

IBA #06-07a FSA Request to Banks to Disclose Capital Adequacy (Document No.1)

SAMPLE ONLY

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The International Bankers Association prepared this translation with the intention of having the content accurately represent the Japanese original as much as possible . However, there are differences in layout and pagination from the Japanese original.

INTERNATIONAL BANKERS ASSOCIATION

Ark Mori Building, 14F
1-12-32 Akasaka
Minato-ku, Tokyo 107-6014
Japan

Telephone: (03) 5545-7511
Facsimile: (03) 5545-0502
E-mail: g-info@ibajapan.org

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Financial Services Agency (FSA) Notification No. XX

This Notification sets down the items, which are set down elsewhere by the Financial Services Agency (FSA) Commissioner, on capital adequacy based on the provisions of Article 19-2.1(v) d., etc., of the Banking Law Enforcement Regulations (Ministry of Finance Ordinance No.10 of 1982), as follows:

XX XX, 2006

Hirofumi Gomi, Commissioner, FSA

Items set down elsewhere by the FSA Commissioner on capital adequacy based on the provisions of Article 19-2.1(v) d. etc., of the Banking Law Enforcement Regulations:

Article 1 Definitions

The terms used in this Notification are based on instances of terms used in clauses (Article 19 of the March Notification of 2006; henceforth referred to as the “Capital Adequacy Notification”) that sets down standards for judging whether a bank’s capital adequacy is appropriate for its holdings of assets, etc., under the provisions of Article 14-2 of the Banking Law and in clauses (Article 20 of the March Notification of 2006; henceforth referred to as the “Consolidated Capital Adequacy Notification”) that sets down standards for judging whether a bank holding company and its subsidiary companies’ capital adequacies are appropriate for the holdings of assets, etc., in the holding company and subsidiary companies under the provisions of Article 52-9 of the Banking Law.

Article 2 Items Disclosed in Financial Year by Bank Calculating Unconsolidated Capital Adequacy

1. Of the items set down elsewhere by the FSA Commissioner on capital adequacy as specified in Article 19-2.1(v) d. of the Banking Law Enforcement Regulations (Ministry of Finance Ordinance No.10 of 1982; henceforth referred to “the Regulations”), the items that should be stated in the explanatory documents of the financial year shall be the qualitative disclosure items set down in the following Paragraph and the quantitative disclosure items set down in Paragraph 3:
2. Qualitative disclosure items shall be the items listed in the following Items:
 - i. Overview of means of raising equity capital
 - ii. Overview of methods used to evaluate a bank’s capital adequacy
 - iii. The following items on credit risk:
 - a. Overview of risk management policies and procedures
 - b. The following items on portfolios subject to the standardized approach:
 - (1) Name of the eligible credit rating agency, etc., (referring to an eligible credit rating agency, the Organization for Economic Cooperation and Development, and Export Credit Agencies; similarly below) used to calculate the risk weights and the reason if there has been a change
 - (2) Relationship between the type of exposure and eligible credit rating agency, etc., used

- c. The following items on portfolios subject to the internal ratings-based approach:
 - (1) Type of internal ratings-based approach used by the bank
 - (2) Overview of the internal rating system
 - (3) Overview of the procedure for assigning ratings to each of the following portfolios (there is no need to distinguish between (iv) and (v) in disclosures where they can be judged not to impact on the understanding of depositors, etc., of the risk characteristics of the bank's retail business):

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- (i) Corporate exposures
 - (ii) Equity exposures (limited to when the PD/LGD approach is applied in the calculation of risk assets to equity exposures)
 - (iii) Residential real estate exposures
 - (iv) Qualifying revolving retail exposures
 - (v) Other retail exposures
- iv. Overview of risk management policies and procedures for credit risk mitigation techniques
- v. The following items on securitization exposures:
 - a. Overview of risk management policies and procedures
 - b. Name of the approach used by the bank to calculate the amount of credit risk assets in securitization exposures
 - c. Accounting policies for securitization transactions
 - d. Names of the eligible credit rating agency used in the calculation of the amount of credit risk assets in securitization exposures and the relationship between the type of securitization exposure and the eligible credit rating agency used
- vi. The following items on market risk:
 - a. Overview of risk management policies and procedures
 - b. Name of the approach used to calculate the market-risk-equivalent amount. Range of portfolios using each model where the standardized approach or internal model approach is used
 - c. In light of the assumed holding period and/or the probability, etc., that the holding period is longer than assumed, the method of evaluating price appropriately for the characteristics of the transaction
 - d. The assumptions and method of evaluation used when internally valuing the capital adequacy for the market risk
 - e. Where an internal model approach is used, an overview of the model used and an explanation of back testing and/or stress testing
- vii. The following items on operational risk:
 - a. Overview of risk management policies and procedures
 - b. Name of the approach used to calculate the operational-risk-equivalent amount. Range of application of each approach when advanced measurement approaches are used partially.
 - c. The following items when an advanced measurement approach is used:
 - (1) Overview of the approach
 - (2) Whether insurance is used to mitigate risk. Where insurance is used to mitigate risk, the policies and overview of the use of insurance.
- viii. Overview of risk management policies and procedures for equity exposures in the banking book
- ix. The following items on interest rate risk in the banking book: