

# Reference: Main Points of Supervisory Policy (Major Banks)

## 1. Overview

### 1. Expected roles of Major Banks

- Under the appropriate risk management, **active provision of funds to growing areas** to pull out of deflation, and **full scale support for improvement SMEs' business profiles, and reinforcement of business structure**.  
⇒ To respond to sudden social and economic changes, **management personnel should make responsible and prompt business judgments**, and **formulate medium to long-term business strategies covering the next 5–10 year period**. It is also important to establish **an appropriate group-wide governance system led by the holding company**.

### 2. Approach Taken by Supervisory Authority

- The FSA will confirm whether Major Banks **verify the sustainability of their business model appropriately** and **devise short, medium, and long-term business strategies**.
- Under the basic policy to **make Better Regulation further embedded and enhanced**, the FSA will take the following approaches as the supervisory authority. Financial administration, **if implemented through regulations only, may cause distortions in the regulatory regime and result in excessive control, which may negatively impact the real economy**. In view of this, **the FSA will endeavor to improve the quality of supervisory administration while reducing regulatory costs on a medium to long-term basis by improving the self-discipline of financial institutions and its own capabilities as supervisory authority**.
  - Financial supervision and administration with high risk sensitivity (identify and understand the risks that can accumulate in each financial institution and in the financial system with a forward looking perspective, inspect IT systems and business continuity systems).
  - Financial supervision and administration from a citizen's and user's point of view (improvement of customer protection and convenience for users.)
  - 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)
  - Supervisory response which contributes to financial institutions' improvement of their management and better business judgments (straightforward and in-depth dialogue with financial institutions, promotion of the innovative initiatives by financial institutions to other institutions)
- \* **In order to promptly and accurately understand and enable quick response to risks faced by financial institutions and the financial system, the FSA, as supervisory authority, will cooperate with the Inspection Bureau to improve and reinforce the integration of on-site and off-site monitoring.**

## 2. Areas to Be Emphasized in Supervision

### 1. Performing an Active Financial Intermediary Function, including Management Support for SMEs

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

- Handle the overlapping debt problems, check the response to meet the money demand toward restoration and reconstruction, etc.

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

- Proactive performance in new loans that will likely result in business improvements, business recovery, development, and growth of customer enterprises
- Advanced financial products and services expected for major banks, including project finance and enhancement of the framework to provide services support to Japanese companies aiming at overseas expansion, etc.

#### (3) Support for Business Improvement, etc. to SMEs

- This program year is a critical year for financial institutions to start full-scale support for the improvement of SMEs' business profiles and strengthen soundness**
- Active consulting function in coordination with outside experts and organizations
- Support for devising highly effective business rehabilitation plans for SMEs with their loan terms changed and follow-up on the progress of such plans, etc.

#### (4) Initiative for Loans to Individuals

- Appropriate and detailed customer explanation concerning the product characteristics of mortgage loans
- Efforts for the formation of sound consumer finance market, etc.

### 2. Risk Management and Financial System Stability

#### (1) Supervision Based on the Macro-Prudential Point of View

- Bond holding reflects economic and market conditions in Japan and overseas, the appropriate risk management system of mortgage loans, etc.
- Appropriate implementation of stress tests to capture tail risks accurately
- Efforts to enhance capital, including securing profits in view of the introduction of new international/domestic standards, etc.

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

- Expanding business operations by overseas bases (including subsidiaries), and their management systems, etc.

#### (3) In-depth Supervision for Financial Groups with Large and Complex Operation

- Check whether the holding company is properly leading the enhancement of group-wide business management and risk management systems, focusing on (1) enhancement of group governance system, (2) actions to comply with Basel III standards, (3) Recovery and Resolution Plans, (4) stress testing, (5) management information system, (6) legal compliance system, (7) human resource management, etc.

#### (4) Supervision of New Entry Banks, Foreign Bank Branches, etc.

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

#### (1) Ensuring business continuity

- Development of internal management systems for IT system risk assessment
- Establishment of Business Continuity System assuming a large-scale disasters or cyber-attacks, etc.

#### (2) Thorough Management of Information Security

- Thorough and strict management of customer information, etc.

#### (3) Maintenance and Improvement of Reliability and Transparency of Benchmark Interest Rate

- Internal management systems of financial institutions involved in offering benchmark rates
- The status of discussions by TIBOR administrator for improving the benchmark rate's reliability, considering the progress of international discussions

#### (4) Establishment of Systems for People with Disabilities, etc.

- Development of facilities and systems to allow people with disabilities to use financial services securely

#### (5) Enhancement of the Systems for Selling Risky Products

- The status of compliance with the suitability principle, sales system for investment trusts, etc. to elderly customers, sales system for NISA, etc.

#### (6) Enhancing System for Processing Consultations and Complaints from Customers

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

- Establishment of a system to eliminate the furikome fraud, to prevent unauthorized withdrawals through internet banking, etc. and to prevent money laundering and terrorism financing transactions, etc.