

## 1. Overview

## Reference: Composition of Supervisory Policy (Major Banks, etc.)

### 1. Environment Surrounding the Financial System

- Effects on the domestic economy due to the situation in Europe and constraints on the electric power supply, etc.
- Characteristics of the financial system, which is vulnerable to the global economy (sovereign debt problems in Europe, economic and financial trends in the U.S., trends in emerging markets, such as China, etc.)

### 2. Approach Taken by Supervisory Authority

- Under the basic policy to make Better Regulation further embedded and enhanced, the FSA will take the following approaches as the supervisory authority. FSA will take the approaches under full awareness of the current situation in Europe, the final extension by one year of the SME Financing Facilitation Act, and actual conditions of the devastated areas of the Great East Japan Earthquake.
    - 1) Financial supervision and 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, inspect IT system and business continuity systems)
    - 2) Financial supervision and administration from a citizen's and user's point of view (improve customer protection and convenience for users)
    - 3) Supervisory response with a forward-looking perspective (Being aware of the progress in international discussions, monitor environmental changes, and consider common structural issues faced by Japanese financial institutions)
    - 4) Supervisory response which contributes to financial institutions' self-improvement of their management and better business judgments (straightforward and in-depth dialogues with financial institutions, promotion of the innovative initiatives by financial institutions to other institutions).
- \* Closer cooperation with the Inspection Bureau, SESC, Bank of Japan, and the Japanese Institute of Certified Public Accountants (especially to implement and strengthen monitoring with seamless inspections and supervision)
- \* Supervisory administration which considers reducing burdens on financial institutions (review reporting, etc. once a year)

## 2. Area to be Emphasized in Supervision

### 1. Performing a Smooth Financial Intermediary

#### Function

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

Focus on the status of handling the overlapping debt problem; check the status of response to funding demand for recovery and reconstruction, etc.

#### (2) Promote Initiatives of Financial Institutions from the viewpoint of their Growth Potential

Encourage actions which meet customer needs while considering the actual state of the local economy (coordinate with other financial institutions and external institutions), support entrepreneurs by utilizing equity funds, etc., utilize diverse financial techniques such as asset-based lending, support Japanese enterprises when they go to Asia or other regions, strengthen overseas development, project finance, etc.

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

##### 1) Facilitate loans to SMEs, and housing loans

Demonstrate an active consulting function for borrowing enterprises, coordinate with external institutions and other financial institutions, investigate the status of creating drastic and highly realizable business rehabilitation plans, prohibit in principle third party joint and several guarantee (except that conducted by managers), utilize debt-debt swap, check the status of responses to reduction in interest rate of housing loans, etc.

##### 2) Understand the actual situation regarding active efforts for loans to consumers

### 2. Risk Management and Financial System Stability

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

##### 1) Risk Areas to be Focused On

Sovereign debt problems in Europe, economic and financial trends in the U.S., trends in emerging markets, risks of rising interest rates, risk management of housing loans, reduction of strategically held stocks, liquidity risks, etc.

##### 2) Improved Risk Management Techniques

Awareness of risk effects under management leadership, implementation of stress tests including tail risks, etc.

##### 3) Enhancement of financial foundations

Enhance capital

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

##### 1) Strengthening of Risk Management Systems throughout the Group

Risk management by holding companies for entire groups (including management of administrative risks, operation risks, and reputation risks)

##### 2) Responding to International Developments

Risk management, including non-Japanese credit, overseas offices, and overseas subsidiaries

#### (3) In-depth supervision for financial institutions which are internationally active and conduct large and complex business

#### (4) Newcoming Banks, Foreign Bank Branches, etc.

### 3. Improvement of Customer Protection and Convenience for Users

#### (1) Ensuring Business Continuity

Check internal management systems for IT system risk assessment  
Check effectiveness of business continuity plan through training, etc.

#### (2) Ensuring Security Control of Information

Thorough and strict management of customer information  
Especially, thorough responses to prevent insider trading

#### (3) Enhancement of the Selling System of Risky Products

Investigate the status of compliance with the suitability principle concerning currency derivatives, currency selection type funds and other risky products, internal incentives, compliance with the regulation of unsolicited offers, after-sale follow-up system, explanation system when selling investment trusts, check the status of responding to corporate clients such as pension funds (fiduciary responsibility in pension trust, complete performance of duty of care etc.)

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

Watch carefully for the approach of financial institutions to the financial ADR system

#### (5) Preventing Abuse of Financial Functions

Respond to "Furikome" Fraud misusing disaster donations, take initiatives to cut relations with antisocial forces, strengthen coordination with the police to respond to cyber attacks, etc.  
(\*In addition, responses to the LIBOR problem are also explicitly stipulated.)