

Reference: Composition of Supervisory Policies (Financial Instruments Business Operators, etc.)

1. Overview

1. Environment Surrounding Financial and Capital Markets

- Risk factors: global economic recession concerns, fluctuations in financial and capital markets, effects of deflation, etc. (especially the more serious European fiscal problems, and unclear outlook for the U.S. economy)
- Role of finance sought under the New Growth Strategy (support for the real economy and companies)

2. Approach Taken by Supervisory Authority

- Under the basic policy to further solidify and make progress in better regulation, focus on the following supervisory stances
 - 1) Supervisory response based on high risk sensitivity (identify and understand from a forward looking perspective the risks which accumulate in each financial institution and in the financial system)
 - 2) Supervisory response 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 (deep mutual discussions with financial institutions with a medium and long term focus on global economic changes, lessons from recent financial crises, and the trend of international discussions)
 - 4) Supervisory response which contributes to autonomously improving management and making better business judgments at financial institutions (frank and deep discussions with financial institutions)
- * Closer cooperation with SESC and Bank of Japan
- * Supervisory response which considers reducing burdens on financial institutions (periodically review reporting, etc. once per year)

2. Areas Emphasized in Supervision

1. Appropriate Demonstration of Market Intermediary Functions

- (1) Verification of Situation of Actions for Appropriate Demonstration of Market Intermediary Functions
 - 1) Improved reliability of operations (Prevention of mistaken orders, etc)
 - 2) Demonstration of function of checking issuers (Underwriting examinations)
 - 3) Demonstration of function of checking investors (Trading management, etc.)
 - 4) Maintenance of self-discipline (Prevention of conflicts of interest, etc.)
- (2) Thorough Management of Customer Information and Corporate Information
- (3) Thorough elimination of anti-social forces

2. Encouragement of High Quality Risk Management

- (1) Encouragement of Integrated Risk Management of the Entire Securities Company Group
 - 1) Accurate operation of an early warning system. Performance of cross-industry and time series analyses.
 - 2) Based on the introduction of consolidated supervision and regulation of securities company groups, the FSA will conduct investigations while placing priority on the timely and accurate understanding of the business status and integrated risk management systems of entire groups
- (2) Response to Various Funds
 - 1) Understanding of the status of various funds, including hedge funds
 - 2) Focusing on the status of operations of listed J-REITs

3. Improvement of Customer Protection and Convenience for Users

- (1) Development of systems in ratings agencies
Development of systems for explanation by securities companies in cases where they don't use registered ratings
- (2) Development of systems for provision of explanations to customers when selling risky products such as derivatives
- (3) Organizational preparations for financial ADR system
- (4) FX business operators' responses to introduction and strengthening of margin regulations
- (5) Efforts for investor protection involving Type II financial instruments business
- (6) Business continuity
- (7) Response to financial crimes