

Supervision Policies for Major Banks for 2006 Program Year

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.

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Status of Policies on Supervision for Major Banks, etc. for 2006 Program Year	
<p style="text-align: center; margin: 0;"><u>Changes in Circumstances of Major Banks, etc.</u></p> <ul style="list-style-type: none"> ■ Amended Banking Law and enforcement <ul style="list-style-type: none"> ● Introduction of bank agency system under Amended Banking Law (April this year) ● Efforts to enhance and strengthen customer protection regulations through Amended Banking Law and Financial Instruments and Exchange Law ■ Efforts to strengthen measures for preventing financial crime, etc., such as implementation of Panel on Information Security (from March to June this year) ■ Changes in financial environment such as lifting of zero-interest-rate policy by Bank of Japan ■ Implementation of Basel II (New Capital Adequacy Requirements) from March 2007 quarter 	<p style="text-align: center; margin: 0;"><u>Status of Formulation of Policies on Supervision</u></p> <ul style="list-style-type: none"> ■ Formulation of Comprehensive Supervision Guidelines for Major Banks, etc. Systematic organization of the following tasks involved regarding the supervision of major banks, etc: <ol style="list-style-type: none"> (1) Basic concepts (2) Supervision evaluation items (3) Points to note on paperwork ■ Formulation of Policies on Supervision In light of changes in circumstances surrounding major banks, etc., the FSA shall efficiently pursue the ongoing rigorous and effective regulatory administration of major banks, etc., efficiently with emphasis on the three points indicated below.

Points of Emphasis		
<p style="text-align: center; margin: 0;">1. Improving awareness of user protection rules and convenience</p> <p>The major banks, etc., are engaging in various efforts such as diversifying the financial products they handle and expanding their fee-based businesses. The FSA shall supervise with an emphasis on the following points to ensure that user protection and convenience for customers are not neglected in the course of such efforts:</p> <ol style="list-style-type: none"> (1) Enhancing and strengthening explanation capabilities and facilities for advising and settling complaints; (2) Strengthening and publicizing measures for preventing financial crime, etc.; (3) Ensuring appropriateness of computer system risk management systems; (4) Developing awareness of regulatory compliance in connection with the Anti-Monopoly Law, etc. in conduct of operations; (5) Developing screening and loan management system in response to needs of borrowers; (6) Ensuring appropriate conduct of operations of bank agencies; and (7) Ensuring appropriateness of operations involved in structuring and selling structured bonds, etc. <p>Note: Information such as that from the Counseling Office for Financial Services Users is to be used proactively in this supervision.</p>	<p style="text-align: center; margin: 0;">2. Upgrading risk management, etc.</p> <p>Because of autonomous and ongoing efforts of financial institutions, it is important that risk management be performed appropriately in order to ensure soundness of financial affairs of those financial institutions. Therefore, the FSA shall supervise with an emphasis on whether efforts are being made to implement Basel II and whether efforts are being made to enhance risk management such that it supports the risk diversification associated with the expanding operations of major banks, etc.:</p> <ol style="list-style-type: none"> (1) Responding to Basel II; <ol style="list-style-type: none"> ① Calculating minimum capital ratios ② Verifying self-management of financial institutions and for supervision purposes ③ Using market discipline (2) Responding to risk diversification due to diversification of operating assets, etc.; and (3) Improving quality of equity capital. 	<p style="text-align: center; margin: 0;">3. Responding to globalization of finance, etc.</p> <p>In response to the globalization of finance, etc., the major banks, etc., are proceeding with conglomeratization and the expansion of their overseas operations. While such efforts lead to increased earnings, there is a risk that they may be somewhat out of sight of head offices, so the FSA shall supervise whether appropriate operations management is being performed with an emphasis on following points:</p> <ol style="list-style-type: none"> (1) Supervising financial conglomerates; and (2) Operations management associated with overseas operations.