

**The main issues raised by the FSA at opinion exchange meetings with  
trade associations  
[held on April 18, 2023, with the Japan Securities Dealers Association]**

**1. Trends of discussions at the G7 meetings**

- Japan has held the G7 presidency since January 2023. Discussions in the G7 Finance Track will prioritize (i) responses to urgent issues, including support for Ukraine, financial sanctions against Russia, debt problems of developing countries, and energy and food insecurity, (ii) initiatives concerning such issues as climate change, global health, and financial digitalization for enhancing the resilience of the world economy, and (iii) ideal economic policies in consideration of diverse values. In the financial sector, priority will be placed on crypto-assets and sustainable finance.
- Most recently, the G7 Finance Ministers and Central Bank Governors Meeting was held in Washington D.C. in America on April 12. The statement published after the meeting states that recent financial sector developments highlight the uncertainty about the global economic outlook and the need to stay vigilant, while reaffirming that the financial system is resilient, supported by relevant authorities' prompt responses as well as the financial regulatory reforms implemented after the 2008 global financial crisis. Then, it is confirmed that G7 will continue to closely monitor financial sector developments and stand ready to take appropriate actions to maintain the stability and resilience of the global financial system.
- The next G7 Finance Ministers and Central Bank Governors Meeting is scheduled to be held in Niigata from May 11 to May 13, and the G7 Summit in Hiroshima from May 19 to May 21. We would like to hear opinions of individual financial institutions and contribute to international discussions, including those at G7 meetings.

**2. Request answer to annual AML/CFT/CPF surveys**

- The FSA issues order to financial institutions to submit data related to your businesses

and AML/CFT/CPF measures (AML/CFT/CPF survey) every year based on the Financial Instruments and Exchange Act. This year, we have sent the survey forms to you to report data as of the end of March 2023 and you are required to submit the reports by the end of May 2023.

- The FSA has analyzed the survey results in 2022 by comparing the self-assessments by financial institutions and outcomes of their AML/CFT/CPF on-site inspections. We found that there are serious gaps between them. Financial institutions tend to answer they have mostly satisfied the AML/CFT/CPF requirements in the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, and however, the FSA supervisors identified most of them has hardly finished their AML/CFT/CPF framework establishment through on-site inspections .
- Let us remind you that all financial institutions are required to complete AML/CFT/CPF framework establishment by March 2024, and top managements of each financial institution are expected to fulfill their responsibilities of the following points :
  - Requesting your AML team to report the progresses and gap of your AML/CFT/CPF framework establishment. You need to verify whether the team objectively assess its own progress and not overestimate.
  - Checking allocation of human resources of your AML team to implement AML/CFT/CPF measures.

### 3. Return of the results of the questionnaire survey on sales and management systems for financial instruments and enhancement of implementation policies and statuses

- Recently, the FSA conducted a questionnaire survey on regional banks' sales and management systems for financial instruments. Problems revealed in the survey results, which will also be of some help for other types of financial institutions, are introduced below (the survey results were already published on the FSA's website on April 11).

- Points of concern regarding the survey results include the following:
  - (i) Nearly 30% of the surveyed regional banks answered that they do not conduct advance verification of the features of financial instruments, including their risks, returns and costs.
    - \*The Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. cite "whether financial instruments business operators sufficiently analyze and identify the risks, returns and costs of individual financial instruments as well as other information that is necessary for customers in making investment in financial instruments" as one of the major supervisory viewpoints, and Principle 6 of the Principles for Customer-Oriented Business Conduct provides that "financial institutions should develop, sell, recommend or otherwise handle financial instruments and services that are suited to their customers."
  - (ii) Regarding three linemodel, over 10% answered that they do not conduct verification beyond that on compliance,\* and although small in number, there were also answers that they do not devise or verify means to not focus on selling financial instruments with high sales commissions or they do not verify or review their sales systems based on customers' complaints.
    - \*For example, many banks have an internal rule to require presence of a relative when selling a foreign currency-denominated single premium policy to an elderly customer, but there were cases in which verification was conducted only superficially regarding whether a relative was present or not and further verification was not conducted on such points as whether too much importance is placed on selling financial instruments.
- Past monitoring has revealed that there are many banks that provided positive answers but have not implemented relevant measures sufficiently. Some are suspected to have failed to ascertain their actual sales systems and business conditions.
- It must be difficult to seek customers' best interest without implementing these measures. Please verify the current status of and structures for implementing required measures and review your implementation policies as necessary.
  - \*Including verification regarding such points as whether too much importance is placed on selling financial instruments in the final month of a quarter or whether sale of foreign currency-denominated single premium policies is overly prioritized
- Many answered that they did not deal with structured bonds as of the end of last November. From the perspective of developing appropriate sales systems for

financial instruments in general, what matters is not the fact of having suspended the sale of structured bonds but what discussions they had internally and on what grounds and opinions they reached a conclusion to suspend the sale are much more important. When intending to continue selling structured bonds, top management should responsibly make the final decision from the perspective of seeking customers' best interest based on the results of proper verification of risks and returns.

- The FSA will continue monitoring of financial institutions and point out problems in a manner contributing to improving their sales and management systems. Top management of individual financial institutions are expected to exercise their leadership to ensure and promote customer-oriented business conduct.

#### 4. PR activities for further disseminating NISA

- As has been introduced earlier, fundamental expansion and perpetuation of the NISA program are incorporated in the Tax Reform Outline. The amended tax law was enacted and the new NISA program will be launched in January next year.
- The national government intends to take this opportunity when people's interest in the new NISA program is growing and further intensify PR activities especially during this year, in close collaboration with individual financial institutions, to disseminate messages concerning (i) the importance of asset formation based on life plans and (ii) wise utilization of the NISA program for that purpose among a wider range of people.
- We ask securities companies to actively carry out PR activities concerning the NISA program, including those by front-line sales personnel, and to strengthen collaboration with the FSA and other relevant organizations. On those occasions, please note the following:
  - (i) When disseminating information on the NISA program, be sure to mention the importance of asset formation based on life plans and provide an accurate explanation that the NISA program is one of the options that can be used for asset

formation.

- (ii) Clarify the facts that the use of the NISA program means to make investments in investment trusts and equities, etc. and involves risks of price drops and that the NISA program originally recommends long-term, installment, or diversified investments.
- Please make sure that front-line sales personnel fully understand these two points. The FSA is urgently deliberating samples of contents to be utilized in PR activities (references) and will feed them back to you as soon as possible. Please utilize them as necessary.

#### 5. Financial Policies Monitoring

- The FSA has collected opinions on its financial policies from financial institutions and the general public through various means. However, some financial institutions have pointed out the difficulty for them to present their frank opinions directly to officials of the FSA.
- Accordingly, the FSA established the "Contact for Financial Policies Monitor" in January 2016 as a mechanism to report frank opinions on financial policies presented by financial institutions and their employees directly to external experts, who are third parties in a neutral position, and have such opinions reflected in financial policies.
- Under this mechanism, information with which an individual or organization of affiliation can be identified is all masked before being conveyed from financial policies monitors to the FSA, thereby strictly ensuring the anonymity of persons who presented opinions or suggestions.
- Since the establishment of the Contact for Financial Policies Monitor, 286 opinions have been accepted (as of the end of March 2023) and shared among executive officials of the FSA. There have been some cases where opinions led to the revision of the system.
- One of the recent opinions points out that some webpages for accepting complaints

require entries of personal information beyond the necessary extent. This suggests the possibility that various services offered by financial institutions are not based on the viewpoint of the customer, although they are making efforts to promote customer-oriented business conduct, and result in inviting misunderstanding among customers. Financial institutions are required to review their efforts from the standpoint of customers.

- On March 31, we held a meeting to exchange opinions with financial policies monitors. They presented opinions concerning (i) ideal operations of Financial Policies Monitoring, (ii) the new NISA program, (iii) customer-oriented business conduct, and (iv) consumer troubles among young people. We would like to further improve our financial policies while also taking those opinions into consideration.
- The significance of Financial Policies Monitoring lies in the facts that (i) this enables financial institutions to directly present their opinions to financial policies monitors, who are independent of the FSA, and enables the FSA to improve its financial policies based thereon, and that (ii) this triggers dialogues between the supervisory authority and financial institutions specifically regarding the measures conducted by individual financial institutions. What is important here is not merely accepting opinions but making responses meticulously and positively from the perspective of improving financial policies as a whole, not limited to taking actions concerning individual cases. We hope that you will tell us any points you noticed, including those for improvement. Please disseminate the information on Financial Policies Monitoring among your member financial institutions and their employees.
- On the other hand, it is also important to operate the system while always reviewing the appropriateness from the viewpoints of the general public and customers. We would like to discuss future disclosure of the operation status within the possible range.

#### 6. New self-regulatory guidelines concerning complicated structured bonds, etc.

- In February 2023, the Japan Securities Dealers Association published new self-

regulatory guidelines concerning complicated structured bonds, etc. With the aim of strengthening the minimum rules that should be observed upon solicitation and sale of structured bonds, etc., the new regulatory guidelines incorporate important reviews on a wide range of matters, such as (i) involvement of top management in verification of sales and solicitation systems, (ii) verification of the appropriateness of risks and returns, and (iii) stiffening of the standards for deciding targeted customers. We understand that you are deliberating on ideal disclosure of development costs and analysis and disclosure of risks and returns to disseminate the deliberation results to your members by the end of June 2023.

- Even after the enforcement of the new rules, when selling complicated structured bonds, etc., financial institutions need to strictly verify their sales and solicitation systems and conduct effective reviews with the involvement of top management based on a full understanding of the purport and details of the new rules. For example, even in cases of selling financial instruments of the same type as those they have dealt with so far or selling financial instruments to customers with whom they have had transactions before, financial institutions should review their procedures again in line with the new rules.
- The FSA has constantly considered it important for financial institutions to voluntarily verify sale of each financial instrument sufficiently in line with their own policies for ensuring customer-oriented business conduct with the involvement of top management, and review their operations as necessary based on the verification results. Investment trusts and other financial instruments also include those with complicated features to a certain degree whose risks, returns, costs, etc. are not necessarily easy to understand. Regarding such financial instruments, not limited to structured bonds, they should verify their sales and solicitation systems as necessary from the perspective of ensuring customer-oriented business conduct.

#### **7. Revision of the Comprehensive Supervisory Guidelines regarding ESG**

- In recent years, the issue of greenwashing has been pointed out globally. In response,

the FSA partially revised the Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc. at the end of March 2023 and concretely specified matters to be verified when disclosing information on publicly offered investment trusts relating to ESG. As a result of seeking public comments, we received over 300 comments on this revision, suggesting a high level of interest among people.

- The revision targets asset management companies, which develop investment trusts and prepare documents for disclosure, and requests them to refrain from using exaggerated expressions in prospectuses to be delivered to customers, for example, to avoid explaining products as if they were ESG investment trusts although they are not actually, from the perspective of avoiding customers' misunderstanding.
- In order to thoroughly avoid customers' misunderstanding, not only asset management companies but also your members need to take measures appropriately in light of the purport of the revised guidelines. Please disseminate the purport of the revised guidelines broadly to sales and operational personnel or otherwise carry out actions in compliance with the revision.

## 8. Progress in Transition Away from LIBOR

- The FSA, together with the Bank of Japan, conducted the Fourth Survey on the Use of LIBOR (at end-December 2022) and published the results on March 24, 2023.
- Through this survey, with regard to contracts referencing USD LIBOR for which the publication will be ceased at end-June 2023, almost 60 percent of financial institutions either have no existing contract or have completed an active transition to alternative reference rates/incorporated fallback provisions. Also, financial institutions with legacy contracts responded that they did not have major obstacles to transition arrangements at this point. With regard to synthetic LIBOR, there remain a small number of contracts referencing JPY/GBP LIBOR. Yet, on synthetic JPY LIBOR, transition agreements are almost completed for all of these contracts, and on



synthetic GBP LIBOR, the completion of transition arrangements is projected.

- Financial institutions are required to continue to plan and take appropriate actions taking into account the cessation of synthetic LIBOR by currency. And with regard to USD LIBOR, for which the publication will be ceased in less than three months, we would like them to make sure to progress necessary actions for the transition, with the timeframe until the cessation of USD LIBOR at end-June 2023 in mind.
- Based on the results of this survey, the FSA will continue to monitor the progress in transition arrangements of financial institutions, cooperating with the Bank of Japan, and require them to take necessary actions depending on their respective situations. .