

Reference: Composition of Supervisory Policies (Regional Financial Institutions)

1. Overview

1. Environment Surrounding the Financial System

- Risk factors: possible slowdown in the global economy, fluctuations in financial and capital markets, the influence of deflation, etc. (especially the worsened European fiscal problems, and uncertainty in the economic outlook in the U.S)
- Role of finance expected under the New Growth Strategy (role of backup for real economy and enterprises)

2. Approach Taken by Supervisory Authority

- Under basic policy to further have better regulation embedded and enhanced, the FSA will take the following approaches as the supervisory authority.
 - 1) Financial administration with high risk sensitivity (identify and understand the risks which accumulate in each financial institution and in the financial system with a forward looking perspective)
 - 2) Financial administration from a citizen's and user's point of view (further improve customer protection and convenience for users)
 - 3) Supervisory response with a future outlook (thoroughly determine the progression of international discussions, and consider environmental changes)
 - 4) Supervisory response which contributes to financial institutions autonomously improving management and making better business judgments (frank and deep discussions with financial institutions)
- * Closer cooperation among inspection divisions, SESC and Bank of Japan, supervisory response integrated with local financial bureaus (strengthen supervision by providing data analysis and observation information, etc.)
- * Supervisory response which considers reducing burdens on financial institutions (periodically review reporting, etc. once per year)

2. Areas Emphasized in Supervision

1. Performing a Smooth Financial Intermediary Function

(1) Further Promotion of Region-based Relationship Banking

- 1) Contribute to improving the business of borrower companies and stimulating the regional economy. Aim at a positive cycle which enhances own financial soundness and profitability.
- 2) To meet user expectations and needs, sustainably demonstrate financial intermediary functions focusing on value creation.

(2) Perform Financial Intermediary Functions for SME Finance, and Loans to Individuals (Housing Loans, etc.)

- 1) Smoother loans to SMEs, and housing loans (including Act on Financial Support for Small and Medium-sized Companies)
- 2) Understand actual situation regarding active efforts for loans to consumers

2. Risk Management and Stability of Regional Financial System

• Emphasize a Macroprudential Perspective

(Use a method which integrates diverse tools: macroeconomic analysis, market monitoring, and supervision of individual financial institutions)

(1) Improved Risk Management Techniques

- 1) Enhance quality of stress tests
- 2) Stronger handling of market risks
- 3) Response to limits of quantitative risk control techniques

(2) Improving Profitability and Financial Soundness

- 1) Efforts for region-based relationship banking in order to work to enhance their earnings foundation from a medium and long term perspective
- 2) Enhance equity capital including the securing of stable profits (use of Act on Special Measures for Strengthening Financial Functions, as one option)
- 3) Maximize demonstration of financial intermediation functions considering the basic character of cooperative organization financial institutions. Central organs of cooperative organizations fully demonstrate their supplemental and support functions.

3. Improving Customer Protection and Convenience for Users

(1) Thorough Management of Information Security

- Thorough and strict management customer information

(2) Enhancing Systems for Providing Explanations to Customers

- Handling of the regulation of unsolicited offers, handling of people with visual and other disabilities

(3) Enhancing Systems for Processing Consultations and Complaints from Customers

- Handling of financial ADR system introduced in October

(4) Preventing Abuse of Financial Functions

- Fast and accurate handling of damages due to furikome fraud