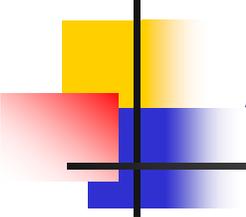


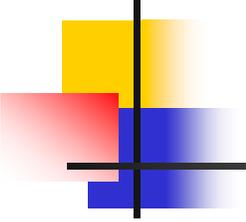
Macro-prudential Approach of Financial Inspection

Kiyotaka Sasaki
Deputy Director General
Inspection Department
FSA



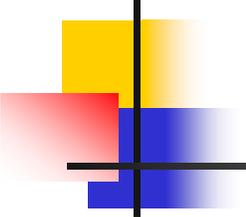
Current environment for financial industry

- **Economic conditions in Japan**
- **Post-earthquake; power constraints**
- **Uncertainties of global economy; US and Europe**
- **Increasing volatility in financial markets; exchange rate, stock prices...**
- **Global regulatory reforms**



Continuing Better Regulation

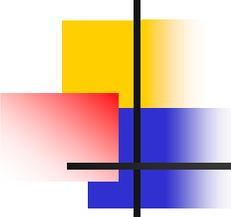
- 1. Focus on material risks**
- 2. In depth analysis of issues**
- 3. Evaluation of effectiveness of risk management; both negative and positive**
- 4. Accountability and transparency**
- 5. Closer communication with entities**



Cooperation with relevant stakeholders

For more efficient and effective inspection,

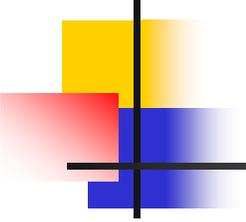
- **Bank of Japan**
- **Foreign supervisors**
- **SRO; stock exchanges..**
- **CPAs**
- **Lawyers**
- **Industry associations**
- **Other stakeholders for financial stability**



Horizontal analysis of inspection results

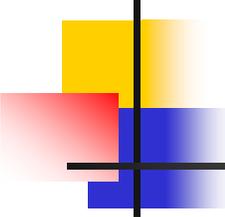
In addition to inspection assessment reports provided to each firm, horizontal analysis of inspection results

- **Identify common issues and trends across firms and industry**
- **Policy implications ; rules and regulations**
- **Identify potential risks to financial system as a whole (macro prudence)**
- **Dissemination and feed back to firms on the above, as well as FSA's concerns and perspectives**



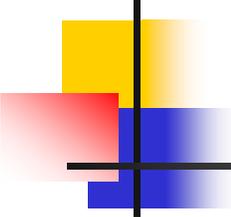
Example of horizontal analysis:

- **Cloud computing**
- **Global liquidity problems**
- **Impact of European sovereign crisis to financial system**
- **Expanding exposures of Japanese banks to overseas, in particular, Asia**



Risk Management (1)

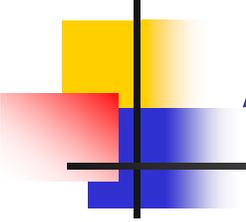
1. Enterprise risk management
 - Weakness and limits of current risk measurement
 - Stress testing including worst risk scenario
 - Management response based on stress test results



Risk Management (2)

2. Credit risks

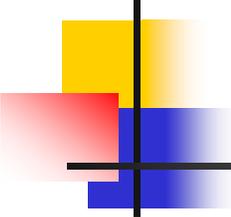
- **Large exposures**
- **Complex forms of credits**
- **Overseas lending**
- **Credit ratings and internal models**
- **Inherent risks for housing loans and mortgages**



Risk Management (3)

3. Market risks

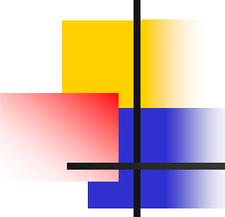
- **Ceilings and loss cut rules**
- **Coverage of risks**
- **Measurement of risks in response to market volatility**



Risk Management (4)

4. Liquidity risks

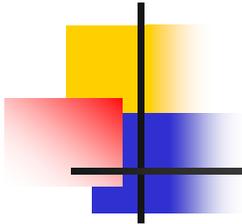
- **Global liquidity risk management; accountability of overseas branches to local supervisors**
- **Yen funding in Japan and transfer/lending to parent company or group entities**
- **Increased attention to foreign banks in the current market conditions**



Risk Management (5)

5. IT risks

- **IT disruptions; wider impact to customers and financial system as a whole**
- **FSA's request for overhaul of IT risks (July 2011)**
- **Top management's commitment**
- **BCP and contingency plan, including external vendors and parties**



Thank you !

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