

# Summary of (Draft) Comprehensive Guideline for Supervision of Major Banks Etc.

## I. Basic Ideas

The purpose of financial supervision is to ensure sound and appropriate administration of operations conducted by financial institutions, from the perspectives of maintaining orderly credit transactions, ensuring depositor protection and facilitating financing activities.

The basic ideas for the work of supervising the major banks, etc., as well as points to note in administrative procedures and items of evaluation in supervision, have been organized as systematically as possible, by reference to the contents of previous administrative guidelines and the Comprehensive Guideline for Supervision of Small- and Medium-Sized and Regional Financial Institutions" (the administrative guideline will be abolished upon the establishment of the proposed Guideline). Additionally, provisions have been created for the supervision of bank holding companies and bank groups on a group consolidated basis, the supervision of Japanese branches of foreign banks, and procedures applicable to new entries etc. to the banking business.

Considering that the proposed Guideline is intended to ensure sound and appropriate administration of operations conducted by the major banks, etc. while respecting their voluntary efforts, care must be taken in their implementation so that the circumstances, etc. unique to each bank should be fully taken into account and that procedures to be applied should not be mechanical or uniform.

"Major banks, etc.", to which the proposed Guideline applies, refers to the so-called major banks as well as Shinsei Bank and Aozora Bank. For other banks that operate in both trust and traditional banking businesses, new entrant banks, and Japanese branches of foreign banks, etc., the proposed Guidelines should be applied on an as-required basis.

## II. Points to note in administrative procedures for supervision of major banks, etc.

(1) Flow of supervision work (2) Assurance of coordination with the Inspection Bureau, etc. (3) Bank-related complaint handling and information supply, etc. (4) Responses to inquiries about statute interpretation, etc. (5) Points to note in delivering administrative guidance etc. (6) Points to note in delivering administrative action etc.

## III. Items of evaluation in supervision of major banks etc.

### 1. Corporate governance

Check the effectiveness of corporate governance of major banks, etc.

- (1) Responsibilities of representative directors, directors and board of directors
- (2) Management oversight functions of auditing officers and board of auditing officers
- (3) Management oversight functions of internal audit sections
- (4) Use of external auditors
- (5) Coordination between external audit functions and internal audit sections etc.

### 2. Financial soundness, etc.

Check systems of control for assuring financial soundness of major banks etc.

- (1) Capital adequacy  
*E.g.*, development of systems of evaluating the degree of capital adequacy in light of its own risk characteristics, analysis of equity capital quality, and disclosure of deferred tax assets
- (2) Profitability improvement  
*E.g.*, actions towards business reconstruction based on accurate profitability analysis and evaluation, strategic use of IT
- (3) Risk management systems  
*E.g.*, integrated risk management, credit risk management (provisions have been created that set forth the establishment of systems designed for major borrower credit management, country risk management, and early recognition of non-performing loans and steps to turn them back to health (concerted revival of industry and finance)), market risk management, liquidity risk management

(Note) In the provisions concerning credit risk management, the matters that have previously been requested to the major banks for non-performing loans problem solution purposes under the Program for Financial Revival, etc. have all been put together (such as the application of the DCF method to major borrowers whose debts are categorized as special attention loans).

### 3. Appropriateness of operations, etc.

Check compliance systems, etc. of major banks, etc.

- (1) Statutory compliance
- (2) Information disclosure  
*E.g.*, appropriate disclosure of risk-monitored loans (such as revision of rules for restructured loans), development of internal control systems formulated to ensure proper financial reporting, disclosure in a fashion easy for users to understand
- (3) User protection  
*E.g.*, customer-targeting explanation structures and consultation and complaint handling functions with respect to credit transactions, deposits and the sale of risk-bearing products (investment trust products etc.), customer information management, and assurance for appropriate administration of private banking operation
- (4) Computer system risks  
*E.g.*, constant review of computer system risk management structures, ATM system security measures, appropriate risk management regarding the use of interbank system networks
- (5) System integration risk project management  
*E.g.*, clear division of responsibilities among directors and clear definition of the management's position for system integration, rationality of the management's decision on system integration approaches, development of a sufficient testing and rehearsing structure, internal controls and third-party evaluation with effectiveness
- (6) Internet banking *E.g.*, security assurance
- (7) Overseas operation management *E.g.*, appropriate actions in relation to overseas regulatory authorities

### 4. Further improvement of customer convenience, etc.

Diverse and high-quality financial product and service offerings catered to user needs  
Disclosure of information concerning corporate social responsibilities (CSR)  
Business continuity management (BCM)

## IV. Bank holding companies

In the supervision of bank holding companies, the basic approach should be to apply the "Guidelines for Financial Conglomerate Supervision" and the provisions for banks in the proposed Guidelines; separate provisions have been created for any matters that must be noted specifically in the case of supervising bank holding companies.

## V. Supervision of bank groups on a group consolidated basis, etc.

As matters that must be noted in supervising bank groups, provisions have been created for the scope of operations of a bank's subsidiary etc. and arm's-length rules etc.

## VI. Supervision of Japanese branches of foreign banks

As points to note in supervising Japanese branches of foreign banks, provisions have been created for proper branch management and business administration by the bank's head office and the branch, development of information management structures, and coordination and information exchange with regulatory authorities of the bank's home country, etc.

## VII. Procedures applicable to new entries etc. to the banking business

Provisions have been created for banking license application procedures applicable, respectively, for cases of limited banking operation, cases of principally operating in a non-interpersonal service such as Internet-based banking or ATM operation, and cases in which an applicant has a parent company in business, and for the major shareholding approval application procedures for companies in business and investment funds.