

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

## 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
- 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.)
- Shaking the confidence in the Japanese financial market from both Japan and abroad (due to the case of AIJ Investment Advisors Co.,Ltd., insider trading cases related to public offering of new shares, 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.
  - 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, promote risk-based supervision of business operators, 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, focus on checking measures to prevent a recurrence of the case of AIJ Investment Advisors Co.,Ltd., and thorough asset segregation management)
  - 3) Supervisory response with a forward-looking perspective (Being aware of the progression in international discussions, monitor environmental changes, consider common structural issues faced by Japanese financial institutions)
  - 4) Supervisory response which contributes to financial institutions' autonomous improvement of their management and better business judgments (institutions' self-improvement of their management and better business judgments, promotion of the innovative initiatives by financial institutions to other institutions, etc.)

## 2. Areas to be Emphasized in Supervision

### 1. Appropriate Performance of Market Intermediary Functions

#### (1) Verification of Development of Actions for Appropriate Demonstration of Market Intermediary Functions

Examination of the development of internal controls systems (The screening systems for underwriting IPOs, etc.)

#### (2) Thorough Management of Customer Information and Sensitive Corporate Information

Thorough internal control of sensitive corporate information is needed, considering the insider trading cases that are related to public offering of new shares. Enhancement of Professional Ethics to prevent inappropriate behavior by firms' staff. Examine the development of legal compliance

#### (3) Thorough elimination of antisocial forces

Solid construction of database on the antisocial forces is needed. Monitoring antisocial forces' involvement in funding small and medium-sized financial instruments business operators. etc

### 2. Risk Management and Financial System Stability

#### (1) Encouragement for Integrated Risk Management of the Entire Securities Company Group

- 1) Encouragement for large securities company groups to conduct reliable liquidity risk management and active external communication
- 2) Timely and accurate understanding of the business situation of entire groups

#### (2) Preparation for Risks of Firms' Management by (Domestic and Foreign) Small and Medium-sized Securities Companies and Investment Managers

Examine the effectiveness of measures for responding to deteriorated financial positions and difficulties in liquidity, etc. Monitoring of the situation of customer assets protection (asset segregation management) and involvement of antisocial forces, etc.

#### (3) Initiatives for Various Funds

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

Put all efforts toward customer protection in light of the case of AIJ Investment Advisors Co.,Ltd. and insider trading cases on public offerings of new shares.

Focus on examining whether appropriate actions are being taken in accordance with preventive measures.

It is especially important for financial instruments business operators to be aware of the levels of expectation by customers, and meet those expectations, giving due consideration of intents and purposes of laws and regulation, not merely a formal compliance with laws and regulations

- (1) Selling systems of investment trusts, etc.
- (2) Complaint and response handling systems
- (3) Business continuity (IT system and business continuity plan)
- (4) Approach to measures to prevent a recurrence of the problem on discretionary investment business operators
- (5) Approach to foreign currency margin transactions
- (6) Self-regulation regarding type II financial instruments business
- (7) Initiatives for Credit Rating Company Regulations
- (8) Initiatives against financial crimes, etc.