

# Checklist for Customer Protection Management

## I. Development and Establishment of Customer Management System by the Management

### 【Checkpoints】

- “Customer Protection” as referred to in this checklist covers (1) to (5) below, and “Customer Protection Management” refers to management necessary for achieving (1) to (5) from the viewpoint of protecting customers of financial institutions and enhancing customer convenience.

(1) Securing the provision of appropriate and sufficient explanations to customers with regard to credit transactions (loan contracts and related collateral and guarantee contracts), deposit-taking as well as sales, brokerage and offer of products (hereinafter referred to as “Transaction”)

(2) Securing appropriate processing of inquiries, consultation requests, requests in general and complaints from customers (hereinafter referred to as “Consultation Requests, Complaints, etc.”)

(3) Securing appropriate management of customer information in order to prevent information leakage

(4) In the case where financial institution’s business outsourced, securing the accuracy of the implementation of the outsourced operations and securing appropriate management of customer information and appropriate handling of customers

(5) Securing appropriate management of other operations determined by a financial institution as necessary for protecting customers and enhancing customer convenience

- The development and establishment of a Customer Protection Management System at a financial institution is not only important from the viewpoint of protecting users of the institution including depositors (hereinafter referred to as the “Customer”) and enhancing their convenience but it is also extremely important from the viewpoint of ensuring the soundness and appropriateness of the institution’s business. Therefore, the institution’s management is charged with and responsible for taking the initiative in developing and establishing such a system.

- With regard to the Customer Protection Management, it is important for a financial institution’s management as well as the other officers and employees to review their own business operations from the Customer’s standpoint and to constantly review and improve the business operations. It is also important that they fully understand that public confidence in financial institutions is based on such constant review efforts.

- The descriptions in this checklist are based on the assumption that the roles of and responsibilities for developing a system for each business concerning Customer Protection and ensuring the effectiveness thereof rests with the Manager in charge of the relevant business. There are other various organizational frameworks for Customer Protection Management. For example, a financial institution may establish a dedicated division or department in charge of Customer Protection Management, or assign persons in charge of such management to divisions and departments which require Customer Protection, including the Marketing and Sales Division. In such cases, it is necessary to review whether the system of Customer Protection is effectively functioning based on the empirical review and analysis as to whether an adequate number of persons with the knowledge and experience necessary for implementing the relevant operation are allocated and whether they are assigned the authority necessary for implementing the operation.

- The inspector should determine whether the Customer Protection Management System is functioning effectively and whether the roles and responsibilities of the institution's management are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether or not the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) development of a system for assessment and improvement activities.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

## **1. Policy Development**

### **(1) Roles and Responsibilities of Directors**

Do directors attach importance to Customer Protection, based on full recognition of the importance of Customer Protection and enhancement of customer convenience? In particular, does the director in charge of Customer Protection Management accurately grasp the current status of the financial institution's Customer Protection based on full understanding of the importance of Customer Protection Management and is the director considering a policy and specific measures for developing and establishing an appropriate system for Customer Protection Management?

## **(2) Development and Dissemination of Customer Protection Management Policy**

Has the Board of Directors developed a management policy regarding Customer Protection and enhancement of customer convenience (hereinafter referred to as the "Customer Protection Management Policy." When there are two or more policies, they are also collectively referred to as the "Customer Protection Policy.") in accordance with the institution's corporate management policy and disseminated it throughout the institution? Is the Customer Protection Management Policy sufficient and appropriate for Customer Protection, with the inclusion of clear statements with regard to the following matters in particular?

### **(i) Management Policy concerning Following Matters Necessary for Customer Protection**

- Securing appropriate and sufficient explanations and information provision for the Customer with regard to Transactions and products (hereinafter referred to as "Customer Explanation")
- Securing appropriate and sufficient handling of Consultation Requests, Complaints, etc. (hereinafter referred to as the "Customer Support")
- Securing appropriate management of information concerning the Customer (hereinafter referred to as the "Customer Information Management")
- Securing appropriate management of customer information and appropriate handling of the Customer in the case where the institution's business are outsourced (hereinafter referred to as the "Outsourcing Management")
- Securing appropriateness of other business operations determined by the Board of Directors as necessary for Customer Protection and enhancement of customer convenience.

(ii) Scope of the Customers (e.g. the Customers "include people who are users of the financial institution's business and people who are ready to become users.")

(iii) The Scope of Business Operations Requiring Customer Protection

## **(3) Revision of the Policy Development Process**

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

## **2. Development of Internal Rules and Organizational Frameworks**

### **(1) Development and Dissemination of Internal Rules**

Has the Board of Directors or equivalent organization to the Board of Directors had the Managers in charge of operations concerning Customer Protection Management develop internal rules that clearly specify the arrangements on the management of Customer Explanation and Customer Support as well as Customer Information Management and Outsourcing Management ( hereinafter referred to as the Customer Protection Management Rules ) in accordance with the Customer Protection Management Policy?<sup>1</sup> Has the Board of Directors or equivalent organization to the Board of Directors approved the Customer Protection Management Rules and disseminated them throughout the institution after determining if they comply with the Customer Protection Management Policy after legal checks, etc.?

### **(2) Assignment of Managers and Assigning of Authority**

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to have the Managers specified below appointed, stipulated the responsibilities and authority of the Managers and allocated appropriate roles to them in accordance with the Customer Protection Management Policy and the Customer Protection Management Rules? Do the Managers have sufficient knowledge and experience for the business they are in charge?<sup>2</sup>

- The Manager in charge of supervising overall management of explanations to the Customer in order to develop and establish a system for securing appropriate explanations to the Customer (hereinafter referred to as the “Customer Explanation Manager”)
- The Manager in charge of overseeing the status of progress in the processing of Consultation Requests, Complaints, etc. and the issuance of relevant instructions in an integrated manner by putting together information concerning Customer Support under

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<sup>1</sup> The Customer Protection Management Rules may not be available as a single set of rules in some cases, and they may be integrated with the compliance manual, etc. in other cases. The inspector should empirically review, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are fully disseminated to personnel who should be acquainted with them, upon approval by the Board of Directors, thus ensuring an effective system of Customer Protection.

<sup>2</sup> When the Manager in charge of one of the operations concerning Customer Protection concurrently serves as the Manager in charge of another such business or in a post (including the Manager post) at a division not related to Customer Protection, the inspector should pay attention to whether such a system is reasonable in light of the scale and nature of the business operations concerned and whether an equivalent level of Customer Protection functions is secured compared with the case where a dedicated Manager is appointed. With regard to Customer Explanation, for example, two or more Customer Explanation Managers may be appointed. In such a case, the inspector should review whether the areas of responsibility are clearly defined with methods such as having the Managers jointly bear the responsibility for the overall Customer Management business operation or having one of the Managers bear this responsibility.

unified control (hereinafter referred to as the “Customer Support Manager”)

- The Manager in charge of overall supervision of Customer Information for the development and establishment of an appropriate system for Customer Information Management (hereinafter referred to as the “Customer Information Supervisory Manager”).
- The Manager in charge of supervising the management of customer information and the handling of the Customer in the case where the institution’s operations are outsourced. (hereinafter referred to as the “Outsourcing Manager”)

### **(3) Securing of Check-and-Balance System**

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure an effective check and balance against the Managers specified above? In particular, in the case where a Manager responsible for one operation also takes charge of another operation, it is necessary to conduct a review by paying attention to whether or not there is a system to prevent interference from the Marketing and Sales Division, etc.

### **(4) Development of Customer Protection Management System at Marketing and Sales Division, Etc.**

- (i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to disseminate internal rules and operational procedures to the divisions, departments and employees whose operations require Customer Protection Management, including the Marketing and Sales Division, etc., and have them observe the rules and procedures? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Managers to take concrete measures such as specifying the internal rules and operational procedures that must be observed by the Marketing and Sales Division, etc. and conducting effective training on a regular basis?
- (ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure, through the Managers, appropriately and sufficiently effective Customer Protection Management at the Marketing and Sales Division, etc? With regard to Customer Explanation, for example, are there in place such useful measures as assigning a person in charge of the explanation to the Marketing and Sales Division, etc. for coordination with the Customer Explanation Manager?<sup>3</sup>

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<sup>3</sup> When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or a post, whether or not this arrangement is reasonable in terms of a check-and-balance system and other aspects.

(iii) Does the Board of Directors or equivalent organization to the Board of Directors assign a person in charge of managing customer information at each division and department and specify the responsibilities and authority thereof? Does the person have sufficient knowledge and experience for the relevant business?

**(5) Ensuring Customer Information Protection at Outsourcing Contractors**

- (i) Has the Board of Directors or equivalent organization to the Board of Directors clearly specified the rules concerning the handling of customer information by outsourcing contractors operating under outsourcing contracts (hereinafter referred to as the “Outsourcing Contractors”) in a manner suited to the nature and quantity of the customer information handled?
- (ii) Has the Board of Directors or equivalent organization to the Board of Directors specified the department that is responsible for supervising the Outsourcing Contractor and assigned a person in charge of managing customer information to the department?
- (iii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure verification of Customer Information Management at the Outsourcing Contractor on a regular basis?
- (iv) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that measures for protecting customer information are appropriately disseminated to the Outsourcing Contractor and that accidents, etc. at the contractor are reported to the department in charge promptly and accurately?

**(6) Arrangement for System of Reporting to Board of Directors and Approval**

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters to be reported and approved and does it have the relevant Manager report the current status to the Board of Directors or equivalent organization to the Board of Directors or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters in a regular and timely manner or on an as needed basis? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors any matters that would seriously affect corporate management or significantly undermine customer interests without delay?

**(7) Arrangement for System of Reporting to Corporate Auditor**

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and do they provide a system to ensure that the Managers in charge of operations concerning Customer Protection Management reports

directly to the auditor?<sup>4</sup>

#### **(8) Development of Internal Audit Guidelines and an Internal Audit Plan**

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to Customer Protection, develop guidelines that specify the matters subject to internal audit procedures (hereinafter referred to as the “Internal Audit Guidelines”) and internal audit plan, and approve them?<sup>5</sup>

#### **(9) Revision of Development Process of Internal Rules and Organizational Frameworks**

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

### **3. Assessment and Improvement Activities**

#### **1) Analysis and Assessment**

##### **(1) Analysis and Assessment of Customer Protection Management**

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the Customer Protection Management system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of Customer Protection Management and assessing the effectiveness of Customer Protection Management, based on all of the information available regarding the status of Customer Protection Management, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by, for example, establishing fact findings committees, etc. consisting of non-interested persons?

##### **(2) Revision of the Analysis and Assessment Processes**

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?

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<sup>4</sup> It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

<sup>5</sup> The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

## **2) Improvement Activities**

### **(1) Implementation of Improvements**

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the Customer Protection Management system identified through the analysis, assessment and examination referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

### **(2) Progress Status of Improvement Activities**

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

### **(3) Revision of the Improvement Process**

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of Customer Protection Management in a regular and timely manner or on an as needed basis?



## **II. Development and Establishment of Customer Protection Management System by Managers**

### **【 Checkpoints 】**

- This chapter lists the check items to be used when the inspector examines the roles and responsibilities that must be performed by the Managers in charge of business operations concerning Customer Protection Management.
- The descriptions in this checklist are based on the assumption that the roles of and responsibilities for developing a system for each business operation concerning Customer Protection and ensuring the effectiveness thereof rests with the Manager in charge of the relevant business. Given that the role that must be performed by each Manager is extensive, a dedicated division or department in charge of Customer Protection Management may be established or persons in charge of Customer Protection Management may be assigned to divisions and departments that require Customer Protection Management, including the Marketing and Sales Division, in the case where the Board of Directors determines that the Manager alone would not be sufficient to secure effective Customer Protection. In such a case, it is necessary to confirm whether the Customer Protection system is functioning effectively based on the empirical review and analysis as to whether an adequate number of persons with the knowledge and experience necessary for implementing the business are allocated and whether they are assigned the authority necessary for implementing the business.
- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.
- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

### **1. Customer Explanation Management System**

## **1) Development of Internal Rules**

### **(1) Development and Dissemination of Customer Explanation Management Rules and Customer Explanation Manual**

- (i) Does the Customer Explanation Manager fully understand the areas and types of business which require appropriate and sufficient Customer Explanation and the management method thereof?
- (ii) Has the Customer Explanation Manager, in accordance with the Customer Protection Management Policy, specified the business which require appropriate and sufficient Customer Explanation, decided the method of monitoring with regard to Customer Explanation and developed internal rules that clearly define the arrangements for managing those business (hereinafter referred to as the “Customer Explanation Management Rules”)?
- (iii) With regard to the procedures that must be followed by persons who provide explanations to customers, has the Customer Explanation Manager, in accordance with the Customer Protection Management Policy and the Customer Explanation Management Rules, developed operational procedures (hereinafter referred to as the “Customer Explanation Manual”) that clearly define the scope of Customers to whom explanations must be provided as well as Transactions and products which must be explained, the management method thereof, the matters and procedures that must be reviewed and the judgment criteria, or has the Manager had another division developed such operational procedures, and then reviewed the appropriateness thereof?<sup>6</sup>
- (iv) Have the Customer Explanation Management Rules been approved by the Board of Directors and disseminated throughout the institution after they have been verified through legal checks, etc. as sufficiently taking account of the Laws (including but not limited to laws and regulations, etc.; hereinafter to as the “Laws”) that concern Customer Explanation and exhaustively covering the applicable Laws?

### **(2) Customer Explanation Management Rules**

Do the Customer Explanation Management Rules exhaustively cover the necessary arrangements for managing the business which require appropriate and sufficient Customer Explanation in a manner befitting the nature of the business and appropriately specify those

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<sup>6</sup> It should be noted that the Customer Explanation Management Rules and the Customer Explanation Manual should not necessarily be compiled separately. At some financial institutions, such rules and manuals are integrated into the compliance manual. At other institutions, several rules and manuals are available according to the types of products and business. The inspector should review, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are disseminated throughout persons in charge of Customer Explanation upon approval from the Board of Directors, thus ensuring effective Customer Explanation.

arrangements, for example by clearly defining the organizational framework for the management as well as the allocation of the relevant authority and roles and the management method. Do the rules clearly specify the following items in particular?

- Arrangements on the organizational framework for Customer Explanation (including the authority and roles of a division or a person in charge of managing Customer Explanation in the case where there is such a division or person).
- Arrangements on the matters that must be observed by persons who provide Customer Explanation (e.g. the arrangements on the necessary capabilities such as the knowledge level required for persons in charge of Customer Explanation, the confirmation of the Customer's attributes, the explanation of important matters to be provided after the confirmation of the Customer's attributes and before the conclusion of the contract, the follow-up after the conclusion of the contract, etc.)
- Arrangements on the representation of risks inherent in the Transactions and products handled by the financial institution
- Arrangements on the representation of important matters other than the risks mentioned above that must be explained in a manner suited to the attributes of the Customer
- Arrangements on the screening and approval of new products
- Arrangements on the sharing and use of information necessary for Customer Protection
- Arrangements on the reporting to the Board of Directors or equivalent organization to the Board of Directors
- Arrangements on coordination and communication with the Compliance Control Division
- Arrangements on the reporting from persons in charge of sales or management of Customer Explanation to the Customer Explanation Manager

### **(3) Customer Explanation Manuals**

Does the Customer Explanation Manual exhaustively cover the procedures for Customer Explanation, including the detailed procedures concerning the explanation of important matters suited to the knowledge and experience as well as the status of assets of the Customer, in accordance with the contents and method of the financial institution's business? Are those procedures stipulated in detail in an easy-to-understand manner? For example, does the Customer Explanation Manual enable persons in charge of Customer Explanation to provide explanations to and deal with the Customer in an appropriate and sufficient manner by stipulating the following matters according to the characteristics of the relevant Transaction and product?<sup>7</sup>

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<sup>7</sup> When the Customer Explanation Manual fails to stipulate necessary matters sufficiently, the inspector should review whether appropriate and sufficient explanations to the Customer are ensured by verifying the contents of the manual and training, etc. from a comprehensive perspective.

(i) Specification of Risks

- The types of Transactions and products that are handled by the financial institution and that require explanations to the Customer.
- The types and quantities of risks involved in Transactions and products (e.g. principal loss risk, interest rate risk and maximum loss amount)

(ii) Confirmation of Customer Attributes

- Procedures for the confirmation of customer attributes (which refer to the knowledge and experience as well as the status of assets, etc. of the Customer. More specifically, the attributes include the Customer's age, presence or lack of investment experience, length of the investment experience, the level of understanding concerning risks, the composition of the current financial assets and the amount of each type of asset, risk tolerance and information concerning other necessary attributes)
- Procedures for the confirmation of the compatibility between the risks involved in the Transactions and products and the Customer's attributes (including compilation of records on how the relevant judgment was made).

(iii) Procedures to be taken between Confirmation of Customer Attributes and Contract

Conclusion

- Code of conduct concerning the solicitation of customers (e.g. code of conduct concerning abuse of a superior position, misleading explanation and prevention of Transactions with tie-in provisions)
- Explanation of important matters that must be explained to the Customer to seek the understanding thereof (e.g. explanation of details of Transactions and products and principal loss and other risks, procedures and fees necessary for the contract termination, etc.)
- Compilation and storage of records on the negotiations, etc. concerning Transactions
- Cases that require the provision of a document to the Customer and procedures for the document provision.
- Contents of the document to be provided to the Customer
- Procedures for confirming the Customer's understanding and contents of the confirmation document to be obtained from the Customer.
- Destination of submission of records on Customer Explanation and procedures for checking the contents of the records
- Procedures for rejecting an application from the Customer

(iv) Procedures after Contract Conclusion

- Procedures for follow-up confirmation of the conclusion and implementation of the contract

- Procedures for follow-up reviews of the appropriateness and sufficiency of the Customer Explanation.
- Policy concerning coordination with persons at other divisions with regard to Consultation Requests, Complaints, etc.
- Procedures for communicating information to the Compliance Control Division
- Procedures for providing information concerning Customer Support

## **2) Implementation of Customer Explanation Management**

### **(1) Development of Customer Explanation Management System**

Does the Customer Explanation Manager ensure appropriate and sufficient Customer Explanation by having persons who provide Customer Explanation observe the Customer Explanation Management Rules, the Customer Explanation Manual and other rules and arrangements concerning Customer Explanation and implement specific measures for securing the effectiveness of the explanation?

Does the Customer Explanation Manager issue instructions to divisions engaged in relevant business and sales branches with regard to specific measures for securing appropriate and sufficient Customer Explanation and manage them in ways to ensure that Customer Explanation is made appropriately and sufficiently at each division?

### **(2) Guidance and Supervision**

Does the Customer Explanation Manager appropriately manage persons in charge of Customer Explanation as well as divisions engaged in relevant business and sales branches by providing guidance and supervision to them so as to secure appropriate and sufficient Customer Explanation?

### **(3) Dissemination of Customer Explanation Manual via Training**

Does the Customer Explanation Manager endeavor to fully disseminate the Customer Explanation Manual to employees by conducting training on a regular basis? When the Customer Explanation Manual is revised, does the Customer Explanation Manager take measures accordingly, such as disseminating the revision in a timely manner?

### **(4) Management Concerning Advertising**

Does the Customer Explanation Manager, in accordance with internal rules concerning the representations used in materials for advertisement and solicitation (hereinafter referred to as the “Advertisements, etc.”), etc., subject the Advertisements etc. of Transactions and products to legal

checks, etc. in advance and verify that there is no violation of the Banking Law<sup>8</sup>, the Securities and Exchange Law, the Act Against Unjustifiable Premiums and Misleading Representations and the notification thereof, the Act concerning Prohibition of Private Monopolization and Maintenance of Fair Trade and other relevant Laws as well as rules established by voluntary regulatory organizations and that the Advertisements etc. provide appropriate and sufficient explanations to customers, or does the Customer Explanation Manager have a person in charge of screening of Advertisements, etc. conduct such checks?

#### **(5) Implementation of Monitoring of Customer Explanation**

##### **(i) Monitoring of Customer Explanation**

Does the Customer Explanation Manager review, on an ongoing basis, whether appropriate and sufficient Customer Explanation is secured by monitoring the status of compliance with the Customer Explanation Manual at the Marketing and Sales Division, etc. and take deterrent action as necessary?

##### **(ii) Monitoring of Compilation and Storage of Records on Customer Explanation**

Does the Customer Explanation Manager enable follow-up reviews of Customer Explanation as necessary by conducting monitoring to check whether persons in charge of Customer Explanation appropriately compile and keep records on the status of explanation in a timely manner in accordance with the Customer Explanation Manual?

##### **(iii) Monitoring of Status of Compliance with Laws in Customer Explanation**

Does the Customer Explanation Manager conduct monitoring on an ongoing basis with regard to Customer Explanation so as to prevent violations of Laws?

#### **(6) System for Reporting to Board of Directors and Approval**

Does the Customer Explanation Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

#### **(7) System for Reporting to Corporate Auditor**

Does the Customer Explanation Manager report matters specified by the Board of Directors directly to a corporate auditor?

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<sup>8</sup> Including cases where the Banking Law shall be applied mutatis mutandis

### **3) Assessment and Improvement Activities**

Does the Customer Explanation Manager review the effectiveness of the Customer Explanation system in a regular and timely manner or on an as needed basis based on reports and findings on the status of management of Customer Explanation, including the status of compliance with the Customer Explanation Management Rules and the Customer Explanation Manual, as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Customer Explanation Management Rules and the Customer Explanation Manual, the organizational framework, the implementation of training and guidance and the method of monitoring?

## **2. Customer Support Management System**

### **1) Development of Internal Rules**

#### **(1) Development and Dissemination of Customer Support Management Rules and Customer Support Manual<sup>9</sup>**

- (i) Does the Customer Support Manager fully understand the need and importance of securing appropriate and sufficient Customer Support?
- (ii) Has the Customer Support Manager decided on the arrangements for securing appropriate and sufficient Customer Support and developed internal rules that clearly define the arrangements for managing the related business (hereinafter referred to as the “Customer Support Management Rules”) in accordance with the Customer Protection Management Policy?
- (iii) Has the Customer Support Manager developed operational procedures that specify the method of Customer Support and the procedures to be observed (hereinafter referred to as the “Customer Support Manual”) in accordance with the Customer Protection Management Policy and the Customer Support Management Rules?
- (iv) Have the Customer Support Management Rules been disseminated throughout the organization upon approval by the Board of Directors or equivalent organization to the Board of Directors after legal checks, etc?

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<sup>9</sup> It should be noted that the Customer Support Management Rules and the Customer Support Manual should not necessarily be compiled separately. At some financial institutions, such rules and manuals are integrated into the compliance manual. The inspector shall verify, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are disseminated throughout all persons who should be acquainted with them, thus ensuring effective management.

## **(2) Customer Support Management Rules**

Do the Customer Support Management Rules exhaustively cover the necessary arrangements for securing appropriate and sufficient Customer Support in a manner suited to the scale and nature of the business? Do the Customer Support Management Rules appropriately stipulate such arrangements, for example, by clearly defining the organizational framework for conducting customer support management as well as the allocation of authority and roles? More specifically, do they clearly prescribe the following points?

- Arrangements on the organizational framework for Customer Support (including whether or not to establish a division or a person in charge of Customer Support as well as the authority and roles of such a division or a person)
- Arrangements on the procedures to be observed by persons engaged in Customer Support
- Arrangements on the monitoring of the status of Customer Support
- Arrangements for dealing with pressures from anti-social forces under the guise of Consultation Requests, Complaints, etc.
- Arrangements on information sharing necessary for Customer Support
- Arrangements on the reporting to the Board of Directors or equivalent organization to the Board of Directors
- Arrangements on coordination and communication with the Compliance Control Division

## **(3) Customer Support Manual**

Does the Customer Support Manual exhaustively cover the detailed procedures of Customer Support? Are they stipulated in detail in an easy-to-understand manner? For example, does the Customer Support Manual enable the persons engaged in Customer Support to carry out Customer Support appropriately and sufficiently and enable them to aptly disseminate information concerning Consultation Requests, Complaints, etc. to the Board of Directors or equivalent organization to the Board of Directors by stipulating the following matters?

- Procedures for compiling and keeping records of Consultation Requests, Complaints, etc.
- Procedures for confirming the details of Consultation Requests, Complaints, etc. (procedures for receipt of Consultation Requests, Complaints, etc. and procedures for confirming the details of Consultation Requests, Complaints, etc.)
- Procedures for dealing with Consultation Requests, Complaints, etc. (responses for satisfying customers with regard to Consultation Requests, Complaints, etc., progress management for resolving Consultation Requests, Complaints, etc., procedures for prevention of long-pending cases and procedures for cases where Consultation Requests, Complaints, etc. develop into disputes)



- Procedures for conveying information concerning Consultation Requests, Complaints, etc. to relevant divisions
- Contact information and procedures for dealing with pressures from anti-social forces under the guise of Consultation Requests, Complaints, etc.
- Typical examples of cases suspected to be violation of Laws and the contact information of the division in charge (the Compliance Control Division, etc.) for dealing with a case suspected to be a violation of Laws.
- Procedures for dealing with Consultation Requests, Complaints, etc. suspected to involve damage from billing fraud and other crimes or misuse of an account.

## **2) Implementation of Customer Support**

### **(1) Enhancement of Consultation Counter Functions**

- (i) Does the Customer Support Manager provide for measures to enhance and strengthen the handling of Consultation Requests, Complaints, etc. at counters responsible for the consultation requests, complaints (relevant counters in the case where Consultation Requests, Complaints, etc. are handled as a part of ordinary counter services)? Does the Manager endeavor to receive Consultation Requests, Complaints, etc. from a wide base, for example by setting up receiving channels such as an Internet-based counter and opinion boxes through which opinions can be expressed anonymously?
- (ii) If a call center is established to act as a consultation counter, is sufficient care taken to ensure the allocation of persons with appropriate knowledge and experience and to fully disseminate the Customer Support Manual to the persons via training?

### **(2) Appropriateness of Customer Support**

- (i) Do officers who receive Consultation Requests, Complaints, etc. appropriately respond in a timely manner in accordance with the Customer Support Manual and in coordination with relevant divisions? Do the officers ensure that the occurrence of long-pending cases is prevented and any pending case is resolved promptly by managing progress toward solutions concerning Consultation Requests, Complaints, etc. in an appropriate and timely manner?
- (ii) Are pressures from anti-social forces under the guise of Consultation Requests, Complaints, etc. distinguished from ordinary Consultation Requests, Complaints, etc and promptly reported to the Compliance Control Division, etc., so as to take resolute action? If necessary, is an appropriate response made in coordination with the police and other relevant organizations?

### **(3) Recording, Storage and Reporting**

- (i) Does the Customer Support Manager record the details of Consultation Requests, Complaints,

etc., including the results of responses to them, for storage in register books, etc. and keep the records under integrated control?

(ii) Does the Customer Support Manager report the details of Consultation Requests, Complaints and the results of the processing thereof in a timely manner to the Compliance Control and Internal Audit Divisions, etc.? In particular, does the Manager report to the Compliance Control and Internal Audit Divisions, etc., as well as the Board of Directors, without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

#### **(4) Analysis of Causes of Consultation Requests, Complaints, etc. and Implementation of Improvement**

Does the Customer Support Manager analyze the details of Consultation Requests, Complaints, etc., conduct necessary investigations to grasp their causes, and, based on the results of the analysis, present the Board of Directors with proposals for improvements and ask the relevant departments to submit reports and make improvements as necessary, thus ensuring that constant efforts are made for improvements? With regard to the Consultation Requests, Complaints, etc. that are conveyed repeatedly in particular, does the Manager review them thoroughly with the possibility in mind that some kind of problem exists and take specific measures to handle such requests and complaints appropriately?

#### **(5) Monitoring of Customer Support**

Does the Customer Support Manager check, on an ongoing basis, whether appropriate and sufficient Customer Support is secured by monitoring the status of compliance with the Customer Support Manual and take deterrent action as necessary? When a call center is established to act as a consultation counter, does the Manager monitor the degree of congestion of calls and review whether appropriate Customer Support is provided promptly?

#### **(6) System for Reporting to Board of Directors**

Does the Customer Support Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

#### **(7) System for Reporting to Corporate Auditor**

Does the Customer Support Manager report matters specified by the Board of Directors

directly to a corporate auditor?

### **3) Assessment and Improvement Activities**

Does the Customer Support Manager review the effectiveness of the Customer Support Management system in a regular and timely manner or on an as needed basis based on reports and findings on the status of management of Customer Support, including the status of compliance with the Customer Support Management Rules and the Customer Support Manual as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Customer Support Management Rules and the Customer Support Manual, the organizational framework, the implementation of training and guidance and the method of monitoring?

## **3. Customer Information Management System**

### **1) Development of Internal Rules**

#### **(1) Development of Customer Information Management Rules and Customer Information Management Manual**

- (i) Does the Customer Information Supervisory Manager fully understand the need and importance of securing appropriate and sufficient Customer Information Management?
- (ii) Has the Customer Information Supervisory Manager decided the method of monitoring and the organizational framework for securing appropriate Customer Information Management and developed internal rules that clearly define the arrangements for managing the relevant business (hereinafter referred to as the “Customer Information Management Rules”) in accordance with the Customer Protection Management Policy? Have the Customer Information Management Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors after undergoing legal checks, etc.?
- (iii) Has the Customer Information Supervisory Manager developed operational procedures that specify the method of Customer Information Management and the procedures to be followed (hereinafter referred to as the “Customer Information Management Manual”) in accordance with the Customer Protection Management Policy and the Customer Information Management Rules and disseminated them throughout the institution?

#### **(2) Customer Information Management Rules**

Do the Customer Information Management Rules exhaustively cover the necessary arrangements for securing appropriate Customer Information Management in a manner suited to the scale and nature of the business? Do the Customer Information Management Rules appropriately stipulate such arrangements, for example, by clearly defining the organizational framework for the management as well as the allocation of the relevant authority and roles and the management method?

### **(3) Customer Information Management Manual**

Does the Customer Information Management Manual exhaustively cover the detailed procedures concerning Customer Information Management and is it stipulated in detail and in an easy-to-understand manner? Does the manual specify the following points in particular?

- Written records and electronic media to be managed
- The method of appropriately managing written records and electronic media to be managed, for example, where to store them and how to dispose of them.
- The scope of officers who have access to customer information and the method of controlling access rights
- The method of handling customer information in ways to prevent information leakage when the information is taken outside.
- The method of responding to information leakage (e.g. reporting to the Customer Information Supervisory Manager, the person in charge of managing customer information and the public authorities and implementing measures to prevent secondary damage from information leakage, including limiting information access and providing explanations to the Customer as necessary)

## **2) Implementation of Customer Information Management**

### **(1) Arrangement for Customer Information Management System**

Does the Customer Information Supervisory Manager ensure appropriate handling of customer information at divisions engaged in the relevant business as well as at sales branches and proper functioning of a check-and-balance system against them by securing, through the person in charge of managing customer information, compliance with the Customer Information Management Rules and the Customer Information Management Manual, etc? Does the Manager implement specific measures for securing the effectiveness of the arrangement?

### **(2) Guidance and Supervision**

Does the Customer Information Supervisory Manager provide appropriate guidance and supervision to the divisions engaged in the relevant business as well as sales branches so as to

enable them to implement administrative work related to customer information management in an appropriate and timely manner?

**(3) Handling of Computer System**

Does the Customer Information Supervisory Manager take the following steps through the division or the person in charge of the computer system?

- (i) When customer information is printed out or downloaded, does the Manager impose limitations in an appropriate manner on the nature and quantity of the data that may be printed out or downloaded according to the purpose of the use?
- (ii) Does the Manager limit the scope of customer information which may be accessed to a necessary minimum according to the accessing person's corporate post and qualifications?
- (iii) Are customer information data stored in personal computer terminals or the host computer, etc. protected through measures such as the use of a password system for access to the customer information database, the establishment of an identification system and encoding of the data?
- (iv) Are necessary protection measures taken in terms of system operations with regard to exchanges of customer information data between the financial institution and the Outsourcing Contractor?

**(4) Status of Management of Response to Customer Information Leakage**

- (i) Does the Customer Information Supervisory Manager provide a system to ensure that the person in charge of customer information management immediately reports to the Customer Information Supervisory Manager in the event of an information leak?
- (ii) Does the Customer Information Supervisory Manager provide a system to ensure that the person in charge of customer information management reports to the Compliance Control Division or the Board of Directors or equivalent organization to the Board of Directors without delay in the event of an information leak in accordance with the Customer Information Management Rules?
- (iii) Does the Customer Information Supervisory Manager ensure the implementation of measures to prevent secondary damage from an information leak, such as reporting to the public authorities, limiting information access and providing explanations to the Customer as necessary? Does the Manager analyze the cause of a customer information leak so as to prevent its recurrence?

**(5) Monitoring of Status of Customer Information Management at Each Division**

Does the Customer Information Supervisory Manager, through the person in charge of

customer information management, monitor on an ongoing basis the status of compliance with the internal rules and the Customer Information Management Manual as well as the status of customer information management at each division?

**(6) Monitoring of Status of Customer Information Management at Outsourcing Contractor**

Does the Customer Information Supervisory Manager or the person in charge of customer information management keep track on whether bank agents and Outsourcing Contractors appropriately manage customer information and whether they take prescribed measures in the event of accidents?

**(7) System for Reporting to Board of Directors and Approval**

Does the Customer Information Supervisory Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

**(8) System for Reporting to Corporate Auditor**

Does the Customer Information Supervisory Manager report matters specified by the Board of Directors directly to a corporate auditor?

**3) Assessment and Improvement Activities**

Does the Customer Information Supervisory Manager review the effectiveness of the Customer Information Management system in a regular and timely manner or on an as needed basis based on reports and findings on the status of Customer Information Management, including the status of compliance with the Customer Information Management Rules and Customer Information Management Manual as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Customer Information Management Rules and the Customer Information Management Manual, the organizational framework, the implementation of training and guidance and the method of monitoring?

**4. Outsourcing Management System**

**1) Development of Internal Rules**

## **(1) Development of Outsourcing Rules**

- (i) With regard to outsourcing management, has the Outsourcing Manager developed internal rules that specify the management method, the rules and arrangements on matters and procedures that must be checked and the judgment criteria (hereinafter referred to as the Outsourcing Rules)?
- (ii) Have the Outsourcing Rules been disseminated throughout the institution upon approval from the Board of Directors after legal checks, etc.?

## **(2) Outsourcing Rules**

Do the Outsourcing Rules exhaustively cover the necessary arrangements for securing appropriate Outsourcing Management in a manner suited to the scale and nature of the business? Do the Outsourcing Rules appropriately stipulate such arrangements, for example, by clearly defining the organizational framework for conducting Outsourcing Management as well as the allocation of the relevant authority and roles and the management method? Do they stipulate the following matters in particular?

- Arrangements on the selection of Outsourcing Contractors
- Arrangements on the monitoring of Outsourcing Contractors
- Arrangements on the supervision of bank agents as the employing bank when employing such agents as contractors
- Arrangements on the handling of customer information in the event of the termination of contracts with bank agents and Outsourcing Contractors

## **2) Implementation of Outsourcing Management**

### **(1) Measures for Securing Apt Implementation of Outsourcing Operations**

In the case where the financial institution's operations are outsourced to third parties (including the institution's parent, subsidiaries and affiliates), does the Outsourcing Manager provide for measures to secure apt implementation of those operations in a manner suited to the scale and nature of the operations (including requiring the outsourcing contractor to establish a necessary system under the outsourced contract)?

### **(2) Selection of Outsourcing Contractors**

Does the Outsourcing Manager provide for measures to ensure that the outsourced operation is consigned to a party capable of implementing the operation aptly, fairly and efficiently after specifying the operational risks inherent in the operation in coordination with the Integrated Operational Risk Management Division and recognizing possible risk management problems related to the quality of service and the reliability of service continuity?

### **(3) Contract Conclusion**

Does the Outsourcing Manager provide a system to subject the outsourcing contract to legal checks, etc. in advance and confirm whether the provisions of the contract allow appropriate measures to be taken in a manner suited to the scale and nature of the outsourced operation?

### **(4) Monitoring of Outsourcing Contractors**

Does the Outsourcing Manager ensure the exercise of necessary and appropriate supervision over the Outsourcing Contractor by reviewing whether the contractor is implementing the business operation aptly in accordance with the outsourcing contract based on checks conducted on the status of the implementation of the consigned operation in a regular and timely manner or on an as needed basis and having the contractor make improvements as necessary? Does the Manager ensure that appropriate measures can be taken in a timely manner under the outsourced contract, for example by appropriately stipulating the contract provisions that concern the supervision, monitoring and reporting?

### **(5) System for Processing of Consultation Requests, Complaints, etc. Concerning Outsourced Operations**

Does the Outsourcing Manager provide for measures necessary for appropriately and promptly processing the Customer's Consultation Requests, Complaints, etc. concerning consigned operations undertaken by Outsourcing Contractors? Is there an appropriate system for the processing of Consultation Requests, Complaints, etc., such as the establishment of a direct communication channel between the Customer and the institution with regard to customer claims?

### **(6) Backup System for Outsourced Operations**

When the Outsourcing Contractor fails to appropriately implement the consigned operation, does the Outsourcing Manager take measures to prevent the disruption of the operation from the viewpoint of Customer Protection, such as selecting another appropriate Outsourcing Contractor and promptly transfer the operation to the alternative contractor?

### **(7) Contract Modification and Termination**

Does the Outsourcing Manager provide for measures to enable prompt modification or termination of the outsourcing contract if necessary in order to secure sound and appropriate business of the financial institution and protect the Customer related to the outsourced operation?

### **(8) Measures for Customer Information Protection**



Does the Outsourcing Manager provide for measures to ensure customer information management at the Outsourcing Contractor? Does the outsourcing contract have provisions that prohibit the use of customer information for purposes other than the prescribed ones and obligate confidentiality, for example? Does the Manager provide for measures to ensure the exercise of appropriate supervision over the Outsourcing Contractor so as to ensure appropriate handling of customer information when the handling of information concerning customers who are individuals is outsourced?

**(9) System for Reporting to Board of Directors and Approval**

Does the Outsourcing Manager report necessary matters to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

**(10) System for Reporting to Corporate Auditor**

Does the Outsourcing Manager report matters specified by the Board of Directors directly to a corporate auditor?

**3) Assessment and Improvement Activities**

Does the Outsourcing Manager review the effectiveness of the Outsourcing Management system in a regular and timely manner or on an as needed basis based on reports and findings on the status of Outsourcing Management, including the status of compliance with the Outsourcing Rules as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the contents of the Outsourcing Rules, the organizational framework, the implementation of training and guidance and the method of monitoring?

### **III. Specific Issues**

#### **【 Checkpoints 】**

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of Customer Protection Management.
  
- The descriptions in this checklist are based on the assumption that the roles of and responsibilities for developing a system for each business operation concerning Customer Protection and ensuring the effectiveness thereof rests with the Manager in charge of the relevant business. There are other various organizational frameworks for Customer Protection Management. For example, the financial institution may establish a dedicated division or department in charge of Customer Protection Management, or assign persons in charge of such management to divisions and departments that require Customer Protection, including the Marketing and Sales Division. In such cases, it is necessary to review whether the Customer Protection system is effectively functioning based on the review and analysis as to whether an adequate number of persons with the knowledge and experience necessary for implementing the relevant business are allocated and whether they are assigned the authority necessary for implementing the business.
  
- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem with the use of the checklists in those chapters, and review findings thereof through dialogue between the inspector and the financial institution.
  
- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.
  
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

## **1. Customer Protection in General**

### **(1) Handling of New Products**

Does the Manager in charge of Customer Protection Management conduct prior investigations with regard to the public and internal rules that concern new products specified in the Comprehensive Risk Management Policy when requested by the Comprehensive Risk Management Division and report to the division in a timely manner after identifying issues that may arise from the viewpoint of Customer Protection?

## **2. Customer Explanation System**

### **1) Viewpoints Concerning Customer Explanation System in General**

#### **(1) Policy Concerning Customer Explanation**

Is a policy concerning solicitation activities related to sales of financial products (hereinafter referred to as the “Solicitation Policy”) developed appropriately in accordance with laws and ordinances and publicly disclosed promptly? When the Solicitation Policy is modified, is the disclosure thereof made promptly? Is the Solicitation Policy compatible with the Customer Explanation Manual?

#### **(2) Viewpoint Concerning Prevention of Violation of Laws with Regard to Customer Explanation**

Are appropriate measures provided for to prevent violation of Laws with regard to Customer Explanation? For example, is there an effective system to prevent violation of Laws as part of the daily operational process through measures such as using multi-person monitoring system and obtaining written confirmation as necessary according to the nature of the operations concerned, in addition to developing the Customer Explanation Manual and conducting training?

#### **(3) Viewpoints Concerning Implementation of Legally-Required Customer Explanation**

Are measures provided for to appropriately implement the provision of information and the prevention of mistaken recognition as required by laws and ordinances with regard to Customer Explanation? Is there a system to ensure full compliance with Laws with regard to the following Transactions and products in particular through the provision of appropriate and sufficient explanations to the Customer?

- Agency and intermediary service for the conclusion of trust contracts that do not involve compensation for principal losses
- Exchange-traded financial futures transactions
- Fiduciary service for financial futures transactions

- Financial derivatives transactions and intermediary, brokerage and agency services thereof
- Products that combine derivatives, deposits, etc. without the guarantee of the full principal repayment at maturity

#### **(4) Prevention of Disputes**

Is there a system to prevent disputes with the Customer? Are the following matters thoroughly established or implemented?

- A legal check system
- Specification of matters that require explanations and compilation of explanation documents
- Compilation of documents concerning the confirmation of the intent of the Customer with regard to the contract
- Compilation and storage of records on the status of explanations to the Customer
- A system to prevent the abuse of a superior position and unfair transactions such as tie-in transactions
- A system to provide information related to the syndicated loan arranger business.

## **2) Viewpoints Concerning Specific Transactions and Products**

### **(1) Customer Explanation Concerning Deposits**

Is there a system to provide appropriate and sufficient Customer Explanation in accordance with the Customer Explanation Manual when the institution accepts deposits? Are the representation of the interest rates and the explanations concerning the fees and procedures necessary for contract termination made in an easy-to-understand manner, for example? When deposit transactions involve derivatives transactions such as options and swaps (including the case where only derivatives transactions are done) in particular, the inspector should pay attention to the following points.

- Are explanations made in an easy-to-understand manner suited to the knowledge and experience of the Customer with the use of diagrams and examples, and are the explanations provided in the written form?
- Are explanations provided with regard to the method of calculating the fee necessary for premature contract termination and the fee amount calculated?
- Is there a system to provide detailed explanations with regard to deposit products which involve derivatives transactions and which may cause principal losses due to derivatives-related losses, including the explanation about the absence of the principal guarantee?

## **(2) Customer Explanation Concerning “Risk Products”**

Is there a system to provide appropriate and sufficient Customer Explanation in accordance with the Customer Explanation Manual when the institution sells so-called risk products. For example, is the representation of the risk of principal losses appropriate and sufficient and are explanations suited for the Customer’s attributes provided in a sufficient and appropriate manner? Is there a system to secure the compliance of Customer Explanation with the Banking Law, the Securities and Exchange Law, the Insurance Business Law, the Antimonopoly Law and other Laws when the institution sells risk products?

## **(3) Customer Explanation Concerning Credit Transactions**

Is there a system to provide appropriate and sufficient Customer Explanation with regard to credit transactions (loan contracts and related collateral and guarantee contracts) in accordance with the Customer Explanation Manual? With regard to the following cases of credit transactions in particular, the inspector should pay attention to the points listed below each case.

(i) In the case where loan transactions involve derivatives transactions such as options and swaps (including the case where only derivatives transactions are done)

- Are explanations made in an easy-to-understand manner suited to the knowledge and experience of the Customer with the use of diagrams and examples, and are the explanations provided in the written form?
- Are explanations provided with regard to the method of calculating the fee necessary for premature contract termination and the fee amount calculated?

(ii) Housing Loan Contracts

- Are explanations made in an easy-to-understand manner suited to the knowledge and experience of the Customer with the use of diagrams and examples, and are the explanations provided in the written form?
- Are full explanations made with regard to the interest rate risk when the institution extends a housing loan which carries a variable interest rate or which carries a fixed interest rate for a prescribed limited period of time?

## **(3) Viewpoints Concerning Avoidance of Conflicts of Interest**

Is there a system to take measures, such as the establishment of the “firewall” between the operational divisions, to prevent harm on the occasion of Customer Explanation from the viewpoint of avoiding the conflict of interests and other inappropriate incidents in Transactions with the Customer?

With regard to so-called private banking, for example, are firewalls to prevent the use of customer information for unintended purposes and avoid conflicts of interest (including the

information firewall between the financial institution and its affiliated group companies) appropriately established and do measures to prevent unfair transactions such as tie-in sales function properly when compound services are provided to the private-banking customer by the financial institution alone or jointly by the institution and its affiliated group companies?

### **3. Customer Support Management System**

#### **(1) Processing of Consultation Requests, Complaints, etc. as Dispute-Settlement Mechanism**

In handling Consultation Requests, Complaints, etc., does the financial institution regard them as a nascent form of dispute-settlement issue, rather than merely as a matter to be processed, and aim as much as possible to provide solutions by obtaining the understanding and satisfaction of the Customer in a manner suited to the details of the requests and complaints,?

### **4. Customer Information Management System**

#### **(1) Development of Organization for Customer Information Management**

With regard to information concerning customers who are individuals, is there an arrangement for the Customer Information Supervisory Manager to take the following measures as necessary and appropriate in order to prevent leakage, loss or destruction of the information as the supervisor of the information safety management as well as of employees and the Outsourcing Contractor (in the case where handling of the information concerned is outsourced)?

- (a) Measures based on the provisions of Clauses 10, 11 and 12 of the Guidelines on Personal Information Protection in the Financial Industry
- (b) Measures based on the provisions of the operational instructions I, II and III as well as Attachment 2 of the Guidelines on Personal Information Protection in the Financial Industry

#### **(2) Viewpoint Concerning Information Sharing**

When customer information is shared between the financial institution and third parties, is there a system to obtain in an appropriate manner the prior consent of the Customer, in the written form in principle, with regard to the sharing? Notwithstanding the above, this checkpoint shall not apply to cases to which Paragraph 6, Article 13 of the Guidelines on Personal Information Protection in the Financial Industry is applicable.

### **5. Outsourcing Management System**

#### **(1) Outsourcing of Business Concerning Deposit-Taking and Withdrawal**

When the operation of ATM (automated teller machine) system is outsourced, does the Outsourcing Manager appropriately conduct monitoring and supervision over the status of

management at the Outsourcing Contractor so as to ensure that necessary security measures are taken?

## **6. Outsourcing Management System Concerning Bank Agents**

When an operation is outsourced to a bank agent, the following points should be examined in addition to the viewpoints concerning outsourcing listed in Chapter II. 4. (2).

### **(1) Arrangement for the System to Supervise Bank Agents**

Is there a system to supervise bank agents, auditing their operations, providing training to them and monitoring their operations by establishing a division or department in charge of the relevant supervision or by appointing a person in charge thereof?<sup>10</sup>

### **(2) Selection of Bank Agents**

With regard to the selection of a bank agent, is there a system to conduct full deliberations as to whether the agent concerned meets the criteria for legal approval? When the bank agent entrusts the agent operations to another party, is there a system to conduct full deliberations as to the suitability of the said party?

### **(3) Entrustment Contract with Bank Agent**

Is there a system to check whether the legally required measures listed below can be implemented appropriately under the entrustment contract with the bank agent?

- (i) Measures for conducting training for legal compliance
- (ii) Measures for appropriately supervising the bank agent by reviewing the status of the implemented operations, inspecting the status of ongoing implementation and having the agent make improvements as necessary
- (iii) Measures for modifying or terminating the entrustment contract when necessary in order to secure the sound and appropriate implementation of the operation entrusted to the bank agent.
- (iv) Measures for allowing the financial institution to conduct screening as necessary with regard to agent or intermediary services for the conclusion of a contract concerning the provision of a loan or bill discounting.
- (v) Measures for securing appropriate management of customer information
- (vi) Measures concerning appropriate name representation
- (vii) Measures for preventing crime with regard to the operations concerning the bank agent business.
- (viii) Measures for preventing significant effects on the Customer when the bank agent abolishes

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<sup>10</sup> This does not preclude the Outsourcing Manager from concurrently taking charge of the supervision.

sales branches and offices, by ensuring that the operations concerned are transferred elsewhere appropriately and through other means.

(ix) Measures for promptly processing Consultation Requests, Complaints, etc. with regard to the bank agent operation of the agent employed

## **7. Other Matters**

With regard to operations<sup>11</sup> determined by the financial institution as necessary for Customer Protection and enhancement of customer convenience, is there an appropriate management system that meets the level prescribed by the financial institution in the Customer Protection Management Policy and the Customer Protection Management Rules, etc.?

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<sup>11</sup> Refer to (5) “Securing appropriate management of other operations determined by the financial institution as necessary for protecting customers and enhancing customer convenience” listed as the first checkpoint in Chapter I of this checklist.