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Response after Discontinuance of Financial Inspection Manual

Financial institutions are expected to incorporate current and future information and their own bank characteristics into their business practices.

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Summary

- On December 18, 2019, the Financial Services Agency (FSA) formulated its "Concept and Policies for Inspection and Supervision of Loans after Discontinuance of Inspection Manual." In conjunction with this, the inspection manual was discontinued on the same day.
- The Inspection Manual was a manual used by inspectors of the FSA to evaluate financial institutions, and was used by financial institutions to draw up policies and internal rules based on the manual in order to ensure the soundness and appropriateness of their business operations. However, there were arguments that it should be discontinued because of problems such as a uniform checklist and evaluation focused on past performance.
- It was decided that after discontinuance, inspections and supervision of loans should be conducted according to the individual characteristics of the financial institution. In addition, the policy was set to take into account not only past achievements but also future-oriented credit risks, which are to be grasped through dialogue and other means.
- In addition to reflecting current and future risk information, the policy for estimating reserves is to group together claims with unique characteristics due to changes in the internal and external environment, and to make collective estimates after that.
- After discontinuing the inspection manual, financial institutions need to be aware of the importance of reflecting their own characteristics, the external environment, and past, current, and future information in their business practices, rather than passing the conventional uniform checklist for loan and reserve estimates.