

Part 1

**FSA FINANCIAL INSPECTIONS FINDINGS CASEBOOK**

**PROGRAM YEAR 2007**

*This is the first of a two-part translation on FSA Financial Inspections Findings.*

**SAMPLE ONLY**

July 2008

Inspection Bureau, Financial Services Agency

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 Japanese original released by the Financial Services Agency supersedes this translation, should there be discrepancies or differences between the Japanese and the English versions.

The International Bankers Association prepared this translation with the intention of having the content accurately represent the Japanese original as much as possible. However, four sections have been excluded and 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, Japan 107-6014

Telephone: (03) 5545-7511  
Facsimile: (03) 5545-0502  
Email: [g-info@ibajapan.org](mailto:g-info@ibajapan.org)  
Website: [www.ibajapan.org](http://www.ibajapan.org)

**COLLECTION OF CASES CITED IN FINANCIAL INSPECTIONS**  
**(Inspection Bureau Program Year 2007)**

JULY 2008

INSPECTION BUREAU, FINANCIAL SERVICES AGENCY

<Table of contents>

<b>&lt;Introduction&gt;</b> .....	2
<b>&lt;Deposit-taking financial institutions&gt;</b>	
I. Management (governance) capabilities – The basic elements .....	5
II. Compliance capabilities .....	15
III. Customer protection and control capabilities .....	28
IV. Integrated risk management capabilities	
V. Equity capital management capabilities	
VI. Credit risk management capabilities .....	40
(Including rated cases concerning business restructuring for small and medium sized enterprises and regional revitalization)	
VII. Asset assessment management capabilities	
VIII. Market risk management capabilities .....	53
IX. Liquidity risk management capabilities .....	64
X. Operational risk management capabilities .....	73
XI. Other (trust business) .....	87
<b>&lt;Insurance companies&gt;</b>	
<b>&lt;Financial holding companies&gt;</b> .....	91
<b>&lt;Inspections resulting in an administrative sanction&gt;</b> .....	94

(Note) Sections highlighted in gray were purposely excluded from this translation.

The full text, in Japanese, is available at: <http://www.fsa.go.jp/news/20/20080704-2/01.pdf>

**<Introduction>**

This collection of cases identified through financial inspections has been prepared and published with the aim of further improving the transparency and predictability of financial administration and encouraging financial institutions to strengthen their internal control capabilities based on the principle of self-responsibility.

In its basic inspection policy for Program Year 2007 (July 2007 to June 2008), the Inspection Bureau of the Financial Services Agency established the following areas of emphasis for inspections:

- 1) Establishment of risk management capabilities in consideration of the characteristics of risks and changes in the financial environment;
- 2) Realization of the effective protection of users;
- 3) Appropriate responses to the globalization of financial transactions;
- 4) Measures for structural changes concerning regional finance.

Priority issues according to business type listed on page 4 were also used in the inspection as major points of emphasis.

This collection of cases has been prepared on the basis of cases assessed and cited in inspections conducted in Program Year 2007. It includes parts of cases identified by inspections carried out during Program Year 2006 based on the above policy.

In this collection of identified cases, “Grade A” cases have been introduced to promote improvement in the quality of financial regulations and to offer incentives for financial institutions to improve business and management in an autonomous and sustained manner. “Grade B” cases, which account for slightly more than 60% of the results of the evaluation, are classified into three levels for comparison purposes: “Grade B close to A,” “Grade B average” and “Grade B close to C” (see Note 1). In addition to areas of concern, the area of forward-looking evaluation is introduced. This involves the steps taken by small and medium sized enterprises towards business restructuring and improvements in cases identified in the previous inspection.

Following revision of the financial inspection manual, cases evaluating business management capabilities and integrated risk management capabilities are introduced, along with cases identified in the inspection of financial holding companies.

In consideration of the “measures to be implemented at an early stage to strengthen growth potential” (resolved by the Ministerial Conference on Economic Measures on April 4, 2008), which recognize financial institutions’ efforts towards the restructuring of companies, cases which resulted in the restructuring and revitalization of small and medium sized enterprises are also introduced (see Note 2).

The number of cases introduced has therefore increased significantly from the previous year to 65 evaluation cases and 341 identified cases, showing further improvement (see Note 3).