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Financial Services Agency

Annual Supervisory Policy for Major Banks for Program Year 2011¹

The Financial Services Agency (FSA) publishes its Annual Supervisory Policy for Major Banks for each program year so as to clarify its supervisory priorities. This is prescribed in the “Comprehensive Guidelines for Supervision of Major Banks” which show basic approaches for the supervisory process aimed at Major Banks.

In this program year, in accordance with “Basic Concepts on Future Supervision of Financial Institutions” as shown below, the FSA will place priority on the areas of 1) performing a smooth financial intermediary function, 2) risk management and stability of the financial system and 3) improving customer protection and convenience for users, and will supervise Major Banks while striving to have frank and deep discussions with them.

It should be noted that this supervisory policy was drawn up in light of the circumstances that surrounded financial institutions as of August 2011, and may be subject to review as necessary.

1. Environment Surrounding the Financial System, and Basic Concepts on Future Supervision of Financial Institutions

(1) Environment Surrounding the Financial System

Due to the effects of the Great East Japan Earthquake, the Japanese economy remains in a difficult situation. However, reflecting supply chain reconstruction, the Japanese economy is expected to continue to pick up. Even in this situation, there are downside risks that could stem from constraints of electric power supply, the consequences of the nuclear accident, further slowing down of overseas economies, and volatile fluctuations in exchange rates and stock prices.

Even when Japan is in such a difficult situation, the world economy has been moving on instead of halting, and special attention should be paid to movements in foreign economic conditions and financial and capital markets. In doing so, amidst today’s advancing globalization, it is important to enhance the resilience of the economic and financial system, to minimize effects on our country in the event of any crisis from emerging global economic risks.

Looking at conditions in each country, for example at emerging economies, their economic growth supported by domestic demands is contributing to the creation of investment opportunities and new consumer markets in developed countries. On the

¹ In this document, the term “Major Banks” refers to the banks commonly referred to as major banks, as well as Shinsei Bank, Aozora Bank, Citibank, and Japan Post Bank.

other hand, attention should be paid to risks of real estate prices and inflation. The U.S. economy faces downside risk due to its continued high unemployment rate, falling housing prices, etc. In Europe, financial system concerns remain, amid concerns over fiscal conditions in some countries.

Under these circumstances, financial results in the fiscal year ending in March 2011 greatly improved at Major Banks thanks to the reduction of credit costs, improved profit on securities, etc. However, in contributing to the recovery and reconstruction of disaster areas, and to the revitalization and development of Japan, financial institutions must practice risk management as part of ensuring financial soundness, while paying attention to effects on the financial system from domestic economic trends due to effects of the disaster, real economies overseas, global flows of funds, and trends in international commodity market conditions.

(2) Approach Taken by Supervisory Authority

Amid these circumstances, the FSA will continue to place Better Regulation as the basis (engaging in frank and deep discussions with financial institutions, disseminating information to the outside, sharing and linking information on the economic and financial situations in Japan and overseas, and improving the transparency and predictability of regulatory actions) and striving to have it become further embedded and deepened.

In particular, in thoroughly performing a smooth financial intermediary function, and accurately managing various risks, customer protections, etc., financial institutions are strongly expected to be aware of each long-term managerial issue. They are also expected to conduct positive managerial improvements, and make appropriate, fast and responsible business judgments under the appropriate leadership of management personnel. Moreover, for recovery and reconstruction from the Great East Japan Earthquake, this program year is “a year where the true value of financial intermediary functions by financial institutions is tested.” Under this awareness, each financial institution needs to provide flexible and detailed responses for its customers, including response to demand for funds for rebuilding the lives and businesses of disaster victims. To this end, the FSA will continue to take the following approaches as the supervisory authority.

1) Financial Administration with a High Risk Sensitivity

In order to accurately respond to currently conceivable risks, the FSA will gain a deeper understanding of the macro economy and financial and capital markets, and deepen its understanding of how these affect the soundness of financial institutions, so as to identify and understand the risks which accumulate in each financial institution and in the financial system with a forward-looking perspective. The FSA will also enhance integration of on-site and off-site monitoring to detect risks at an early stage.

It is also important to check whether major risks are fully assumed in the financial institution’s business continuity plan, in order to maintain and ensure financial

functions even if an unexpected event occurs. This should include the consideration of the experience of the recent Great East Japan Earthquake. Moreover, IT systems are at the core of financial services, and the occurrence of a problem can greatly affect people's lives and the economy. With this in mind, it is important that even in normal times the FSA urges each financial institution to conduct voluntary inspections of the design of its risk management system in case a failure occurs. As the supervisory authority, the FSA should sort and analyze these inspection results.

2) Financial Administration from a Citizen's and User's Point of View

The FSA will strive so as to further improve customer protection and convenience for users, by looking at things from a citizen's and user's point of view.

3) Supervisory Response with a Forward-looking Perspective

The FSA will strive to take actions to follow the progression of international discussions and consider environmental changes. In addition to a short-term response, it will also implement medium and long-term responses with an eye on the future, while considering common structural issues faced by Japanese financial institutions (strengthening profitability of their main business, etc.).

4) Supervisory Response which Contributes to Financial Institutions Autonomously Improving Management and Making Better Business Judgments

The FSA will help financial institutions to autonomously improve management and make better business judgments via frank and deep discussions and the distribution of information with financial institutions. Above all, the FSA uses exchanges of opinions and other methods to introduce to other financial institutions the innovative initiatives of each financial institution concerning the performance of financial intermediary functions, risk management, improvement in customer protection and convenience for users, etc. It thereby works to enhance the quality of the entire financial industry.

In performing supervision, in addition to these approaches, the FSA will also bear the following points in mind.

- In addition to encouraging closer cooperation with the Inspection Bureau, the Securities and Exchange Surveillance Commission (SESC), and the Bank of Japan (BOJ), the FSA will also cooperate with foreign authorities via supervisory colleges, and proactively contribute to international standard-setting bodies. Especially in order to promptly and accurately understand IT system risks and the situations faced by financial institutions, and to enable fast response, the FSA will implement and strengthen monitoring with seamless inspection and supervision, and consider participation by the staff of supervisory divisions in inspections, etc.
- The necessity of collecting reports and submitted documents will be periodically reviewed once a year, as part of consideration for reducing the burdens on financial institutions.
- Through the thorough fostering, securing and training of specialized human resources,

the FSA will redouble efforts for human resource development.

2. Performing a Smooth Financial Intermediary Function

In the New Growth Strategy decided in the Cabinet in June 2010 and “The Action Plan for the New Growth Strategy” which the FSA announced in December 2010, financial institutions are expected to support the real economy and enterprises. The financial sector is also expected to lead the economy as a growing industry itself.

To do this, it is important that Major Banks supply growth funds according to customer needs and business content, while paying attention to trends in domestic and foreign economies and financial markets, etc.

There is also strong need for them to respond to the Great East Japan Earthquake, meeting funding demand for recovery and reconstruction, and consequently contributing to Japan’s revitalization and development.

Considering the above, in this program year, the FSA will supervise the wielding of financial intermediary functions by Major Banks, from the following viewpoints.

(1) Response to the Great East Japan Earthquake from Financial Aspects

Each financial institution is implementing measures to facilitate financing, such as responding as much as possible to requests for changing loan terms, etc. and stop-gap fund loans for small and medium-sized enterprises (SMEs) and housing loan borrowers directly or indirectly affected by the disaster. They are also providing a variety of support from financial aspects, such as for depositor withdrawals and providing information on deposits of missing persons. While considering the disaster situation of financial institutions, the FSA is checking whether they are appropriately responding to consultations and requests for changing loan terms etc., according to the actual situations of borrowers. The FSA will also focus on whether they promptly and appropriately respond to consultations and requests from borrowers, as part of their handling of the so-called double loan problem, based on the Individual Debtor Guidelines for Out-of-Court Workouts created this July.

The FSA will also check whether they are appropriately responding to funding demand for recovery and reconstruction and for rebuilding the lives and businesses of disaster victims.

(2) Promote Initiatives of Financial Institutions which Emphasize Growth Potential

The New Growth Strategy, etc. specify building a new financial industry capable of providing growth capital that is suited to the category and characteristics of each loan, to support innovation-oriented business management from a long term perspective. As part of this, Major Banks are expected to be aware of their own roles, and have a business strategy to enhance their medium and long term profitability. The FSA will encourage each bank’s autonomous initiatives, for example:

- 1) Appropriate and detailed responses with thorough understanding of customer needs, while fully understanding the actual state of the local economy and roles that client enterprises play in the local economy
- 2) Using diverse financial techniques such as equity funds to support activities of

enterprises

- 3) Support Japanese enterprises when they go overseas into Asia, etc.
- 4) Strengthen finance for infrastructure, especially project finance

(3) Performing Financial Intermediary Functions for Financing Small- and Medium-sized Enterprises (SMEs), and Loans to Individuals (Housing Loans, etc.)

With the awareness that SMEs continue to face severe business conditions, the “Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.” was revised in March 2011. This Act’s expiration was extended one year to March 31, 2012. Along with this, the FSA created Guidelines for Supervision to encourage financial institutions to wield their consulting functions. In this environment, the FSA will continue to work on the following initiatives for loans to SMEs, and loans to individuals for housing, etc. in this program year.

1) Loans to SMEs

- The FSA will investigate whether financial institutions are actively wielding their consulting functions to enable borrowing enterprises to be aware of their business issues and make self-help efforts for business improvement and business recovery. This should aim to solidly establish the following flow: improve the debt serving capacity of the borrowing enterprise, leading to expansion of future sound funding demand, resulting in enhanced profitability and financial soundness of the financial institution.
- For borrowing enterprises which changed their loan terms, etc. based on the Act concerning Temporary Measures to Facilitate Financing for SMEs, etc., the FSA will especially focus on investigating whether they are creating drastic and highly realizable business rehabilitation plans, and whether there are initiatives implemented for fundamental business recovery, etc., while their repayment burden has been reduced.
- The FSA will verify whether Major Banks are implementing appropriate initiatives to establish loan practices which in principle do not require third party joint and several guarantee, except managers of the borrower company, and to consider the guarantor’s abilities to pay when executing guarantee obligations. The FSA will especially verify whether there are objective and rational reasons for entering into such a contract, and whether the contracting party agreed with this contract based on his/her voluntary will and thus it is confirmed in writings that it is due neither to pressure nor to demands from the financial institution, in cases where such contracts are signed in exceptional circumstances by a third-party who does not substantially participate in the management of the company.

2) Housing Loans

- The FSA will intensively verify whether in response to requests from borrowers for changing loan terms, etc., the financial institutions deal properly with borrowers while fully considering the economic situation the borrowers are in, and

considering the objective of the “Act concerning Temporary Measures to Facilitate Financing for SMEs, etc.”

- The FSA will strive to ensure that banks give customers appropriate and detailed explanations in order to obtain customers’ understanding and consent.
- Also with regard to new loans, the FSA will encourage financial institutions to maintain smooth financing with appropriate loan judgments that consider customers’ status including their economic circumstances, while keeping in mind repayment plans that remain feasible for customers in the future, taking into account the effects of interest rate fluctuations.
- In the case of housing loans insured by group guarantee companies (including the cases in which the guarantee company, etc. acquired housing loan claims through payment in subrogation), the FSA will intensively verify whether financial institutions are giving guidance to, having dialogues with, and making requests to such guarantee companies as efforts to properly deal with the facilitation of financing, from the perspective of smooth financing also in these companies.

3) Efforts for Formation of a Sound Consumer Finance Market

From the viewpoint of forming a sound consumer finance market in the medium and long term, there is a need for banks to actively handle loans to consumers. Therefore, for loans to consumers, the FSA will continue its work from the previous program year on supervision with the following points in mind.

- Understand the actual situation as to whether the bank is dealing with consumer loans proactively, considering needs.
- The FSA encourages banks to build suitable screening systems which consider the actual situations of customers, to prevent customers from excess borrowing. The FSA also encourages banks to understand the customer’s situation properly when examining a loan, instead of only relying on the information of credit information institutions or guarantee examinations of credit guarantee companies, if using such information.

3. Risk Management and Stability of Financial System

(1) Supervision based on the Viewpoint of Macro-Prudence

Under appropriate management (governance), it is essential that Major Banks more thoroughly ensure strong and comprehensive risk management. This is necessary not only for the financial soundness of each financial institution and the stability of the financial system, but also for Major Banks to perform sufficient financial intermediary functions, providing a stable supply of funds in order to support the growth of the real economy and companies in a changing environment.

As such, while enhancing its own risk sensitivity, it is important for the FSA to encourage autonomous efforts of each financial institution for appropriate risk taking backed by a robust risk management, with the aim of achieving both a smooth provision of funds to borrower companies and financial soundness of the financial institutions.

To this end, as its basic stance for supervision, it is essential for the FSA to continue to analyze and act from the viewpoint of Macro-Prudence, which is the expectation as to whether the entire financial system will undergo sustainable and stable development, while recognizing strong correlations between trends in the macro economy or financial markets and financial intermediary functions or the soundness of bank finance, cooperating with the Bank of Japan, and focusing on the risk concentration situation and course of effects. In its actual execution, the FSA will continue to use a method which integrates diverse tools (a “multidisciplinary approach”), such as macroeconomic analysis, monitoring of financial markets, and supervision of individual financial institutions.

1) Risk Areas to be Focused On

- The FSA will continue to carefully watch trends in China and other emerging markets, and recent economic and financial trends concerning the fiscal conditions of some European countries and the U.S., which affect Major Banks. It will also carefully watch the direct and indirect effects of the Great East Japan Earthquake in Japan.
- Shares have a large weight among the risks that Major Banks possess, and so with regards to each of the directly-owned shares, etc., the FSA will accurately identify any profit and loss that could arise from market movements as well as its effects on the capital adequacy of financial institutions. It will also continue to assess whether Major Banks have appropriate management of risks including financial tolerance in cases where these risks have become actualized. The FSA will also confirm the status of progress in Major Banks regarding their current efforts to reduce strategically held stocks.
- While government bonds and other bonds comprise an increasing percentage of bank assets, interest rate levels continue to be quite low. Considering these circumstances, the FSA will continue to carefully watch and investigate management systems concerning market risks in Major Banks, for example, whether they consider the influence of long-term interest rate hikes in terms of risk management.

2) Improved Risk Management Techniques

As a lesson of the recent global financial crisis, the limits of quantitative risk control techniques, such as economic capital models and VaR, has been recognized, and thus further improvements in risk management techniques have been deemed necessary. Considering this situation, including the perspective of being able to maintain suitable risk-taking even under stressed circumstances, the FSA will continue to investigate whether, under the leadership and strong commitment of the management, each financial institution makes specific assumptions about how various phenomena could affect the real economy and financial and capital markets overall, and could directly and indirectly affect its own business (for example, as the most severe changes in the market environment which could be assumed, the effects if risks of changes in stock prices, interest rates, FX, etc. all occur at the same time),

and investigate whether they are implementing appropriate risk management including stress tests. In doing so, the FSA will check the stress tests from the viewpoint of whether they (i) assume the severest scenarios, not only mild economic recession scenarios, (ii) include all exposures which should be included, and (iii) do not place excessive reliance on a single model or an estimation technique. The FSA will also continue to have thorough, deep and two-way dialogues with Major Banks on the characteristics and managerial issues of each risk.

Based on international discussions such as in the Financial Stability Board (FSB), the FSA is pushing initiatives for the development of Recovery and Resolution Plans (RRPs) for financial institutions which are internationally active and conduct large and complex business.

3) Enhancement of Financial Foundations

Bearing in mind that equity capital is the basis for positive risk taking while also forming the basis of the market's confidence, the FSA will keep an eye on progressions in international discussions and encourage financial institutions to strengthen their capital base, by such means as the securing of certain profits, from the viewpoint of improving the practical tolerance for future stress, while also considering the new international regulatory framework.

(2) Enhanced Risk Management Systems to Support Initiatives for Stronger Profitability

Considering the current financial environment and uncertainty in Japan's real economy, strengthening the profitability of financial institutions is expected to become an even more important business issue for the stable operation of financial institutions.

Currently, Major Banks are expanding operations in Asia and other regions overseas. They are developing businesses outside traditional commercial bank operations such as deposits, loans and settlement. Banks are thus actively working to strengthen their profitability. There are also cases of banks merging with and purchasing overseas financial institutions, aiming to more effectively expand their profit opportunities on a group basis.

Along with these initiatives, it is important that financial institutions build systems to manage risks appropriately. That is, instead of only treating risk management from a preventive and defensive viewpoint, it is important to study how to integrate risk management with profit management, to substantially underpin and back up initiatives to strengthen their profitability.

1) Strengthening of Risk Governance in the Entire Group

Major financial groups formed around Major Banks, which require stronger profitability, are expanding their operations to non-banking business. Therefore, how to accurately understand the different risk situations in each business category and how to build an optimal risk structure in the entire group are becoming issues for them. Therefore when supervising major financial groups, the FSA will also carefully investigate risk governance issues: whether an institution is appropriately maintaining comprehensive risk management for the overall group, and especially

whether holding companies are building a system to effectively manage the risk situation of the overall group, including subsidiaries with different business models, company cultures, industries, etc.

2) Responding to International Developments

Considering that Major Banks desire to actively expand overseas business, the FSA will investigate the management systems for operations at overseas bases, including overseas subsidiaries. For example, the FSA will especially focus on whether there is management of credit risks and appropriate portfolio management, including non-Japanese credit. It will also investigate whether a comprehensive risk management system including overseas offices and overseas subsidiaries has been developed and advanced. In doing so, the FSA will cooperate with overseas authorities when necessary.

3) Development of Risk and Liquidity Management System to Support Stronger Profitability

- The FSA will investigate whether financial institutions develop appropriate risk management systems, such as arranging, managing and using related data, to understand and identify risks which accompany their development of new businesses.
- Regarding liquidity management, considering progress in international discussions, the FSA will investigate whether appropriate liquidity management systems are built in Major Banks (including in foreign banks which have locations in Japan). In cooperation with the Bank of Japan, the FSA will especially investigate the appropriateness of cross-company liquidity management in bank groups (including liquidity management among central branches and other branches across international borders), of foreign currency liquidity management, and the status of holding the liquid assets needed.

(3) Newcoming Banks, Foreign Bank Branches, etc.

- 1) Besides Major Banks, it is also important for newcoming banks and trust companies etc. to work on establishing their new business model expected when entering into the business, while building legal compliance systems. If their business suddenly expands or differs from the business model initially planned, it is important that they build a risk management system which matches the size of their business and current business model.
- 2) Japanese subsidiaries of foreign banks, and foreign bank branches in Japan are expected to play diverse roles in Japan's markets: deploy new services not available from Japanese banks, support foreign company activities in Japan, etc. On the other hand, they are directly or indirectly controlled by foreign central branches beyond the reach of Japanese laws and regulations, and depending on the management and control methods of central branches, there are concerns that management controls in

their Japanese locations may not function sufficiently. Therefore, it is important that they grant to locations in Japan authority and responsibility sufficient to enable the establishment of internal control systems and management control systems in Japan. They must also provide accurate information to customers concerning deposits handled, and must implement thorough customer protection. With this point in mind, and considering international discussions, the FSA will provide deep supervision of how risk management is conducted in Japanese subsidiaries of foreign banks and foreign bank branches in Japan, including their management control and liquidity management.

4. Improving Customer Protection and Convenience for Users

Improving customer protection and convenience for users at financial institutions not only helps achieve a sound national economy, but also helps stabilize the Japanese financial system by enhancing citizens' trust for financial institutions. It is important for financial institutions to raise their competitiveness by providing original and ingenious financial instruments/services that accurately reflect customers' needs. This effort should be backed by a sense of security and trust that could be achieved by thorough protection of customers' interests. In doing so, the management of a financial institution should fully provide his/her leadership in implementing such measures as strict control of customer information, prevention of the abuse of dominant bargaining power, and management of conflicts of interest. In particular, compliance in terms of customer protection should not mean a simple compliance with laws and regulations. Rather, it is important as trusted financial institutions with a highly public nature, that they are aware of the levels sought by customers, and meet those expectations. To this end, a financial institution must discuss and make a judgment in an appropriate manner as to whether individual financial products and services are suitable for sale and solicitation in light of the attributes of their customers (e.g. knowledge, experience, wealth level, and objectives), before developing these instruments and services. After this, in selling and soliciting financial products and services, it is essential to provide appropriate and flexible explanations that suit the customers' attributes. In addition, financial institutions must also recognize that complaints and requests for consultations from customers after sale may provide them with opportunities to discover potential customer needs, and thus must respond to them appropriately and actively.

Considering the above, in this program year the FSA will intensively assess the efforts of financial institutions that aim to improve customer protection and convenience for users in the following area, in accordance with its supervisory guidelines. In doing so, the FSA will respect the autonomous efforts of each bank, and proceed with supervision in a manner that places emphasis on their incentives to make such efforts.

In particular, many consultations and complaints were received in the last program year regarding currency derivative products that financial institutions have sold to SMEs in the past. It became an opportunity to reconsider the behaviors of financial institutions as to whether management and marketing policies of financial institutions were appropriate, whether their compliance functions were sufficient, and whether policies set by the management were sufficiently implemented and penetrated to individual sales

staff members. Consequently, in this program year, the FSA will also pay attention to (1) under what kinds of management policies, what kinds of financial products and services financial institutions are providing to customers with what kinds of attributes, (2) whether there are warped incentives that may arise due to desires to pursue short-term profits or the existence of conflicts of interest, (3) whether an internal checking system for managerial and other staff members has been developed to verify that management policies are thoroughly implemented by the sales staff.

Meanwhile, the FSA will cooperate with the police authorities and the Consumer Affairs Agency as deemed necessary.

(1) Ensuring Business Continuity

1) IT System Inspections, etc.

Computer systems of financial institutions are at the core of their settlement systems. These have a strong public aspect as social infrastructure. If a failure occurs, this could have large impacts on user convenience and the society, and could unavoidably lead to losing the credibility of a financial institution. Therefore, the FSA encourages each bank to conduct voluntary inspections under active leadership by the management, regarding the awareness of risks in its IT systems, business strategy on investments for IT systems, risk management to cope with the occurrence of failures, etc. The FSA will also intensively verify initiatives taken by each financial institution in these matters. Additionally, in connection with renewal and/or integration of IT systems, the FSA will also assess whether the management of each financial institution is precisely aware of risks, and manages these projects in an appropriate manner.

2) Validation of Business Continuity System

Being mindful of the experience of the recent Great East Japan Earthquake, the FSA will verify that financial institutions conduct self-assessments as to whether their existing business continuity plans have effectively functioned, whether they sufficiently assumed major risks such as earthquakes and other natural disasters, pandemic influenza and large electricity blackouts, and whether they built up sufficient countermeasures, etc.

Electricity supply capacity has decreased after the earthquake, and as an immediate response, each financial institution has been implementing electricity conservation policies this summer in each area in Japan, especially in areas served by Tohoku Electric Power Company, Tokyo Electric Power Company and Kansai Electric Power Company. In conjunction with these measures, the FSA will carefully watch if there are any impacts on the business continuity of important locations, such as IT system centers.

(2) Thorough Management of Information Security

Customer information forms the basis of financial transactions, and it is important to strictly manage it also from the viewpoint of protecting personal information. Furthermore, it is important to strictly manage corporate information in order to

increase trust in market transparency and fairness. From these viewpoints, the FSA will strongly encourage the appropriate maintenance of internal control systems for information security, and the enhancement of rules on professional conduct to prevent inappropriate actions of officers (such as information leaks or insider trading).

In addition, the firewall regulations were revised two years ago, and a principles-based framework was created to encourage financial institutions to have an autonomous management system to deal with conflicts of interest. With regard to these, the FSA will assess whether banks are working towards a right direction to achieve both improved customer convenience and prevention of conflicts of interest.

(3) Enhancement of the Framework for Providing Explanations to Customers

- 1) With regard to sales of products that entail risks, such as mutual funds, structured bonds and derivatives (including currency derivatives), the FSA will intensively verify whether financial institutions establish and make functioning frameworks for solicitation and explanation to each customer and for follow-up after sales, that are solicitous of the customer's circumstances and compliance with regulations on unsolicited promotion. In doing so, the FSA will have a particular focus on the following areas: i) whether financial institutions give appropriate and flexible explanations about risks and inherent risks of products to customers in light of their knowledge, experience, wealth level, and the purpose of investment, so as to aid them to make a right decision for each investment; ii) whether financial institutions make check-sheets as needed and collect them from customers to confirm their understanding about the contents of explanations; iii) whether financial institutions provide customers with warning documents; iv) whether the salary and bonus systems of the sales staff and managers are not biased with excessive linkage to gaining short-term profits; v) whether the sales system and product composition place too much emphasis on gaining fee earnings; and vi) whether measures are taken to prevent harmful practices and events, such as the abuse of the dominant bargaining position and false recognition by customers regarding similarities to deposit instruments.
- 2) The FSA will focus on investigating whether (i) adequate explanations are provided to customers in sales, in light of peculiarities and risk characteristics of mutual funds, including those investing in foreign stocks and bonds, currency-selective funds, and monthly distributable funds; (ii) adequate explanations are provided to customers regarding important items that can affect their investment decisions, such as expenses required for purchase and cancellation of mutual funds, including trust fees and commissions; and (iii) financial institutions are acting from the customer's viewpoint, for instance, creating and providing documents to customers (e.g. prospectus) with easily understood descriptions of information on risk characteristics, fees and dividends, etc.
- 3) In addition, the FSA will continue to carefully watch whether banks take

appropriate measures when soliciting insurance products, so as to prevent harmful practices and events, such as the abuse of their dominant bargaining position and false recognition by customers regarding similarities to deposit instruments.

- 4) Furthermore, the FSA will strongly encourage the development of arrangements that enable elderly and/or disabled people to use financial services at ease, including teller windows and ATMs.

(4) Enhancement of the Framework for Processing Consultations and Complaints from Customers

It is extremely important for banks to have proactive, timely and appropriate consultations and complaint handling, in order to ensure customer's trust in financial products and services, and to positively utilize the customers' needs for better management of business. From this viewpoint, the FSA will assess whether banks develop an internal control system, under the involvement of the top management, for maintaining a consultation window, analyzing the causes of consultations and complaints, sharing information within the institution, taking measures and notifications to prevent the recurrence of complaints, and following up the implementation of these measures, in an appropriate manner.

Also, in connection with the financial Alternative Dispute Resolution (ADR) system that was introduced in October 2010, the FSA will carefully watch whether financial institutions are: i) making sincere efforts for quick dispute resolution, such as active disclosure of required information; ii) preparing arrangements for facilitating easy use of the system nationwide; and iii) introducing the ADR system to customers as needed when they make consultations.

(5) Preventing Abuse of Financial Functions

In order to ensure security for users, the FSA will verify, based on the following perspectives, whether Major Banks develop management systems to prevent financial functions from being abused and to take adequate care of crime victims. In doing so, the FSA will check IT systems and other arrangements at financial institutions to properly confirm customers' identities, and to detect transactions that are strongly suspected of being illegal and take appropriate actions, including the freezing of deposit accounts.

- 1) Does a bank make efforts in countermeasures to eliminate crimes including the "Furikome Fraud" that harm other people's assets? In particular, does a bank place priority on taking measures against Furikome Fraud that misuses earthquake recovery donations? From the viewpoint of prompt recovery of victims' financial damages, in accordance with the Furikome Fraud Relief Act, does a bank deal with victims properly by halting transactions involving deposit accounts used in crime, providing information to the suspected victim regarding funds remaining in such accounts, distributing funds thereafter, etc.?

- 2) Does a bank make efforts to prevent unauthorized withdrawals of deposits by using counterfeit/stolen cash cards, stolen passbooks, and internet banking? Does a bank pay compensation to victims properly according to the Depositor Protection Act and agreements within the industry?
- 3) Does a bank take actions to prevent money laundering and terrorist financing in domestic and overseas branches, to the extent that it meets international requirements for Major Banks?
- 4) Does a bank make appropriate efforts, such as developing procedures and arrangements to cut relationships with antisocial groups, aiming to prevent antisocial groups from damaging the financial institution, managers, as well as various stakeholders such as customers, with strong will of the top management and the entire organization to eliminate antisocial groups from financial transactions?