

Public comments on “JFSA’s supervisory approaches”

- The JFSA called for comments on “JFSA’s supervisory approaches” and held dialogue with financial institutions and their external auditors (60 times in 11 cities across Japan).
- Comments received by the JFSA generally supported the new supervisory approaches, including the repeal of the Inspection Manuals.
- The JFSA revised the report in response to the specific comments shown below:

● Three pillars of the new supervisory approaches

(“Enforcement”, “Dynamic supervision”, and “Disclosure and engagement”)

- ✓ The JFSA should make clear the background as well as the purpose of discussions with the financial institutions in the course of its supervision.
- ✓ The JFSA should apply three pillars in accordance with respective circumstances, rather than mechanistically apply them to all financial institutions.

● Concerns over unilaterally imposing the viewpoint of the authority

- ✓ The JFSA should not use its discretionary power improperly and unduly intervene with business judgments. Nor should the JFSA engage in dialogue which is in substance an administrative guidance.
- ✓ The JFSA should not impose its own idea of “best practices” on financial institutions.

● Need for concrete standards in certain areas

- ✓ In certain areas, the JFSA should show concrete standards in addition to the high-level principle.
- ✓ It is helpful for the JFSA to share insights obtained through its supervisory activities.

JFSA's specific initiatives I

Based on the comments received, the JFSA will implement the following initiatives :

- Three pillars of the new supervisory approaches
 - ✓ These three pillars provide a conceptual framework which shows a spectrum of available supervisory approaches. They are not intended to label each and every supervisory activity as the exercise of one of the three categories.
 - ✓ The JFSA will conduct profiling of the financial institutions and identify, **based on accurate facts**, which issues warrant further discussions and which supervisory measure is appropriate to address them.
 - ✓ In addition, the JFSA will carefully communicate with the financial institutions on the background as well as the purpose of discussions in the course of its supervision.
- Communications on supervisory policies
 - ✓ In addition to **theme-specific reports**, the JFSA may publish the outcomes of its horizontal supervisory reviews on specific issues, **areas for improvements, and supervisory viewpoints**.
 - ✓ Further, the JFSA may, in certain areas, publish **concrete standards** together with the high-level principle. For example, if a wide range of the financial institutions are facing the common challenges for improvement, or if there is a limit for an individual institution's learning by doing, it may be helpful for the authority to show such concrete standards.

JFSA's specific initiatives II

The JFSA will transform itself to better carry out new supervisory approaches. Specifically, the JFSA will :

● Quality control

- ✓ Continuously invite insights from **the Advisory Group on Supervisory Approaches** to improve its supervisory approaches.
- ✓ Invite financial institutions to submit their comments and proposals on all aspects of the JFSA's activities either directly (**the Contact Desk for Comments**) or to the third-party experts commissioned by the JFSA (**the FSA Monitors**), who would recommend remedial actions to the JFSA where necessary.
- ✓ **Commission external consultants** to interview firms and JFSA staff to review quality of supervision instead of senior JFSA staff doing so.
- ✓ Expand the current challenge process for on-site inspections to **include off-site monitoring**.

● Human resource development

- ✓ Develop longer-term staff rotation, conduct professional training and recruit experts from outside to **improve skills and knowledge in specialized fields**.
- ✓ **Allocate chief examiners based on the skills and abilities** necessary to carry out the new supervisory approaches.

● Information infrastructure

- ✓ Identify priority needs for analysis under the new supervisory approaches and **build necessary information infrastructure utilizing IT technology**.