

Proposed Amendments to the Supervision Guidelines for Financial Conglomerates

SAMPLE ONLY

Translation of the revised sections of the Financial Services Agency's proposed amendments to the "Supervision Guidelines for Financial Conglomerates" released for public comment on June 19, 2006

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Jp1

II. Evaluation Points in Supervision of Financial Conglomerates (Viewpoints)

II-1. Business Management

To ensure the soundness and appropriateness of group financial institutions, to start with, it is important that, in each financial institution, management fully understands its own role and that an effective and responsible business management system is constructed and implemented appropriately, including the application of discipline to management. (*1)

In addition, a management company, such as a holding company in a financial conglomerate, must play a responsible role in the construction and implementation of an appropriate business management system for the group as a whole. The obligations fulfilled by the representative directors, directors and boards of directors, auditors and boards of auditors, and internal audit division are important for achieving this.

Where operations related to internal control are conducted by shared officers or employees, such concurrent job arrangements must function soundly and appropriately.

When monitoring the business management of a group in light of the above, checks of whether those functions are operating appropriately shall be based, for example, on the following viewpoints:

Jp2

*1 The supervisory authority must take particular heed when an effective and responsible business management system is deemed not to have been constructed or implemented due to the substantial participation of an individual that is not from the management of the financial institution or from its management company or of a company, etc., other than the management company of the financial institution.

Jp3

- (4) Double-hatted positions in internal control of a financial institution within a financial group

Each financial institution needs to have a system in place whereby primarily operations related to internal control are implemented independently and appropriately.

Sometimes, however, a financial institution within a financial group allows operations related to internal control to be conducted by officers or employees that are shared with the management company or another group company. The proviso in Article 45 of the Securities and Exchange Law is a provision relating to approval for the exemption of the application of the firewall measures.