentration of risk and the reach of impact thereof in close coordination with the Bank of Japan so that the entire financial system can enjoy sustainable and stable development.

3. Improving Customer Protection and Convenience for Users

- The FSA will encourage financial instruments business operators to operate while keeping in mind the viewpoints of customers so that they can establish a long-lasting relationship with customers and gain their trust and confidence.
 - (i) Among other things, the FSA will verify the systems of financial instruments business operators with regard to the solicitation for and presentation of risky financial instruments such as investment trusts, structured products, derivatives.
 - (ii) The FSA will verify the systems of financial instruments business operators to deal with customers' complaints and consultation requests and their readiness for the commencement of the Financial ADR System.
 - (iii) The FSA will try to implement various regulations on foreign exchange margin transactions in an appropriate and smooth manner.
 - (iv) The FSA will verify financial instruments business operators' response to the firewall regulations as reviewed.
- The FSA will verify whether or not financial instruments business operators have in place an appropriate management (governance) system and an effective internal control system. In particular, the FSA will verify whether or not the financial instruments business operators are making voluntary efforts to establish an internal control system involved in information security management to prevent misconduct by their officers and employees.
- The FSA will deal with any indications of threats to the continuance of business operations of financial instruments business operators, with careful attention to customers' assets protection. The FSA will also check whether or not financial instruments business operators have in place a risk management system to assess the continuity of system and business operations and against such negative events as global epidemics of influenza A (H1N1) or earthquakes.
- The FSA will respond to unregistered financial instruments business operators jointly with the police authorities.