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Bank of Japan

On-Site Examination Policy for Fiscal 2005

I. Review of On-Site Examinations and Off-Site Monitoring of Financial Institutions in Fiscal 2004[1]

A. Number of Financial Institutions Examined

In fiscal 2004, the Bank of Japan conducted on-site examinations at a total of 153 financial institutions: 46 domestically licensed Japanese banks, 67 *shinkin* banks, and 40 other institutions including securities companies and Japanese branches of foreign banks (see Table below).

Table Number of Financial Institutions Examined in Recent Years

	Fiscal 2002	Fiscal 2003	Fiscal 2004
Domestically licensed Japanese banks	38	50	46
***Shinkin* banks**	67	69	67
Other institutions including securities companies and Japanese branches of foreign banks	10	21	40
Total	115	140	153

B. Conditions in the Financial System Observed through On-Site Examinations and Off-Site Monitoring

1. Overview

The Bank conducted its on-site examinations and off-site monitoring in fiscal 2004, focusing on four core elements: (1) examining financial institutions' evaluation of assets with an emphasis on future cash flows; (2) promoting more sophisticated risk management systems; (3) promoting the development of multiple channels for credit provision; and (4) ensuring smooth settlement.

The Bank's view of the current conditions in the Japanese financial system

[1] Fiscal year in Japan starts in April and ends in March.

obtained through its on-site examinations and off-site monitoring is as follows.

Overall, there has been considerable progress in financial institutions' disposal of nonperforming loans (NPLs) and the ratio of NPLs to total loans has decreased steadily, due to an increase in the removal of NPLs from balance sheets and financial institutions' efforts to rehabilitate distressed borrower firms. Financial institutions' profitability has been improving due mainly to a decline in credit costs (i.e., write-offs and loan-loss provisions for NPLs), thus enhancing their overall financial strength. During the process of NPL disposal, some financial institutions have strengthened their profitability and capital bases through consolidation and mergers. Others have reinforced their capital by issuing preferred stocks and subordinated debts. However, financial institutions still have some work to do in terms of their management of risks and business activities, and there is also further room for strengthening profitability.

Details of the main findings of on-site examinations and off-site monitoring by major risk category are as follows.

2. Credit risk

On the whole, there have been further improvements in financial institutions' credit risk management. Self-assessments of individual institutions' exposure to credit risk have generally become more accurate, and appropriate loan write-offs and loan-loss provisions were made based on these assessments. Thus, the quality of loan assets has improved. However, the Bank found that there were also examples of unsatisfactory risk management at some financial institutions such as the following: (1) estimates of borrowers' future cash flows were not reasonable; (2) a significant gap was found between the estimated value of pledged real estate and its actual disposal value; and (3) the setting of standard interest rates to be used for classifying loans as eligible for credits with relaxed lending conditions was not appropriate.

As for the rehabilitation of distressed firms, major banks have almost completed drawing up comprehensive rehabilitation plans for large borrowers, and the disposal of the large-scale NPLs, which has been a long-standing problem, is finally coming to an end. An increasing number of regional financial institutions have also started to make more determined efforts on this front, and their efforts are gradually bearing fruit.

Financial institutions have started to employ a wide range of new methods for rehabilitating distressed firms, including cooperation with the Industrial Revitalization Corporation of Japan, and the use of spin-offs and debt equity swap (DES) arrangements. However, there were some cases where greater involvement of financial institutions was necessary in reviewing rehabilitation plans and in providing more effective managerial guidance to their borrowers.

An increasing number of financial institutions have developed more reliable methods for internal rating of credit risk and have been putting these into practice when quantifying risks. During its on-site examinations at financial institutions that have introduced such internal credit rating models, the Bank discussed with these institutions their estimates of expected losses (EL) and unexpected losses (UL), so as to assess the economic value of overall loan portfolios and the associated risks, and to get a clearer picture of risk profiles and future credit costs. As part of promoting the development of multiple channels for credit provision, the Bank held discussions with these financial institutions and shared insights especially on the importance of controlling levels of risk through active credit portfolio management, thereby strengthening profitability, taking into consideration capital adequacy and the risks and returns on individual loans.

Financial institutions have been actively engaged in extending new types of loans recently, such as syndicated loans, unsecured standardized loans to small firms based on credit scores, and non-recourse real estate loans. They have also been securitizing mortgages. During its on-site examinations, the Bank examined financial institutions' activities in these areas as well as their related risk management, and found cases where risk management was inadequate because models for evaluating loan portfolios collectively were not fully tested.

3. Market risk

Major banks have established methods for controlling risks under frameworks for integrated risk management. They have generally been wary of a possible rise in long-term interest rates and thus remained cautious with regard to bond investment throughout fiscal 2004. They also have sought to implement sounder integrated risk management practices under the circumstances where constraints on capital are easing, by enhancing the accuracy of risk quantification methods and by allocating more capital to cover risks associated with bond investment in preparation for a possible increase in interest rate risk.

Regional financial institutions, on the other hand, have on the whole become increasingly dependent on securities investment in order to improve their profitability, and it has therefore become all the more important for them to manage market risk properly. The Bank, however, found cases where risk management was inadequate, as sufficient measures for setting risk limits that reflect capital adequacy had not yet been taken.

Major banks have made further reductions in their stockholdings, so as to improve the stability of their businesses. Overall stockholdings of major banks have been kept below the level of their Tier I capital. The Bank found in its on-site examinations that there was room for improvement in assessing the economic value of non-listed preferred stocks, which are increasingly being acquired by financial institutions in the process of rehabilitating distressed borrower firms.

Financial institutions have been increasing their investment in structured bonds, real estate investment trusts, and hedge funds, so as to achieve higher yields. Examining financial institutions' risk management frameworks, using pricing models, the Bank found that a number of financial institutions had problems in assessing the economic value of such assets or in identifying and quantifying the associated risks.

4. Settlement and liquidity risks

Financial institutions have been cautious in their liquidity management on the whole, and no major settlement problems arose in their business operations. However, with market participants' confidence in Japanese banks improving due to progress in NPL disposal and strengthened profitability, major banks began to relax their cautious stance somewhat regarding yen-denominated assets after the start of 2005. They have also begun to take a slightly more active stance on investing in foreign currency denominated assets, reflecting better financing conditions.

The Bank found through its on-site examinations that there were some cases where financial institutions were insufficiently aware of settlement and liquidity risks and needed to improve stress analyses, draw more detailed contingency plans, and carry out actual drills.

5. Operational risk[2]

There has been a significant change in risk profiles of financial institutions' business operations, as financial institutions have on the one hand been streamlining their operations by centralizing operations at their headquarters and further outsourcing, and have begun on the other to offer new financial services. Operational risk management has therefore become increasingly important for them. Financial institutions need to make further efforts in order to control operational risk through measures such as implementing appropriate rules and manuals that reflect changes in actual operational procedures, ensuring that relevant staff members have the benefit of lessons learned from past experiences, and enhancing the functioning of internal audits.

On computer system management, there were fewer cases of large-scale malfunctions in fiscal 2004 compared to the previous fiscal year, but there were still cases where customers were affected. In some cases, preparations for integration or joint operation of computer systems were behind schedule. The Bank checked through its on-site examinations and off-site monitoring whether financial institutions' computer systems were being built and run appropriately, and found that there was room for improved management of both projects and the third parties to whom they have outsourced operations (outsourcees).

Arrangements for business continuity in case of disasters and system malfunctions have been improving gradually. A number of financial institutions experienced large-scale natural disasters such as typhoons and earthquakes in fiscal 2004, but they generally took appropriate measures to minimize the damage, as they were able to resume their business operations swiftly and run computer systems including automated teller machines (ATMs) smoothly. However, the Bank found through its on-site examinations that some financial institutions still needed to conduct better-organized drills and enhance the functioning of their back-up facilities.

The Bank also checked financial institutions' security measures for handling customer information and found that some of them needed to improve their risk management in this area.

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[2] In this paper, operational risk covers risks that attend business operations in general including those related to computer systems and business continuity.

II. On-Site Examination Policy for Fiscal 2005

A. Core Elements of the Bank's Policy on On-Site Examinations

The Bank released "The Bank of Japan's Measures regarding the Financial System after the Full Removal of Blanket Guarantee of Deposits" on March 18, 2005. In this paper, the Bank clarified its basic stance regarding financial system policy, specifying that it will shift its focus from crisis management to supporting private-sector initiatives toward providing more efficient and advanced financial services via fair competition, while maintaining overall system stability.

As detailed in the paper, the Bank will continue to ensure that it has an accurate grasp of the performance of financial institutions through its on-site examinations, so as to be ready to act as the lender of last resort. At the same time, the Bank will encourage financial institutions' efforts to improve their management of risks and business activities and to develop innovative services tailored to customer needs. In accordance with this basic stance, the Bank will contribute to enhancing the functioning and robustness of the overall financial system.

Based on the above principles, the Bank will conduct its on-site examinations in fiscal 2005, with the following five points providing the core elements.

1. Assessing the economic value and associated risk of financial institutions' assets and financial transactions

With financial services becoming increasingly diversified, it has become all the more important for financial institutions to properly assess the economic value and volatility (i.e., risk) of the whole range of their assets, not just their loan portfolios, as well as their financial transactions.

The Bank has been using the approach based on the discounted cash flow (DCF) method to assess appropriately the economic value of loan assets. It will continue to apply this approach to a wider range of loan assets and share the assessment results with the financial institutions concerned. In cases where a financial institution has especially high loan exposure to a particular firm, the economic value of the loan is affected by the financial institution's own balance-sheet conditions. In such cases, assessment of the economic value of the loan requires the financial institution to take this characteristic into account, and the Bank will be discussing with financial institutions how this can be done more accurately.

For financial institutions that have already introduced internal credit rating models, the Bank will quantify their expected losses (EL) and unexpected losses (UL), so as to assess the economic value of overall loan portfolios and the associated risks, giving due consideration to risks involved in credit portfolio concentration on particular borrowers and the effects of the business cycle. Based on these quantifications, the Bank will hold in-depth discussions with financial institutions on methods for controlling credit risk and setting interest rates, encouraging them to improve the performance of their internal credit rating models.

With regard to loans to small businesses, banks are increasingly pooling such assets in order to assess their economic value and manage the associated risks collectively. If such methods become more established for managing risks related to small borrowers, banks can control overall risk on loans to small businesses without being too risk averse because of less information on the borrowers compared to larger firms. Such methods are expected to enable financial institutions to contribute, through their lending activities, to businesses in regional economies and at the same time ensure that their own business conditions remain sound. With this prospect in mind, the Bank intends to use its on-site examinations to get a clearer picture of banks' pooling techniques for managing loans.

Turning to assets other than loans, the Bank has been assessing the economic value of financial institutions' assets for which market prices are available, such as listed securities, at market values, i.e., using the mark-to-market method. However, financial institutions have increased investment in assets for which market prices are not available, for example structured bonds, structured deposits and loans, privately placed real estate investment trusts, and non-listed preferred stocks. The Bank intends to assess the economic value of these assets and other newly developed financial products, utilizing pricing models, i.e., the mark-to-model method. The Bank will discuss with financial institutions ways of improving such models. Since the economic value of deferred tax assets may vary greatly depending on the level and volatility of financial institutions' own future profits, the Bank will also hold thorough discussions with them on assessing the value of deferred tax assets.

2. Enhancing integrated risk management

If financial institutions effectively utilize frameworks for integrated management of various risks including credit risk, market risk, and operational risk, they can obtain objective inputs to weigh the efficient use of their limited capital as well as the risks and returns on their assets. This will help them manage their overall business more rationally and efficiently. Through its on-site examinations, the Bank will encourage financial institutions to introduce and utilize such frameworks for integrated risk management, taking their specific financial and business conditions into full consideration.

To this end, the Bank will have in-depth discussions with financial institutions, such as major banks, that have already introduced frameworks for integrated risk management on how to further enhance techniques for quantifying risk and to expand the categories of risk that can be quantified. Getting a clearer picture of the correlations between risks will also be a topic for discussion.

As for financial institutions that have not yet introduced frameworks for integrated risk management, the Bank will seek to share understanding of risk management, and also support their efforts to introduce such frameworks by encouraging them to collect necessary data and establish measures to quantify risks. These points are consistent with the concept of the new capital adequacy framework, commonly known as Basel II. Meanwhile, the Bank will encourage regional financial institutions that are increasing securities investment to take due account of the amount of capital allocated as a buffer against credit and operational risks when allocating capital for securities investment, and also to set appropriate limits on the amount of securities investment and the associated risks given the size of their capital buffer.

Information disclosure by financial institutions, based on appropriate assessments of the economic value of their assets and the associated risks, and on integrated risk management, will make it easier for depositors and investors to evaluate how effectively financial institutions are managed and to assess the corresponding risks and returns on their investments. This is expected to improve the functioning of market discipline on financial institutions' management. From this viewpoint, the Bank will encourage financial institutions through its on-site examinations to further improve information disclosure regarding their risk management.

3. Promoting active credit portfolio management

Financial institutions may have stronger incentives to actively redeploy their assets so as to optimize their credit portfolios when they can more objectively assess the risks and returns on their assets using frameworks for integrated risk management. This will lead to greater activity in credit markets, such as markets for securitizing loans and other assets, and more diversified channels for credit provision, and thus result in the enhanced functioning of the financial system as a whole.

Through its on-site examinations, the Bank will therefore encourage financial institutions' efforts toward active credit portfolio management and will hold in-depth discussions with them on necessary measures, such as reviewing lending practices.

4. Ensuring smooth settlement

The Bank will continue to closely monitor how payments and settlements are interrelated in the financial system and identify any associated risks. Where necessary, the Bank will take relevant measures to provide liquidity. In its on-site examinations, the Bank will identify risks inherent in the overall payment and settlement system and also carefully examine financial institutions' liquidity management after the full removal of the blanket guarantee of deposits, with a view to preventing the materialization of systemic risk.

The Bank will examine project management at the financial institutions involved in large-scale integration of computer systems regarding core financial data scheduled in fiscal 2005. The Bank will also do this at other institutions involved in scheduled joint management of development and operation of computer systems. In addition, the Bank intends, where necessary, to check operators of clearing systems and outsourcees of financial institutions on site, to ensure the smooth operation of the overall payment and settlement system.

In preparation for large-scale natural disasters or terrorist attacks, the Bank will examine carefully whether business continuity arrangements would function adequately and whether channels for communication with the Bank have been properly established.

5. Enhancing security measures attending financial transactions

Ensuring the security of financial transactions is essential for maintaining the stability of the financial system and enhancing its functioning. Financial institutions have reaffirmed the importance of ensuring the security of financial transactions recently, with the diversification of financial services, sophistication of financial crimes such as use of counterfeit cash cards, and an increase in information leakage. Depositors and investors have become more concerned about the security of financial transactions. The Bank will therefore check through its on-site examinations whether financial institutions have established sufficient risk management systems in this regard, and request them to improve their systems where necessary. Specifically, the Bank will verify the following points: that guidelines on business operations in compliance with the relevant laws and regulations have been drawn up; that proper security measures have been taken for computer systems; and that internal inspections and audits have been functioning fully.

The Bank will support financial institutions' efforts to improve the functioning of their internal control governing the management of risks and business activities, taking their specific financial and business conditions into full consideration, by examining whether managerial decisions and business activities follow due process and whether these decisions are evaluated objectively *ex post*.

Based on the five core elements as outlined above, the Bank has prepared a list of key points by major risk category which it will focus on in its on-site examinations in fiscal 2005 (see Attachment).

B. Practical Issues Relating to On-Site Examinations

In conducting its on-site examinations in fiscal 2005, the Bank intends to maintain a close dialogue with the management of financial institutions and seek solutions for various tasks, so that the Bank's on-site examinations help financial institutions enhance their management of risks and business activities. The Bank will also continue to exchange views with external auditors, where necessary, as well as financial institutions, regarding accounting issues.

The Bank will continue to give due consideration to easing the burden of on-site examinations on financial institutions. Specifically, the Bank will shift the focus of its on-site examinations from assessing financial institutions' evaluation of individual assets to examining their frameworks for risk management, based on the new on-site examination policy for fiscal 2005 and onward. This will result in reducing the number of loans extracted from financial institutions' overall loan portfolios so as to check the accuracy of their self-assessment in on-site examinations. In addition, the Bank will take a more flexible stance on the scope, size of examination teams, and duration of each on-site examination, depending on the financial and business conditions of each financial institution.

The Bank intends to expand the use of the online data exchange system so that data used in its on-site examinations can be exchanged more efficiently. The Bank will also start, in fiscal 2005, exchanging data through the infrastructure using extensible business reporting language (XBRL), which is considered to be one of the advantageous data formats for exchanging financial data. This will not only enhance efficiency in exchanging financial data for on-site examinations and off-site monitoring but also encourage private-sector initiatives for development of an advanced financial information network.

Attachment

Key Points for On-Site Examinations and Off-Site Monitoring in Fiscal 2005 by Risk Category

Credit Risk

- Assess the whole range of financial institutions' assets—that is, not just their loan portfolios—as well as their financial transactions in terms of economic value and volatility, i.e., risk.

  — Assess various types of loan in terms of economic value and associated risks, using an approach based on the discounted cash flow (DCF) method.

  — The economic value of loans to firms to which a financial institution has especially high loan exposure is affected by balance-sheet conditions at the institution. Discuss methods for assessing the economic value of such loans, taking this characteristic duly into account.

  — Financial institutions have recently been expanding mortgages and standardized loans to small businesses. Verify that methods have been established for controlling the associated risks collectively and making requisite provisions. Review, where necessary, whether appropriate risk management has been implemented that takes due account of borrowers' attributes. Where mortgages have been securitized, review risk management frameworks, particularly focusing on the appropriateness of the risk measurement of the financial institutions' residual exposure following securitization.

- Examine whether financial institutions have established systems to collect and check the data that form the basis for internal credit rating models. Also evaluate the performance of such models, by looking at differences between model estimates and actual ratings. These points are consistent with the concept of the new capital adequacy framework, commonly known as Basel II.

  — For financial institutions that have not yet introduced internal credit rating models, seek to share their understanding of risk management methods that use such rating models and support efforts to establish such models by encouraging data collection, taking due account of individual financial and business conditions.

- For financial institutions that have already introduced internal credit rating models, quantify their expected losses (EL) and unexpected losses (UL), giving due consideration to risks involved in credit portfolio concentration on particular borrowers and the effects of the business cycle. Hold in-depth discussions on ways of controlling credit risk and setting interest rates, encouraging financial institutions to improve the performance of their internal credit rating models.

- Examine the feasibility of financial institutions' assessment regarding the rehabilitation of distressed borrower firms and also verify that their support and advice to eligible firms are appropriate.

- Examine financial institutions' implementation of active credit portfolio management utilizing financial engineering techniques such as credit derivatives and a wide range of credit market functions.

  — Share understanding related to active credit portfolio management with financial institutions, taking due account of their individual financial and business conditions. Also discuss the measures necessary to achieve such active portfolio management including objective assessment of risks and returns on assets and formulation of more consistent lending practices.

- Evaluate whether financial institutions properly assess the disposal value of pledged real estate, taking due account of records for auctions and discretionary sales of similar properties, financial institutions' stances with regard to disposal, and the results of on-site inspections of pledged real estate. Verify, where necessary, that financial institutions are appropriately assessing the value of real estate where soil is contaminated.

Market Risk

- Assess financial institutions' assets, not only limited to their loan portfolios, and financial transactions in terms of economic value and volatility, i.e., risk.

- Examine how financial institutions assess and manage interest rate risk. Also verify that investment decisions are made through appropriate internal procedures, based on an objective assessment of the size of risks to be taken by these institutions in proportion to their capital bases.

  — For regional financial institutions that are increasing securities investment, examine whether they take due account of the amount of capital allocated as a buffer against credit and operational risks when allocating capital for securities investment. Check also whether they set appropriate limits on the amount of securities investment and the associated risks given the size of their capital buffer.

- Discuss appropriate ways of controlling market risk associated with each financial institution's stockholdings. Also verify that financial institutions accurately evaluate risks associated with non-listed preferred stocks acquired in the process of rehabilitating distressed borrower firms, using pricing models where necessary.

- Thoroughly examine the risk profiles of new types of assets, such as structured bonds, structured deposits and loans, privately placed real estate investment trusts, and hedge funds, in which financial institutions are increasingly investing. Assess financial institutions' risk management by checking how accurately financial institutions can grasp the economic value of these products, using pricing models where necessary.

- Discuss how asset and liability management can become more robust to interest rate fluctuation.

Settlement and Liquidity Risks

- Examine financial institutions' management of settlement and liquidity risks for both yen and foreign currencies based on stress analyses. Also examine the effectiveness of financial institutions' contingency plans in the event of funding difficulties.

- Consider the possible systemic effects of disruptions in funds or securities settlement on the overall financial market, given that a new clearing system will start operation and there will be an increase in tiering arrangements for settlements.

- Verify that financial institutions' risk management measures to address reputational risk are satisfactory. Measures examined include those aimed at enhancing market participants' and depositors' confidence, such as improving disclosure of information, and reinforcing contingency arrangements.

Operational Risk

(1) Operational risk associated with business operations

- Examine whether financial institutions are appropriately managing operational risk associated with business operations, as they have been making greater use of outsourcing and centralizing back-office processing at their headquarters, while at the same time placing more importance on internal inspection within each branch under recent auditing frameworks.

- Examine whether financial institutions' frameworks for internal control function effectively to ensure orderly business operations and appropriate risk management for new businesses including the following: sales of investment products such as investment trusts and insurance; Internet banking; and securities brokerage.

- Encourage financial institutions, where necessary, to monitor operations at the third parties to whom they have outsourced operations (outsourcees) and to keep a tighter rein on them, in light of the trend of financial institutions and operators of clearing systems increasingly outsourcing parts of their operations.

- Verify that financial institutions are making efforts to achieve more sophisticated operational risk management by improving their facility to collect and analyze data.

(2) Computer systems

- In order to ensure stable operation of payment and settlement systems, examine whether financial institutions' measures are adequate to maintain the safety and reliability of their computer systems and to respond promptly to system failures.

- With respect to projects such as the large-scale integration of core financial data systems, and the joint management of system development and operation by more than one financial institution, examine whether financial institutions can ensure that their computer systems are built and run appropriately, and also that they have in place contingency plans to respond appropriately in the event of system failures. Also examine, where necessary, with a view to ensuring stable operation of the payment and settlement system as a whole, whether operators of clearing systems are designing and operating their systems appropriately, as it is possible for risk to become concentrated at clearing systems.

- With the increasing prevalence of both open and networked systems, verify that the maintenance and operation of such systems by both financial institutions and outsourcees are conducted appropriately.

(3) Business continuity arrangements

- Review financial institutions' measures taken for large-scale natural disasters in fiscal 2004, and examine contingency arrangements, including their contingency plans and drills in preparation for disruptions affecting either operational sites or wider areas, their back-up facilities, and their channels for communication with the Bank and other parties concerned.

(4) Security measures attending financial transactions

- Confirm the strategies of financial institutions' management for dealing with sophisticated financial crimes, such as unauthorized access to bank accounts and use of counterfeit cash cards, banknotes, and coins, and verify that appropriate action is being taken in line with these strategies.

- Examine whether customer information is being handled with the appropriate degree of security, in accordance with the laws and regulations on the protection of personal information. In particular, verify that computer system security is adequate to protect customer information.

Financial Strength, Integrated Risk Management, and Internal Control

- Estimate financial institutions' future credit costs taking into account both the likelihood of changes in borrowers' credit categories and the economic conditions in their business areas. Evaluate, where necessary, financial institutions' earnings projections by conducting simulations of future profits when subjected to certain stresses.

- Discuss how the economic value of deferred tax assets should be assessed and recorded in financial institutions' balance sheets, taking financial institutions' future profits and their volatility into account.

- As for integrated risk management, discuss with financial institutions how to further enhance techniques for quantifying risk and to expand the categories of risk that can be quantified. Also discuss how to get a clearer picture of the correlations between risks.

— For financial institutions that have not yet introduced frameworks for integrated risk management, share understanding of risk management, taking due account of individual financial and business conditions. These points are consistent with the concept of the new capital adequacy framework, Basel II. Also support their efforts to introduce integrated risk management frameworks by encouraging them to collect necessary data and to establish measures to quantify risks.

- Review whether financial institutions' allocation of capital to business units and their assessment of each unit's profitability are being made in line with frameworks for integrated risk management.

- Discuss ways to improve disclosure of information regarding risk management, such as the economic value of financial institutions' assets and associated risks, and regarding the operation of integrated risk management.

- Discuss with financial institutions ways of introducing auditing measures suitable for their risk profiles, making risk-focused auditing plans, taking appropriate action based on the results of internal auditing, and making sure that management is appropriately involved in the internal auditing framework, so as to ensure that internal audits function smoothly.

- Evaluate the functioning of financial institutions' internal control governing the management of risks and business activities by examining whether decisions and business activities follow due process and whether these decisions are evaluated objectively *ex post*.

- Discuss with financial institutions whether they are able to raise the additional capital needed to finance new profit opportunities.