

FSA Inspection Manual for Banks

(Includes all revisions as of February 25, 2003)

(Revision of IBA #01-15)

This translation is for reference purposes only and was neither reviewed nor approved by the Financial Services Agency, and is not an official interpretation of laws and regulations. The Financial Services Agency Japanese original supersedes this translation should there be discrepancies or differences between the Japanese and the English versions.

Note: The International Bankers Association prepared this translation with the intention of having the content accurately represent the Japanese original as much as possible; and it contains all information in Japanese original relevant for the operations of a foreign bank branch in Japan. However, there are differences in layout and pagination from the Japanese original.

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Financial Inspections No. 177
July 1, 1999

To: Inspection Supervisors
General Inspectors
Special Inspectors
Specialist Inspectors
Financial Securities Inspectors

From: Hirofumi Gomi, Director-General, Inspection Department, Financial Services Agency

Re: Inspection Manual for Deposit-Taking Financial Institutions

Japan cannot make progress in carving out a future for its national economy in the new century without striving to stabilize and revitalize the financial system and to restore confidence in its financial institutions both in Japan and abroad. To achieve that end, financial institutions must actively come to grips with quickly writing off bad loans, with rebuilding and restructuring strategic operations, and with disclosing management information. The Financial Services Agency must also enhance its inspection and supervision regime. We must establish a financial regulatory regime and financial institution management that gives consideration to the international viewpoint and that is also acceptable to depositors and taxpayers, etc. Organizing and publishing a manual for financial inspections (*1) contributes not only to improving the inspection supervisory functions of the Financial Services Agency and to the establishment of a transparent administration, but stimulates the development of management based on self responsibility in financial institutions and thereby leads to the development of confidence in financial administration as a whole.

In 1998, we established the “Basic Items for New Financial Inspections” (MOF Inspections No. 140) for financial inspections. Since then, we have striven to convert the administration to one with a high degree of transparency on the premise of explicit rules, given central tenets of the market system and the complete understanding of the self-responsibility principle. Now, in addition, for deposit-taking financial institutions, we want to implement inspections based on the manual (henceforth called the Financial Inspection Manual), which is based on the Final Report of the Financial Inspection Manual Working Group. The Final Inspection Manual puts together our basic approach to financial inspections and concrete points to note in inspections. It is set down as shown in the attachment.

The Financial Inspection Manual is at all times a guidebook to be used by inspectors inspecting financial institutions. Under the principle of self responsibility, each financial institution is to make full use of its ingenuity and resources to independently draw up its own detailed manual based on this manual, etc. according to its scale and characteristics and to work towards ensuring soundness and appropriateness in its operations. Each check item in the manual is a standard for inspectors to rate the risk management preparedness of the financial institution and its preparedness to respect laws and regulations. Financial institutions are not legally bound to achieve these standards immediately. It is necessary to give due consideration to the scale and characteristics of the financial institution in the use of the manual and to be careful not to fall into mechanical and uniform application. Even if the response of the financial institution is not exactly according to the letter of the check item description, it is not inappropriate if its response can be recognized as reasonable from the viewpoint of the soundness and appropriateness of the operations of the financial institution, if its response has the same effect as that described in the check item, or if it is sufficient for the scale and characteristics of the financial institution. Therefore, the inspector needs to have a good exchange of views with the financial institution during the on-site inspection.

This notice goes into operation on July 1, 1999, and applies to inspections with implementation dates from that date. Note that it applies to the inspection of settlement transactions implemented as from July 1, 1999 for items entailing settlement processing such as asset assessments, write-offs, and transfers to reserves etc.

The notices listed below shall be abolished as from July 1, 1999 (*2).

1. Notification dated March 5, 1999 (MOF Inspection No. 104) “Asset Assessment in Financial Inspections after Introduction of System of Early Corrective Measures”
2. Administrative notice dated June 28, 1996 “Checklist of Market-Risk Management Preparedness and Checklist for Inspection of Overseas Offices”
3. Administrative notice dated January 31, 1997 “Inspections of Computer Systems, etc. of Financial Institutions”

*1 In this notice, “financial inspection” means the inspection of a deposit-taking financial institution. A “deposit-taking financial institution” means a financial institution listed below and other deposit-taking financial institutions. It does not include insurance companies or securities companies.

- Banks
- Credit associations and federations of credit associations
- Credit cooperatives and federations of credit cooperatives
- Labor credit associations and federations of labor credit associations
- Agricultural cooperatives and federations of agricultural cooperatives
- Fishery cooperatives and federations of fishery cooperatives
- Marine product cooperatives and federations of marine product cooperatives
- *Norin Chukin* Bank
- Overseas branches of the above financial institutions
- Branches of foreign banks in Japan

*2 When a financial institution’s settlement transactions, etc. conducted on or before June 30, 1999 are inspected, note that the inspection is to be carried out in accordance with the notices, etc. that were in effect at the time of those transactions etc.