

[Reference] Main Points of Supervisory Policy (Regional Financial Institutions)

1. Overview

1. Expected roles of Regional Financial Institutions

- Under the appropriate risk management, **active provision of funds to growth areas** to pull out of deflation, and **full scale support for improvement of 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.**

2. Approach taken by supervisory authority

- The FSA will confirm whether Regional Financial Institutions **verify the sustainability of their business models 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, monitoring environmental changes, and considering 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.**
 - Financial supervision integral to Local Finance Bureaus** (strengthen supervision by solid data analysis, provision of clues and business analysis using reports from Local Finance Bureaus, etc.)

2. Areas to Be Emphasized in Supervision

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

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

- Handle the double loan problem (utilize Corporation for Revitalizing Earthquake Affected Business, Individual Debtor Guidelines for Out-of-Court Workouts, etc.)
- Check the response to meet money demand toward restoration and reconstruction, etc.

(2) Promotion of Initiatives of New Loans by 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

(3) Deepen Region-based Relationship Banking

- Demonstrate active consulting functions in accordance with the life stage
- Contribute to stimulating the local economies
- Active transmission of information to the regions and to users

(4) 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.
- Develop and improve skill sets of personnel engaged in support for business improvement, including business turnaround and regional revitalization in coordination with REVIC, etc.
- Promote establishment/utilization of business turnaround funds, support for company set ups through equity funds, etc.

(5) Initiatives for Loans to Individuals

- Appropriate and detailed customer explanation concerning the product characteristics of mortgage loans

2. Risk Management and Regional Financial Systems Stability

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

① Risk Areas which Should Be Focused on

- Bond holding reflects economic and market conditions in Japan and overseas, the appropriate risk management system of mortgage loans, etc.
- Credit risk associated with large borrowers (development/follow-up of business rehabilitation plans, loss provisioning aligned with the customer's credit risk), etc.

② Improved Risk Management Techniques

- Implementation of stress tests to capture tail risks appropriately

③ Enhancement of Financial Foundations

- Encourage improvement/enhancement of capital bases in a forward looking manner, in order to perform financial intermediary functions in regions
- Promote active use of the Act on Special Measures for Strengthening Financial Functions
For cooperative financial institutions, further promotion of coordination with central organizations to discuss issues such as strengthening financial bases of affiliate financial institutions.

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

- Solid earnings foundation from a medium and long-term perspective (support for profit improvement for corporate enterprises, support for entry to Asia including overseas development of regional financial institutions)
- Risk management system covering non-Japanese credit and overseas locations
- Appropriate risk management following development of new businesses, etc.

3. Improvement of Customer Protection and Convenience for Users

(1) Ensuring Business Continuity

- Development of internal management systems for IT system risk assessment (including outsourcing contractors such as joint centers)
- Establishment of business continuity system assuming large-scale disasters or cyber-attacks, etc.

(2) Thorough Management of Information Security

- Thorough and strict management of customer information, etc.

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

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

(4) Enhancement of the Systems for Selling Risky Products

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

(5) Enhancing Systems for Processing Consultations and Complaints from Customers

(6) 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.