



# **Progress in Initiatives for Further Strengthening Coordination between the Financial Services Agency and the Bank of Japan**

June 2022

Financial Services Agency and Bank of Japan

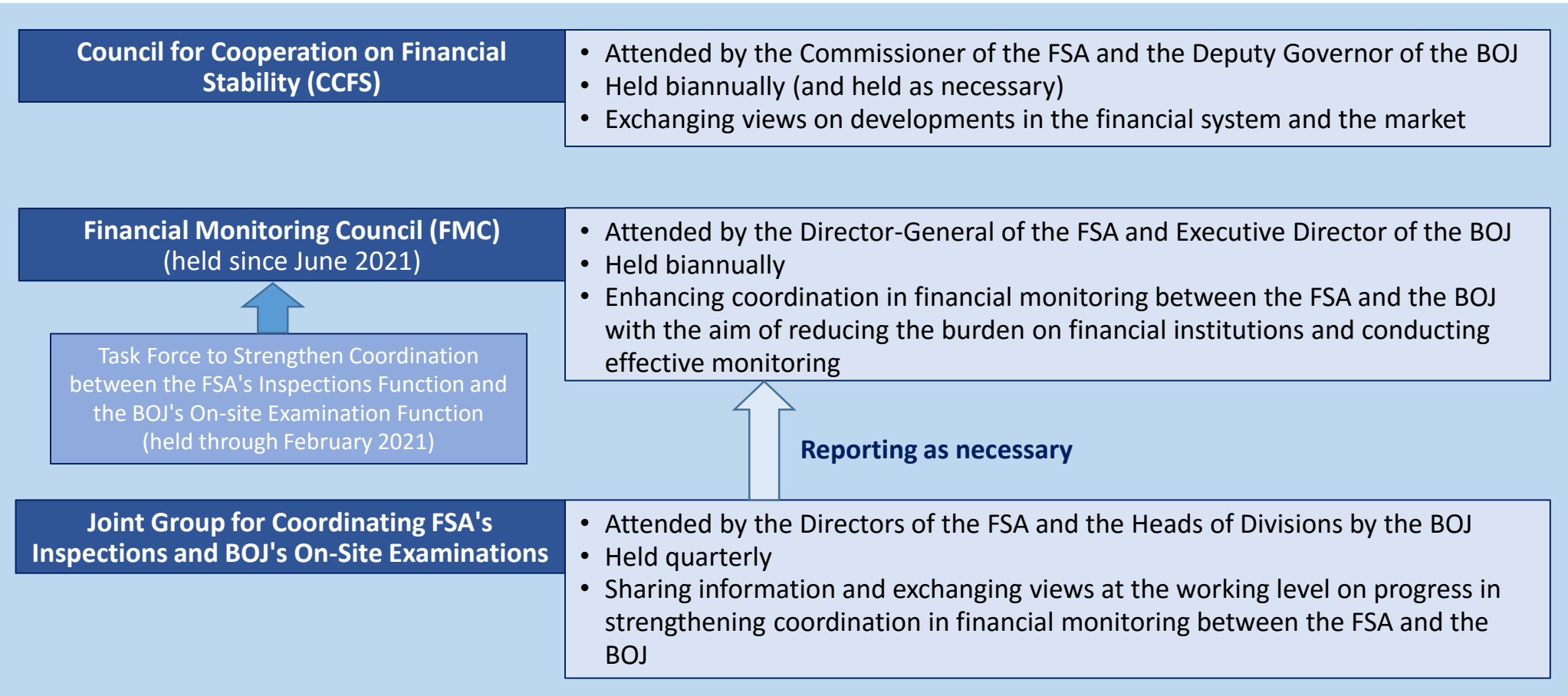
(English translation released in July 2022)

## Past developments

- With a view to **conducting higher-quality monitoring and reducing the burden on financial institutions by further strengthening coordination**, the Financial Services Agency (FSA) and the Bank of Japan (BOJ) established **the Task Force to Strengthen Coordination between the FSA's Inspections Function and the BOJ's On-site Examination Function** in November 2020 and started to deliberate on specific issues.
- In March 2021, the two entities released "**Initiatives for Further Strengthening Coordination between the Financial Services Agency and the Bank of Japan**," which outlined the progress in such deliberations and future initiatives to be made.
- **This document outlines the progress made since March 2021.**

(See Appendix for more details on past developments.)

Topic	Progress
Financial Monitoring Council (FMC)	<ul style="list-style-type: none"> <li>Established in June 2021 by the FSA and the BOJ and held at the senior level to promote initiatives toward further strengthening their coordination. Held three times through June 2022.</li> </ul>



#### (1) Frameworks

Topic	Progress
Joint Group for Coordinating FSA's Inspections and BOJ's On-Site Examinations	<ul style="list-style-type: none"> <li>● Held quarterly since December 2020. Have coordinated the planning of the FSA's inspections and the BOJ's on-site examinations and shared awareness on important topics.</li> </ul>
Sharing the findings of FSA's inspections and BOJ's on-site examinations	<ul style="list-style-type: none"> <li>● Have revised the FSA's supervisory guidelines and the BOJ's internal procedures. Have started sharing the findings of inspections and on-site examinations of, in principle, all major banks and regional financial institutions from July 2021.</li> </ul>
Meetings with the financial industry	<ul style="list-style-type: none"> <li>● Held a meeting to exchange views among the FSA, the BOJ, and the financial industry in March 2022 in order to ensure the effective implementation of the coordination in monitoring; had dialogue with the industry on the assessment of past and ongoing efforts to strengthen coordination in monitoring as well as on the request for further reducing the burden on financial institutions.</li> </ul>

## (2) Major banks

Topic	Progress
Sharing risk recognition and exchange of opinions	<ul style="list-style-type: none"> <li>● Have regularly and flexibly exchanged opinions as well as shared risk recognition between the FSA's dedicated teams conducting year-round inspections and the BOJ's off-site monitoring sections.</li> <li>● Based on the exchange of opinions on changes in the economic and market environments, have jointly conducted interviews with financial institutions and requested submission of documents based on common interests, while taking into account the institutions' requests.</li> </ul>
Joint surveys	<ul style="list-style-type: none"> <li>● Are conducting joint surveys on the three megabanks or other major banks on topics in which both the FSA and the BOJ are especially interested, such as supervisory simultaneous stress testing based on common scenarios, foreign currency liquidity, and cybersecurity (these topics are excluded from the scope of the BOJ's on-site examinations).               <ul style="list-style-type: none"> <li>-- Pilot exercises of climate scenario analysis based on common scenarios have also been conducted.</li> </ul> </li> </ul>
FSA's year-round inspections and BOJ's on-site examinations	<ul style="list-style-type: none"> <li>● Have arranged the schedule for the BOJ's on-site examinations during the FSA's year-round inspections, taking account of the burden on examinee financial institutions.</li> <li>● The BOJ has shared awareness of issues and exchanged opinions with examinee financial institutions in advance and conducted on-site examinations, while (1) avoiding overlapping with the joint surveys and off-site monitoring (narrowing down the scope of examinations), (2) streamlining data submission, and (3) flexibly deciding the schedule of examinations.</li> </ul>

## (3) Regional financial institutions

Topic	Progress
Regular exchange of opinions	<ul style="list-style-type: none"> <li>● Have regularly exchanged opinions and shared awareness of issues between the FSA's inspection sections and the BOJ's off-site monitoring sections.</li> </ul>
FSA's inspections and BOJ's on-site examinations	<ul style="list-style-type: none"> <li>● Have shared information and made arrangements regarding the planning of inspections and examinations in order to contribute to effective and efficient monitoring, while also taking account of how long it has been since the previous inspections/examinations.</li> </ul>
Anti-money laundering	<ul style="list-style-type: none"> <li>● Have shared awareness and perspectives between the FSA and the BOJ and examined whether financial institutions have developed frameworks to maintain public confidence.</li> </ul>
Cybersecurity	<ul style="list-style-type: none"> <li>● Have deliberated on initiatives to strengthen regional financial institutions' cybersecurity (a questionnaire for self-assessment of cybersecurity management frameworks will be distributed to these institutions in late June by the FSA and the BOJ).</li> </ul>

#### (4) Other

Topic	Progress
Transition from LIBOR	<ul style="list-style-type: none"><li>● Have conducted surveys and monitoring on financial institutions' use of LIBOR and the transition from LIBOR. Released the FSA and the BOJ's views on the issue.</li><li>● The transition from JPY LIBOR was almost completed by the end of 2021.</li></ul>

## (1) Reviewing data templates and improving efficiency of data collection

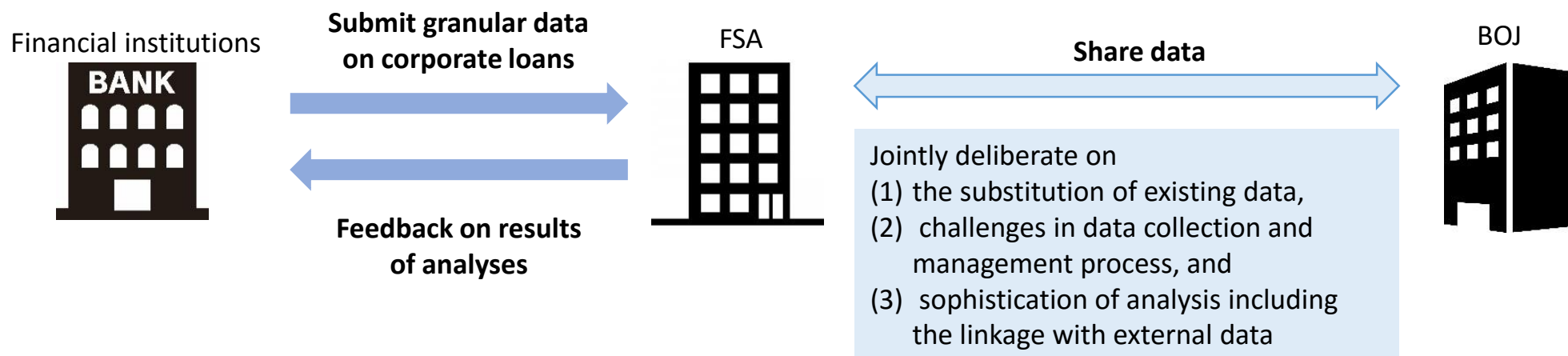
Topic	Progress
Integration and abolition of data templates	<ul style="list-style-type: none"> <li>● Have decided to integrate and abolish data templates, taking into account requests from the financial industry, with the exception of those for which the integration/abolition is difficult due to aggregation reasons (have already abolished and revised some data templates by April 2022 and are planning to do so for the remaining templates).</li> </ul>
Unification of submission destinations	<ul style="list-style-type: none"> <li>● The FSA has developed a server through which it can share files submitted by the financial industry with the BOJ. From April 2022, the FSA and the BOJ started to exchange some files that contain data using common templates via the server.</li> <li>● For other data using common templates, will start to unify submission destinations using the server from April 2023.</li> </ul>



## (2) Collecting and using granular data

Topic	Progress
Common data platform	<ul style="list-style-type: none"> <li>● Have started to engage in joint research, such as carrying out surveys on overseas developments and conducting interviews with financial institutions. The FSA released an outsourced survey report in April 2022.</li> <li>● Will start a joint experiment in fiscal 2022 based on the results of surveys on overseas developments.</li> <li>● In the experiment, will collect granular data from some financial institutions on a trial basis and deliberate on the substitution of existing data with a view to reducing the burden on financial institutions and on the enhancement of monitoring capabilities.</li> </ul>

### < Illustration of the experiment >



### Topic

Screening for a bank license and BOJ current account transactions

### Progress

- Have conducted joint interviews with an applicant financial institution on system-related issues regarding the FSA's screening for a bank license and the BOJ's screening for its current account transactions.

### Achievements to date

- Based on the recognition that it is becoming increasingly important for the FSA and the BOJ to conduct higher-quality monitoring (including inspections and on-site examinations) and reduce the burden on financial institutions, since November 2020, the two entities have deliberated on ways to further strengthen their coordination and have undertaken various initiatives. Through these initiatives, [the following achievements have been made](#).
- ✓ Establishment of coordination frameworks has enabled the FSA and the BOJ [to respond flexibly to market changes, etc. Information on monitoring shared between the two entities has increased](#) and they have [deepened analysis and discussions at various levels and in a more multifaceted manner](#).
- ✓ In joint surveys, [a number of new types of risks and room for improvement in risk management have been discovered](#). Learning from each other and making use of their strengths have led to [enhancing monitoring methods](#).
- ✓ The two entities have steadily stepped up [efforts toward reducing the burden on financial institutions](#) by, for example, integrating and abolishing data templates, unifying submission destinations, and reviewing submission of documents in the BOJ's on-site examinations.

### Going forward

- With a view to appropriately addressing changes in the environment surrounding the financial system, [it remains important for the FSA and the BOJ to achieve high-quality monitoring in an efficient manner through their coordination](#). They will continue to push forward with initiatives toward strengthening coordination.

October 2020	The Liberal Democratic Party's Treasury and Finance Division and Research Commission on the Finance and Banking Systems released a proposal on the integration of the FSA's inspections and the BOJ's on-site examinations.
November 2020	The two entities established the Task Force to Strengthen Coordination between the FSA's Inspections Function and the BOJ's On-site Examination Function.
December 2020	The two entities established the Joint Group for Coordinating FSA's Inspections and BOJ's On-Site Examinations (held six times through June 2022).
March 2021	The two entities released "Initiatives for Further Strengthening Coordination between the Financial Services Agency and the Bank of Japan."
June 2021	The two entities established the Financial Monitoring Council (held three times through June 2022).
August 2021	The FSA released "The JFSA Strategic Priorities July 2021-June 2022."
March 2022	The two entities held a meeting to exchange views with the financial industry. The BOJ released the "On-Site Examination Policy for Fiscal 2022."
April 2022	The FSA released an outsourced survey report as part of basic research for the establishment of a common data platform between the FSA and the BOJ .

