

Reference: Composition of Supervisory Policy (Regional Financial Institutions)

1. Overview

1. Environment Surrounding the Financial System

- Effects on the domestic economy due to the situation in Europe and constraints on electric power supply, etc.
- Characteristics of the financial system, which is vulnerable to the global economy

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 systems 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 innovative initiatives by financial institutions to other institution)
- * 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 integrated with Local Financial Bureaus (strengthen supervision by solid data analysis and provision of clues, business analysis using reports from Local Finance Bureaus, etc.)
- * Supervisory administration which considers reducing burdens on financial institutions (review reporting, etc. once a year)

2. Areas to be Emphasized in Supervision

1. Performing a Smooth Financial Intermediary Function

(1) Support toward Reconstruction following the Great East Japan Earthquake from Financial Aspects

- Respond to the double loan problem (Utilize Corporation for Revitalizing Earthquake affected Business, Prefectural Industrial Reconstruction Organizations, Individual Debtor Guidelines for Out-of-Court Workouts, etc.)
- Promote active use of the Act on Special Measures for Strengthening Financial Functions, etc.

(2) Deepen Region-based Relationship Banking

- Demonstrate an active consulting function in accordance with the life stage of customers (e.g. supply new money for business start-ups and new-business developments, support financial institutions to enter Asia at an early stage, etc.)
- Contribute to stimulating the local economy

(3) Support SMEs Management, Respond to Housing Loan Borrowers, etc.

- Embody policies specified in the "Policy Package for management support for SMEs"
- Support business recovery by utilizing external institutions, promote establishment of business recovery funds
- Prohibit in principle third party joint and several guarantee, except that conducted by managers
- Respond to "authorized business innovation support organization system" paying attention to consistency with initiatives by region-based relationship banking
- Monitor the responses of financial institution concerning the reduction in interest rates of housing loans

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

- Support entrepreneurs by utilizing equity funds.
- Utilize diverse financial techniques, such as debt-debt swap, asset-based lending, and electronically recorded monetary claims, etc.

2. Risk Management and Stability of Regional Financial System

(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 rate of bonds, risks of stocks, structured bonds
- Credit risks of large borrowers (e.g. follow-up of development and progress of business rehabilitation plans, appropriate provision in accordance with the actual state of customers, etc.)
- Specific risks of housing loans, etc.

2) Improved Risk Management Techniques

- Enhanced awareness of risk impact by management leadership
- Implementation of stress tests reflecting tail risks, etc.

3) Enhancement of financial foundations

- Enhance and strengthen capital base with a forward-looking perspective
- Close coordination with central organizations of cooperative financial institutions
- Promote consideration of active use of the Act on Special Measures for Strengthening Financial Functions, considering the extension of the application deadline for central government's capital participation

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

- Solid earnings foundation from a medium and long-term perspective (practice of initiatives by region-based relationship banking, such as support for entry to Asia including overseas development of regional banks themselves)
- Risk management, including non-Japanese credit and overseas locations
- Examine the understanding of risks associated with new business development
- Maximize financial intermediation functions considering the basic characteristics of cooperative organization financial institutions

3. Improvement of Customer Protection and Convenience for Users

(1) Ensuring Business Continuity

- Check internal management systems for IT systems risk assessment (management system of outsourcing organizations including cooperative center)
- Check effectiveness of business continuity system through training, etc

(2) Ensuring Information Security Control

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

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

- Investigate the status of compliance with the suitability principle concerning currency derivatives, currency selection type funds and other risky products, internal incentives, compliance with regulation of unsolicited offers, after sale follow-up system, explanation system when selling mutual funds
- Check the status of response to corporate clients such as pension funds

(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