

3

2023

March

Monthly
magazine

Financial Services Agency
Newsletter

Access

FSA

No.235



Provisional
Translation

Contents

Conferences (P1-)

P1 Holding of “NISA Day Commemorative Event
- Toward Doubling Asset-based Income -“

P3 Online events (hosted by the FSA) to promote the matching of human resources
for regional corporate management

Policy Commentary Corner (P6-)

P6 Revision of the Cabinet Office Order on Disclosure of Corporate Affairs, etc.
—Disclosure of Sustainability Information, etc.—

AGARI Satoshi, Disclosure Planning Coordinator
KASAI Wakako, Officer
KOIZUMI Yusuke, Staff

Corporate Accounting and Disclosure Division, Policy and Markets Bureau

P10 "Code of Conduct for ESG Evaluation and Data Providers"

IKEDA Yuri, Deputy Director, Sustainable Financial Office, Strategy Development
Division, Strategy Development and Management Bureau

Notices (P14)

P14 Financial Policies Monitor

JFSA's Major Activities in December (P15)



↑Access the online version here
<https://www.fsa.go.jp/en/newsletter/index.html>



Financial Services Agency

Holding of "NISA Day Commemorative Event - Toward Doubling Asset-based Income -"

On February 11, 2023, the Financial Services Agency (FSA) held the "NISA Day Memorial Event -Toward Doubling Asset-based Income- " together with the Japan Securities Dealers Association, Japan Exchange Group, and the Investment Trusts Association.

This event was held to discuss NISA, asset building, and the Doubling of Asset-based Incomes Plan in commemoration of the NISA Day, which falls on February 13. Not only did around 100 people participate in the event in person, but also the maximum number of concurrent online viewers of the event surpassed 1,000 people. The following is a brief overview of this event.

1. Prime Minister Kishida's video message

Prime Minister Kishida delivered a video message saying that in order to promote the shift of assets from savings to investment in a bold, fundamental way starting in 2023, which is the first year of the Doubling of Asset-based Incomes Plan, the government is implementing a comprehensive set of measures, including fundamentally expanding NISA and renewing it as a permanent system, reforming the iDeCo program, ensuring customer-oriented business conduct, enhancing financial and economic education and promoting the provision of advice that consumers can trust.



Photo: Prime Minister Kishida delivering a video message

2. Panel discussion

Featuring the Doubling of Asset-based Incomes Plan formulated on November 28 of last year as the main theme, the panelists held discussions on existing and future relevant activities and their own thoughts from their respective standpoints representing the government, the public sector and the private sector. Deputy Chief Cabinet Secretary KIHARA Seiji pointed out the importance of enabling the people to enjoy the benefits of growth and expressed hope to create a new middle class.

When a teenage participant asked for advice about future-oriented investment, FSA Commissioner Nakajima mentioned the importance of long-term, installment, diversified investment and his own experience with NISA.



Photo: A scene of the panel discussion

3. Talk session

A talk session was held with the participation of Takahashi Yoshinobu, former manager of the Yomiuri Giants professional baseball team, and Baba Noriko, a freelance announcer, as well as Chairman Morita of the Japan Securities Dealers Association to talk about the frank impressions that people with no experience of securities investment and other investment beginners have about doubling of asset-based incomes and NISA.



Photo: A scene of the talk session

The FSA will continue to conduct vigorous public relations activity targeted at all generations through such media as TV, the internet, and SNS and also engage in other activities, such as holding seminars intended to deepen the understanding of NISA, including financial and economic education, in various places across Japan.

* An archive video of this event can be viewed at the following website of the Japan Securities Dealers Association:

https://www.jsda.or.jp/about/gyouji/230211nisa_event.html (Available in Japanese)

<Event program>

• Opening speech

Organizer representative

MORITA Toshio, chairman, Japan Securities Dealers Association

• Video message

KISHIDA Fumio, Prime Minister

• Panel discussion

Facilitator

SHIBUSAWA Ken, Chairman, Commons Asset Management Inc. (a member of the Council of New Form of Capitalism Realization)

Panelists

KIHARA Seiji, Deputy Chief Cabinet Secretary

NAKAJIMA Junichi, FSA Commissioner

MATSUTANI Hiroshi, Chairman, Investment Trusts Association.

NAGAI Koji, Chairman, Nomura Securities Co. Ltd. (Vice Chairman, Japan Securities Dealers Association/Chairman, Securities Strategy Board)

• Talk session

Speakers

TAKAHASHI Yoshinobu (former manager of the Yomiuri Giants)

BABA Noriko (freelance announcer)

MORITA Toshio, Chairman, Japan Securities Dealers Association

• Closing speech

Organizer representative

KIYOTA Akira, Director & Representative Executive Officer, Group CEO, Japan Exchange Group, Inc.



A group photo of the panelists and speakers at the event

Online events (hosted by the FSA) to promote the matching of human resources for regional corporate management

In 2018, the FSA revised the supervisory guidelines to make it clear that financial institutions can engage in the service of introducing workers to client companies. Following the revision, worker-employer matching efforts by regional financial institutions have been spreading wide. For its part, the FSA is engaging in the "project to match workers with management skills with regional companies" with the aim of creating a flow of workers from major companies to regional middle-ranking companies and small and medium-size enterprises (SMEs).

Among workers at major companies, there are those who are interested in working in a provincial region from various viewpoints. For example, some workers wishing to relocate to a provincial region are worried about finding a job, while others are hoping to find a workplace in a provincial region while also maintaining their residence in an urban area. Therefore, the FSA held an online forum intended to explain the significance of working for a regional company and the keys to successfully building a career in a provincial region to those who want to switch to a job in a provincial region and those who want to work for a regional company as a concurrent or side job.

1. "To the Next Stage of Working Successfully for a Regional Growth Company—Second Career Support Forum"

On February 11, 2023, an online forum on second career support for major-company workers^{*1} was held with the cooperation of The Yomiuri Shimbun, and State Minister Fujimaru delivered a speech at the outset of the forum.

<Gist of State Minister Fujimaru's speech>

In provincial regions, there are many growth companies with great future potential. One challenge

for those companies to make further successful achievements is how to secure workers. The FSA aims to create a new flow of workers to provincial regions. I believe that this forum serves as a good opportunity to take a next specific step toward a second career.



〔 Photo: State Minister Fujimaru delivering a speech 〕

< Gist of the panel discussion >

At this forum, two discussion sessions were held on the themes of "the significance of major-company workers moving to a regional company" and "the advantage of worker-employer matching by regional financial institutions," respectively.

In the discussions, the panelists^{*2} made the following remarks:

- (i) Remarks related to the keys to a successful relocation to a provincial region: "Being involved with the local community leads to a higher level of satisfaction (Inagaki)" and "Living cost can be limited without lowering the living standards" (Nojiri)

^{*1} The video of this forum is available from the online archive at the following website (from April onwards, the video is scheduled to be published via FSA's YouTube channel): https://yab.yomiuri.co.jp/article/secondcareer_archive/index.php (Available in Japanese)

^{*2} The following 10 persons served as the panelists of this forum—Part 1: INAGAKI Fumihiko, Deputy Secretary-General, Furusato Kaiki Shien Center (NPO); SUDA Mariko, Representative Director, Career Consulting Encourage Association/Representative, Jinzai-dock; NOJIRI Satoshi, Representative, FinWell Research LLC; MATSUURA Hiroshi, Representative Director, YM Career—Part 2: Yamori Nobuyoshi, Professor/Director, Research Institute for Economics and Business Administration, Kobe University; ITO Yutaka, Commissioner, FSA—Part 3: IWAMOTO Shinya, Manager, Corporate Support Division, Shizuoka Bank; SHIBATA Satoru, Executive Managing Director, Regional Economy Vitalization Corporation of Japan; HASHIGUCHI Tomonori, Representative Director, Maruso; MATSUHASHI Takahiro, President, HUREX

- (ii) Remarks suggesting the possibility of workers from major companies contributing to regional companies, including the voices of people representing regional growth companies: "There are some people who have not recognized their own worth as persons who have learned from working for a major company" (Suda); "Even just one worker from a major company joining a regional company causes a positive change" (Matsuura); and "I hope that workers will enter new fields and make a successful career in a provincial region" (Hashiguchi).
- (iii) Remarks mentioning the significance and importance of worker-employer matching by regional financial institutions: "Regional financial institutions have a deep understanding of the management of SMEs" (Matsushashi); "Banks can act as a bridge in order to help take advantage of the skills so far cultivated" (Iwamoto); and "Regional financial institutions have a very important role to play in creating a new flow of people from major companies to middle-ranking companies and SMEs" (Shibata).



〔 Photo: A scene of the session 〕

There was also a session of discussion on the theme "Reasons for Recommending 'REVICareer' now." In this session, the following remarks were made to introduce the advantages of regional financial institutions from the viewpoint of academic research

and the contributions to resolving social challenges through "REVICareer"*3: "Regional financial institutions have an advantage in providing follow-up support, so workers who switch jobs can feel safe." (Yamori); "REVICareer provides benefits that can be used for eliminating gaps in annual income and holds training sessions and workshops for people intending to work for regional companies." (Ito)

2. "Realizing a New Career Design and Economic Revitalization through Synergy of Regions and Parallel Work"

On February 11, 2023, an online forum*4 was held with the cooperation of Alphadrive Co., Ltd. and NewsPicks, on diverse working styles, including engagement in a concurrent or side job, and the possibilities of regional revitalization.

<Gist of the panel discussion>

At the beginning, Hirata pointed out that expectations for "Boundary Spanner" are growing because of the spread of moves to share competent workers due to the lowering of the hurdle for engagement in a side job. In two subsequent sessions of discussion, discussions were held on the possibilities brought to individuals' careers as a result of working in a provincial region through a concurrent or side job and the ideal infrastructure for securing workers necessary for regional economic revitalization in a sustainable manner.

In the discussions, the panelists*5 made the following remarks:

- (i) Remarks on provincial regions' strong needs for workers who have the experience of working for a major company: "There is a shortage of people who can serve as presidents' strong right hand" (Mitani); and "There are no workers who can listen to and give feedback to presidents from the same point of view as theirs and based on similar experiences" (Hirata).

*3 In October 2021, the FSA established within Regional Economy Vitalization Corporation of Japan the REVICareer human resources platform that links regional financial institutions trying to meet SME's needs for personnel with management skills with workers at major companies. <https://www.revicareer.jp/lp/> (Available in Japanese)

*4 The video of this forum is available from the online archive at the following site (from April onwards, the video is scheduled to be published via FSA's YouTube channel) <https://newspicks.com/live-movie/2488/> (Available in Japanese)

*5 The following five persons served as the panelists of this forum—Parts 1 to 3 : HIRATA Mari, Representative Director, Professional & Parallel Career Freelance Association; Part 2: MITANI Kohei, General Manager, Tokyo Office, Kamikawa Town, Hokkaido; YAMANE Nao, Research Officer, HR Group, Solution Operation Division, Senshu Ikeda Bank; Part 3: IMAIZUMI Yoshichika, Director, the Regional Financial Planning Office/Director Worker-Employer Matching Promotion Office, Banking Business Division II

- (ii) Remarks on the role that regional financial institutions can best perform: "Regional financial institutions can identify management challenges and provide advice concerning necessary workers, and they can also make suggestions to both companies and job seekers from diverse points of view" (Yamane); and "Regional financial institutions' advantage is the ability to provide many solutions to challenges faced by regional companies" (Imaizumi).
- (iii) Remarks on the need for a mindset change on the part of SMEs: "It is necessary to change the mindset of SMEs that are reluctant to accept workers from the outside" (Kato).

In addition, it was introduced out that through REVICareer, training and workshops are provided for free in order to help workers at major companies get an idea of what working for an SME is like and that an organizational system to accept "Boundary Spanner" can be created using public benefits worth up to 5 million yen.



(Photo: A scene of the panel discussion)

3. Conclusion

Through both forums, regional financial institutions' advantage in worker-employer matching and the keys to successfully finding a job with a regional company and a successful relocation to a provincial region were explained to the participants. People interested in working for a regional company can see the contents of the forums in archive videos distributed online. We also hope that those people will consider registering with REVICareer.



For detailed information on ReviCareer, click here. ↑
(Available in Japanese)

<Event program>

"To the Next Stage of Working Successfully for a Regional Growth Company—Second Career Support Forum"	"Realizing a New Career Design and Economic Revitalization through Synergy of Regions and Parallel Work"
Part 1: Significance of Major Company Workers Moving to Regional Companies	Part 1: Current Situation and Challenges for Parallel Work in Japan
The panelists consider the attractiveness of relocating to a provincial region or working for an SME and the keys to successfully working for an SME and the significance of such career change for life design.	The panelists look into the possibilities of parallel work in provincial regions by considering the problem of concentration of workers in urban areas.
Part 2: Reasons for Recommending 'ReviCareer' now	Part 2: "Realizing a New Career Design and Economic Revitalization through Synergy of Regions and Parallel Work"
The panelists talk about the FSA's high expectations for "ReviCareer" (from the standpoint of the director-general of the bureau in charge), a human resources platform operated by the FSA to link major companies with SMEs, and about the significance of worker-employer matching for regional financial institutions' support for business operators (from the standpoint of a researcher).	The panelists look into the possibilities brought to individuals' careers as a result of "working in a provincial region" by considering how workers in urban areas can be involved in resolving challenges faced by regional companies, such as the aging society with low birth rate, the lack of progress in DX, and a shortage of workers with professional skills.
Part 3: Regional Financial Institutions' Advantage in Worker-Employer Matching	Part 3: Economic Possibilities Created through Synergy of Regions and Parallel Work
The panelists examine regional financial institutions' advantage in worker-employer matching by considering why they provide matching service and what factors make workers at SMEs and major companies feel safe about the matching service provided by the financial institutions.	To ensure that economic revitalization realized through the synergy of urban and regional manpower will not end up being a short-term phenomenon, it is necessary to create an "eco-system" for securing workers in a sustainable manner and steadily revitalize regional economies. The panelists hold discussions on the ideal infrastructure and institutional systems necessary for doing that.

Revision of the Cabinet Office Order on Disclosure of Corporate Affairs, etc. —Disclosure of Sustainability Information, etc.—

AGARI Satoshi, Disclosure Planning Coordinator
KASAI Wakako, Officer
KOIZUMI Yusuke, Staff
Corporate Accounting and Disclosure Division, Policy and Markets Bureau

On January 31, 2023, the Cabinet Order on Partial Revision of the Cabinet Office Order on Disclosure of Corporate Affairs and the Cabinet Office Order on Disclosure of Information on Regulated Securities (Cabinet Order No. 11 of 2023; hereinafter referred to as "the Cabinet Order on Disclosure") was promulgated and was put into force on the same day.^{*1} This is intended to enhance disclosure regarding companies' sustainability-related efforts and corporate governance in light of the recommendations presented in the report published by the Working Group on Corporate Disclosure of the Financial System Council in June 2022.

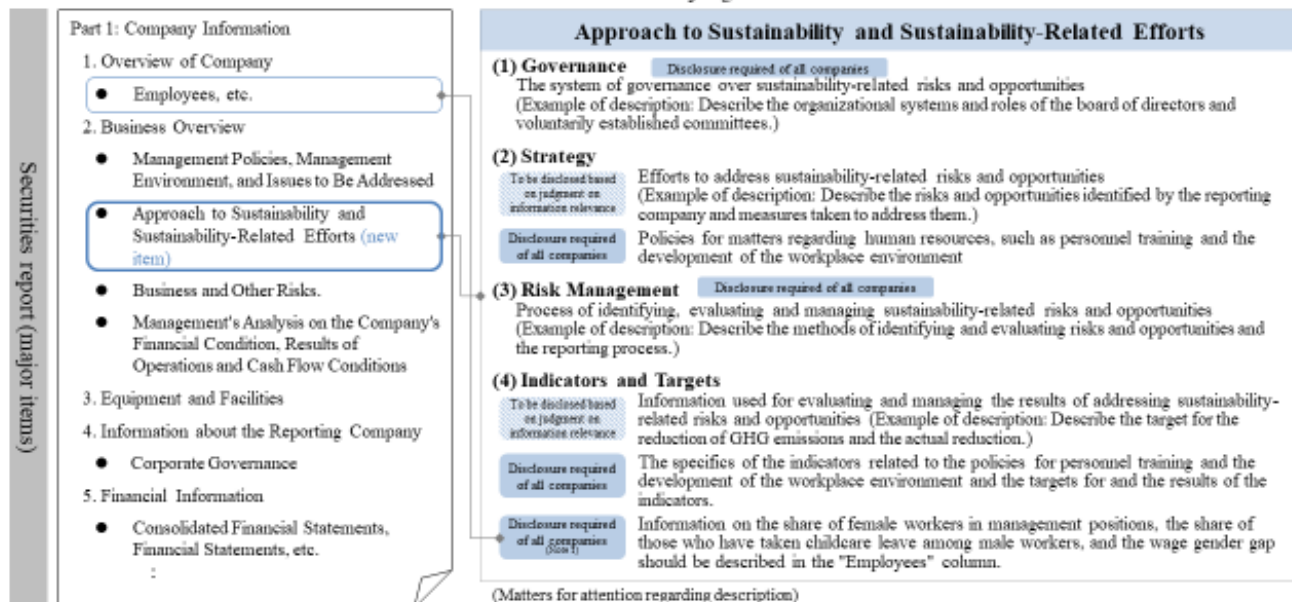
At the same time, "Concerning Matters for Attention Regarding Disclosure of Corporate Affairs, etc." (hereinafter referred to as "Disclosure Guidelines") was revised to indicate matters for attention regarding the disclosure of sustainability information, etc., while the approach to disclosure of sustainability information and efforts toward ideal disclosure were summarized in the Principles Regarding the Disclosure of Narrative Information (Attached Sheets) — Regarding Disclosure of Sustainability Information," which is a principles-based guidance.

Below, the key points of the revision are described. (For an outline of the revision, see Figure 1.)

Figure 1

Revision regarding the introduction of the new "description column" for sustainability information

- In the "description column" for sustainability information in the securities report, all companies should disclose information on "governance" and "risk management," while regarding "strategy" and "indicators and targets," individual companies should decide whether or not to disclose information based on their own judgment on information relevance.



(Matters for attention regarding description)
 ✓ Regarding detailed information, recommending references to other published documents (integrated reports, data books, etc.) is permissible. Even when the information on future p. (Note 2)
 ✓ respects described by the reporting company have turned out to be different from the actual results, the company may not necessarily be held liable for misstatement if the description provides specific explanations to an extent generally considered to be reasonable.
 (Note 1) This applies to companies subject to the obligation for information disclosure based on the Act on Promotion of Women's Participation and Advancement in the Workplace (Act No. 64 of 2015) or Act on Welfare of Workers Who Take Care of Children or Other Family Members including Child Care and Family Care Leave (Act No. 76 of 1991).
 (Note 2) Except in cases where the recommended reference to another document may constitute a material misstatement, such as when the reporting company recommends a reference to another document while knowing of the presence of a material misstatement in the referred document, the reporting company may not necessarily be subject to punitive measures or monetary penalty under the Financial Instruments and Exchange Act merely because of the presence of a misstatement in its voluntary disclosure document.

*1 Results of the Public Comment Procedure Regarding the Proposed Revision of the "Cabinet Office Order on Disclosure of Corporate Affairs, etc.," published on January 31, 2023: <https://www.fsa.go.jp/news/r4/sonota/20230131/20230131.html> (Available in Japanese)

1. Disclosure of sustainability information

(1) Introduction of the new description column for sustainability information

This revision introduced the description column "Approach to Sustainability and Sustainability-Related Efforts" (hereinafter referred to as the "sustainability description column") in the securities report. In the sustainability description column, individual companies are required to provide explanations about matters related to their medium- and long-term sustainability while bearing in mind consistency with their own management policies and strategies.

In the sustainability description column, they are also required to disclose information on their approach to sustainability and sustainability-related efforts based the four elements of disclosure that are consistent with the international disclosure frameworks—"Governance," "Strategy," "Risk Management," and "Indicators and Targets." Specifically, individual companies should comply with the following requirements:

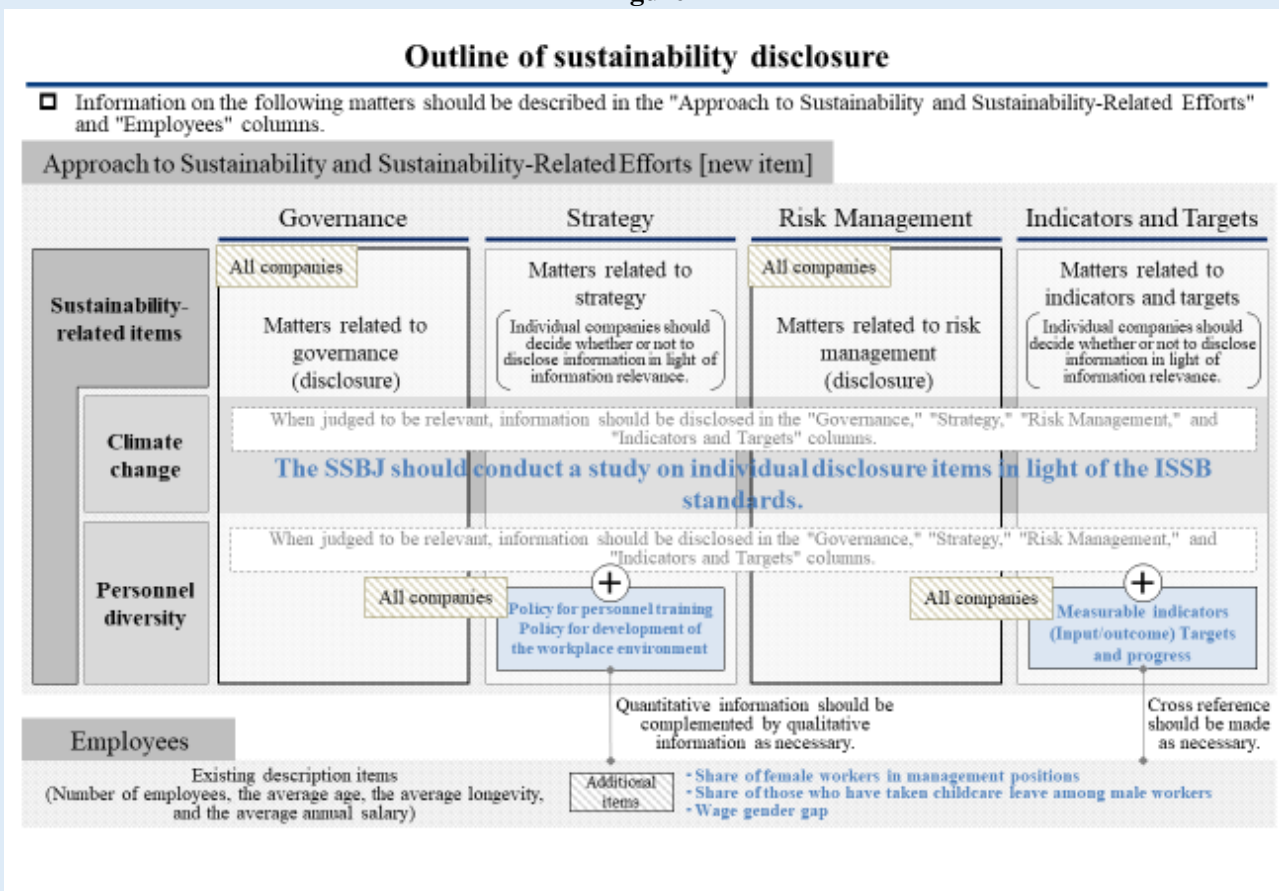
- All companies should disclose information related to "Governance" and "Risk Management" given the need for a framework for identifying, and judging the relevance of, sustainability information in light of their business environment and the

impact on corporate value.

- Regarding "Strategy" and "Indicators and Targets," while disclosing information is desirable, individual companies should decide whether or not to disclose information based on their own judgment on information relevance under the frameworks of "Governance" and "Risk management."

For example, regarding response to climate change, companies should decide whether or not to disclose information based on judgment on information relevance from the viewpoint of investment decisions to be made by investors under the frameworks of "Governance" and "Risk management." In the case of other sustainability-related items, the same principle applies. However, regardless of the judgment on information relevance, companies are required to describe matters related to human resources, such as policies for personnel training and the development of the workplace environment, including ensuring personnel diversity, in the "Strategy" column, and the specifics of indicators related to those policies and the targets for and the results of those indicators in the "Indicators and Targets" column (for an outline of sustainability disclosure, see Figure 2)

Figure 2



Regarding the sustainability description column, this revision introduces a framework that allows flexible description in accordance with the current state of individual companies' efforts without specifying the description items in detail. Therefore, it is advisable that individual companies first start sustainability information disclosure in the securities report for the business year that ends in March 2023 and then enhance the disclosure of the securities report in light of dialogue with investors and in accordance with the progress in their own sustainability-related efforts.

The disclosure guidelines have made clarifications with respect to the approaches to the description of information on future prospects and liability for misstatement and references to other published documents, among other matters, under sustainability disclosure.

(2) Disclosure of the share of female workers in management positions in the "Employees" column

As a result of this revision, reporting companies and their consolidated subsidiaries are required to describe information on the share of female workers in

management positions, the share of those who have taken childcare leave among male workers, and the gender wage gap when they disclose those indicators based on the Act on Promotion of Women's Participation and Advancement in the Workplace and the Act on Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave (hereinafter referred to as the "Act on Promotion of Women's Participation and Advancement in the Workplace., etc." In short, the share of those indicators, which have already been subject to disclosure under the Act on Promotion of Women's Participation and Advancement in the Workplace., etc., must also be disclosed in the securities report as well. As to the definitions and the calculation methods of the share of female workers in management positions, etc., the provisions of the Act on Promotion of Women's Participation and Advancement in the Workplace., etc. should be followed in order to reduce the burden on companies and to provide information to information users in a consistent manner (regarding examples of description of the indicators, see Figure 3).

Figure 3

Example of description of diversity-related indicators

	Reporting companies and their consolidated subsidiaries	Share of female workers in management positions	Share of those who have taken childcare leave among male workers (*2)	Gender wage gap			Column for additional information disclosed voluntarily (*3)
				All workers	Regular workers	Part-time and fixed-term workers	
Consolidated companies that disclosed the indicators (*1)	The reporting company	xx.x%	xx.x%	xx.x%	xx.x%	xx.x%
	Consolidated subsidiary A	xx.x%	xx.x%	xx.x%	xx.x%	xx.x%
	⋮						
Voluntary	The consolidated group	Share of female workers in management positions	Share of those who have taken childcare leave among male workers (*2)	All workers	Regular workers	Part-time and fixed-term workers	Column for additional information disclosed voluntarily (*3)
		xx.x%	xx.x%	xx.x%	xx.x%	xx.x%	(*4)

(*1) When information regarding all consolidated subsidiaries cannot be described in the "Employees" column, it is permissible to describe only information regarding major consolidated subsidiaries there while describing information regarding other consolidated subsidiaries in the "Other Reference Information" column.
 (*2) When companies have disclosed the share of those who have taken childcare leave among male workers by employment management category (regular workers, part-time workers, etc.) based on the Act on Promotion of Women's Participation and Advancement in the Workplace, they should describe the results of the indicator by employment management category in the securities report as well. When companies disclose indicators based on the Act on Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave, companies should clarify whether the indicator refers to the share of only those who have taken legally mandatory childcare leave or to the combined share of both those who have taken legally mandatory childcare leave and those who have taken non-mandatory childcare leave.
 (*3) More detailed or supplementary information may be described voluntarily in order to facilitate a more accurate understanding of the background factors of the indicators and individual companies' efforts and targets.
 (*4) In cases where the definition of the indicator described on a consolidated group basis is different from the one defined under the Act on Promotion of Women's Participation and Advancement in the Workplace, etc.—such as when the indicator covers foreign subsidiaries as well—the definition of the indicator should be described.

2. Disclosure regarding corporate governance

As a result of this revision, reporting companies are required to describe the activities of the following organizations (frequency of meetings, specific matters for deliberation, attendance by individual directors and committee members, etc.):

- (i) The board of directors;
- (ii) The nomination and remuneration committees at companies that have established the nomination committee, etc.;
- (iii) Committees voluntarily established by reporting companies with respect to corporate governance, and similar organizations.

In the "Audit" column of the securities report, reporting companies are required to disclose information on efforts to ensure the effectiveness of internal audits, including the presence or absence of a dual reporting line (a system whereby the internal audit division reports directly not only to representative directors but also to the board of directors, corporate auditors and the board of auditors) as part of the status of internal audits.

In addition, when reporting companies own cross-shareholdings for the purpose of their business transactions with the issuer companies of the shares owned, business partnerships and the like, they are required to disclose the outlines of those transactions and partnerships.

3. The FY 2022 edition of the reference casebook of good practices on the disclosure of narrative information

On January 31, 2023, in order to promote substantive disclosure of corporate information that contributes to constructive dialogue between investors and companies, the FSA published the 2022 Collection of Excellent Practices of Disclosure of Narrative Information (hereinafter referred to as the "Excellent Practices Collection." In light of the requirement for disclosure of companies' sustainability-related efforts due to this revision, the Excellent Practices Collection describes excellent practices useful as a reference for companies' sustainability-related efforts.*2

The FSA expects that the Excellent Practices Collection will help to prepare the securities report, as all excellent practices described in the collection involve resourceful efforts.

4. Timing of the start of application

The revision of the Cabinet Order on Disclosure was promulgated and put into effect on January 31, 2023. In addition, the application of the revision of the Disclosure Guidelines started on the same day. The provisions of the revised Cabinet Order on Disclosure will be applied to securities reports for business years that end on March 31, 2023 or later. However, with respect to securities reports to be submitted after the date of the entry-into-effect of the revision, early application is possible.

*2 Publication of "2022 Collection of Excellent Practices of Disclosure of Narrative Information," published on January 31, 2023 (Disclosure regarding sustainability information, etc.): <https://www.fsa.go.jp/news/r4/singi/20230131/00.html> (Available in Japanese)

"Code of Conduct for ESG Evaluation and Data Providers"

IKEDA Yuri, Deputy Director, Sustainable Financial Office, Strategy Development Division,
Strategy Development and Management Bureau

In December 2022, the FSA compiled and published the Code of Conduct for ESG Evaluation and Data Providers*¹ (hereinafter referred to as the "Code of Conduct") in light of the discussions held by the Technical Committee for ESG Evaluation and Data Providers, etc.*² (Chair: Kitagawa Tetsuo, Professor Emeritus, Aoyama University/Specially Appointed Professor, Tokyo Metropolitan University) (hereinafter referred to as the "Technical Committee"). Below, the background to and the key points of the Code of Conduct will be described.

1. Background

As sustainable finance (finance intended to realize a sustainable society) is expanding around the world, the role of "ESG evaluation and data providers," which collect, provide and evaluate information on companies' ESG (environmental, social and governance) initiatives and the eligibility of ESG-related bonds, including green bonds, and ESG-related loans, has been growing in importance. On the other hand, as several issues, such as the transparency and fairness of evaluation, have been pointed out, the Expert Panel on Sustainable Finance (hereinafter referred to as the "Expert Panel" of the FSA), in a report*³ compiled in June 2021, called for discussions on developing a code of conduct for ESG evaluation and other measures to address those issues.

Internationally, in November 2021, the International Organization of Securities Commissions (IOSCO) has published a report titled "Environmental, Social and Governance (ESG) Ratings and Data Products Providers,"*⁴ which presented recommendations regarding actions expected of ESG evaluation and data providers, investors who use the evaluation and data

provided, and companies covered by the evaluation and data.

In light of the international trend and the recommendations presented by the Expert Panel, the FSA established the Technical Committee in February 2022 under the Expert Panel and held seven rounds of broad discussions on such matters as the current status of ESG evaluation and data, the problems that must be resolved by the parties concerned to ensure appropriate provision and use of ESG evaluation and data, and future developments. In July of the same year, the results of the Technical Committee's discussions were published in a report. With respect to a draft of the Code of Conduct for ESG Evaluation and Data Providers, public comments were solicited until September, and the Code of Conduct was finalized in December of the same year following approval from the eighth meeting of the Technical Committee.

2. Basic concept of the Code of Conduct

(1) Principles-based approach

The market for ESG evaluation and data provision has been rapidly developing in recent years. At present, there are various forms of ESG evaluation and data provision, and the underlying ESG concept is also broad, and the scopes of the service and the concept are expected to continue changing in the future in response to changes in the social environment. Therefore, the Code of Conduct has adopted a principles-based approach in order to encourage ESG evaluation and data providers to further improve ESG evaluation and data services based on their own resourceful initiatives and ensure flexibility in their response to future business model changes.

*¹ Finalization of "the Code of Conduct for ESG Evaluation and Data Providers," published on December 15, 2022.
<https://www.fsa.go.jp/en/news/2022/20221215/20221215.html>

*² Technical Committee for ESG Evaluation and Data Providers, etc., established on February 3, 2022.
https://www.fsa.go.jp/singi/esg_hyouka/index.html (Available in Japanese)

*³ "Report by the Expert Panel on Sustainable Finance Announced," published on June 18, 2021.
<https://www.fsa.go.jp/en/news/2021/20210618.html>

*⁴ Publication of "Environmental, Social and Governance Ratings and Data Products Providers," the Final Report from the International Organization of Securities Commissions (IOSCO), published on December 9, 2021.
<https://www.fsa.go.jp/inter/ios/20211209/20211209.html> (Available in Japanese)

(2) ESG evaluation and data providers subject to the Code of Conduct

The Code of Conduct specifies the scope of ESG evaluation and data provision subject to the code as follows:

(i) Services subject to the Code of Conduct

The Code of Conduct has been compiled in light of the international discussions while mainly bearing in mind ESG evaluation and data provision services used for investment in the Japanese market in principle. Therefore, ESG evaluation and data providers that participate in the Japanese financial market and those that provide services to participants are supposed to be subject to the Code of Conduct. With that as the premise, because there are various forms of ESG evaluation and data provision and because the entire market continues to change as mentioned earlier, the Code of Conduct describes the "basic concept" of ESG evaluation and data providers from which endorsement of the code is sought from the viewpoint of the specific services provided by them, rather than mechanically and uniformly define the scope of services subject to the code.

[Basic concept of the scope of ESG evaluation and data providers from which endorsement of the Code of Conduct is sought]

- A) An entity that participates in financial markets in Japan or provides services directly to such participants and provides ESG evaluations and data services as part of its business and as a service that would contribute to market participants' investment decisions.
- B) The service is provided as part of the entity's business, that is, repeatedly and continuously conducted as part of its own business operations.
- C) Services as described above are considered to be covered by the Code regardless of the attributes of the entity that provides the services, such as a for-profit corporation, non-profit corporation, domestic company, or foreign company.
- D) In principle, the provision of ESG data is also covered by the Code, if A. to C. above are satisfied, and the service adds information on corporate data through calculations, estimates, etc.

The Code of Conduct for ESG Evaluation and Data Providers

■ The Technical Committee for ESG Evaluation and Data Providers compiled a draft "Code of Conduct" to ensure transparency and fairness of **ESG evaluation and data providers** that evaluate corporate ESG initiatives. The draft report, published in July 2022, set out recommendations for ESG evaluation and data providers, institutional investors, and companies.

■ Based on the Technical Committee's report the FSA published a draft **Code of Conduct for public consultation (from July to September 5)** and finalized it in December 2022.

note) The FSA calls for voluntary endorsement of the Code from ESG evaluation and data providers that provide services in Japan. The Code will not be laws or regulations, but are designed to be voluntary on a "comply or explain" basis, where the providers supporting the Code will either comply with the principles and guidelines of the Code, or explain the reasons why they do not comply with a particular item.). The FSA will publish the status of endorsement regarding evaluation by June 2023 and that regarding data by June 2024.

Recommendations for ESG evaluation and data providers (Code of Conduct)

- **Ensuring Transparency**
Disclosing the objective, approach and basic methodology of ESG evaluations.
- **Human Resource Development**
Securing necessary professional human resources as organization and developing their own professional skills.
- **Avoiding or managing the risks of conflicts of interest**
Identifying their own activities and situations that could undermine the independence, objectivity, and neutrality of their business, and avoiding or reducing the risks of potential conflicts of interest.
- **Communication With Companies**
Clarifying a contact point with a company, allowing it for confirmation and correction of input data for evaluation, and disclosing these procedures in advance.

Recommendations for institutional investors and companies

- Clarifying the basic approach of how they utilize ESG evaluation and data in their investment decisions (investors)
- Disclosing ESG information in an easy-to-understand manner and contact point for responding to inquiries from ESG evaluation and data providers (companies)



Through mutual encouragement of the market as a whole, improve the quality of evaluations, etc

(*1) developed in light of international reports by IOSCO

(*2) Academic and media organizations are not included in the scope

In the Code of Conduct, as in the IOSCO report, evaluation and data provision are treated in an integrated manner. Specifically, while the Code of Conduct is applicable as in A. to C. above when calculations, estimates and other value-added information related to the company data are provided, the scope of these services may be judged by each entity based on a principles-based approach.

(ii) Business model

There are two business models for ESG evaluation and data providers: the so-called "subscriber pays model," in which ESG evaluation is conducted and provided on an equity-by-equity or company-by-company basis, and investors and other users of the evaluation and data bear the costs; and the so-called "issuer pays model," in which the company issuing bonds bears the cost of evaluating the bonds' consistency with various guidelines. The Code of Conduct provides separate descriptions for the two models as necessary while providing an integrated description for the two in principle.

(iii) Diversity of evaluation

ESG evaluation is divided into an evaluation conducted on an equity-by-equity basis or company-by-company basis (corporate evaluation, ESG rating, etc.) and an evaluation conducted on a bond-by-bond or loan-by-loan basis (bond evaluation, etc.). However, while the Code of Conduct applies different provisions to stock evaluation and bond evaluation with respect to the uniqueness of evaluation and the use of external criteria, it comprehensively covers data provision services, including those using both methods of evaluation and those providing both quantitative and qualitative data related to those methods, based on the idea that the two methods share common basic elements.

(3) Improvements through the market

As mentioned in the previous paragraph, while the Code of Conduct covers ESG evaluation and data providers, the Technical Committee's report suggested the need to improve the environment of the entire investment chain in order to ensure appropriate use of ESG evaluation and data. Investors and companies are expected to promote the improvement of the quality of ESG evaluation and data while encouraging ESG evaluation and data providers to make improvement efforts by proactively giving them feedback on ideal services.

3. Expectations for ESG evaluation and data providers (Code of Conduct)

Based on the abovementioned ideas, the Code of Conduct has set six "principles" as its basic pillars and "guidelines that summarize more detailed points to note and methodologies for implementing the "principles." It also describes "concepts" that summarize the background and reasons for setting these "principles" and "guidelines."

As in the IOSCO report, the first principle of the Code of Conduct is to ensure the quality of ESG evaluation and data provision services based on the recognition that ensuring the quality of ESG evaluation and other service provision is essential for the development of a sound market. As an important element for ensuring quality control, the description in the IOSCO report is elaborated to form independent Principle 2, which summarizes the development of human resources related to ESG. Moreover, the Code of Conduct stresses in particular that in order for ESG evaluation and data to be used reliably, it is important not only for institutions that provide ESG evaluation and data, but also for companies and investors to take action.

["Principles" that form the basic pillars of the Code of Conduct]

Principle 1 (Securing Quality)

ESG evaluation and data providers should strive to ensure the quality of ESG evaluation and data they provide. The basic procedures necessary for this purpose should be established.

Principle 2 (Human Resources Development)

ESG evaluation and data providers should secure necessary professional human resources to ensure the quality of the evaluation and data provision services they provide, and should develop their own professional skills

Principle 3 (Ensuring Independence and Managing Conflicts of Interest)

ESG evaluation and data providers should establish effective policies so that they can independently make decisions and appropriately address conflicts of interest that may arise from their organization and ownership, business, investment and funding, and compensation for their officers and employees, etc. With regard to conflicts of interest, providers should identify their own activities and situations that could undermine the independence, objectivity, and neutrality of their business, and avoid potential conflicts of interest or appropriately manage and reduce the risk of conflict of interest.

Principle 4 (Ensuring Transparency)

ESG evaluation and data providers should recognize that ensuring transparency is an essential and prioritized issue, and publicly clarify their basic approach in providing services, such as the purpose and basic methodology of evaluations. Methodologies and processes for formulating services should be sufficiently disclosed.

Principle 5 (Confidentiality)

ESG evaluation and data providers should establish policies and procedures to appropriately protect non-public information obtained in the course of business.

Principle 6 (Communication With Companies)

ESG evaluation and data providers should devise and improve the way they gather information from companies so that the process becomes efficient for both service providers and companies or necessary information can be sufficiently obtained. When important or reasonable issues related to information sources are raised by companies subject to evaluation, ESG evaluation and data providers should appropriately respond to the issues.

4. Recommendations to investors and companies

The Technical Committee's report pointed out the importance of improving the environment of the entire investment chain in order to ensure appropriate use of ESG evaluation and data, as mentioned in 2.(3). In light of that, the Code of Conduct also cites the recommendations presented in the report as a reference for investors and companies.

(Reference) Recommendations to investors

Investors should carefully examine and understand the purpose, methodologies, and limitations of ESG evaluation and data they utilize for their investment decisions. When there are issues in the evaluation results, they should engage in dialogue with ESG evaluation and data providers or companies. In addition, investors should publicly clarify the basic approach of how they utilize ESG evaluation and data in their investment decisions.

(Reference) Recommendations to companies

Companies should disclose ESG information in an easy-to-understand manner, taking into account regulatory and other updates.

5. Future actions to be taken

As the Code of Conduct is principles-based, it has adopted the "comply or explain" approach, which requires evaluation and data providers to either comply or, when they do not comply, explain the reason for non-compliance.

The FSA is calling for ESG evaluation and data providers to accept the Code of Conduct and, when they have accepted it, to announce their acceptance on their own websites and notify the FSA. The FSA plans to compile the status of endorsement and acceptance of the Code of Conduct by June 2023 (compile the status of endorsement and acceptance regarding data provision by June 2024).

At present, jurisdictions such as the United Kingdom, Europe, and India are also discussing ways to improve the quality of evaluations, including the possibility of introducing regulations on ESG evaluation and data providers. While participating in such international discussions, the FSA will make efforts to ensure that the Code of Conduct, the first of its kind in the world, takes hold, and also keep track of the situation surrounding ESG evaluation and data provision, including changes in the market environment, and complete a study within three years on whether or not it is necessary to take further actions, such as revising the code.

Financial Policies Monitor

○ What is the Financial Policies Monitor?

While the FSA has received various opinions and other inputs regarding financial policies from financial institutions and ordinary people through various means, some financial institutions have pointed out that it is not necessarily easy to express candid opinions because those who handle those inputs are FSA employees.

In light of that point, in January 2016, the FSA opened the Contact for Financial Policies Monitor. This is a system whereby opinions, proposals and criticisms from financial institutions and their employees, academic experts, think tanks, business enterprises, and others who may have opinions, etc. regarding financial policies are directly received not by FSA employees but by neutral, third-party outside experts (hereinafter referred to as "financial policies monitors") so that the comments received can be reflected in financial policies.

Financial policies monitors

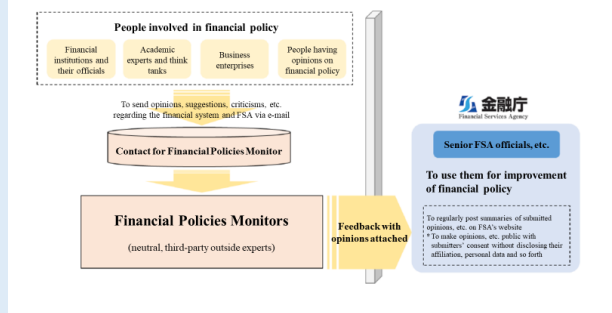
INOUE Satoshi, Attorney at law (Partner, Nagashima Ohno & Tsunematsu)
 KANSAKU Hiroyuki, Professor, Graduate Schools for Law and Politics, the University of Tokyo
 SASAKI Yuri, Professor, Department of Economics, Meiji Gakuin University
 NAGASAWA Yumiko, Organizer, Foster Forum (forum to foster quality financial products)
 YONEYAMA TAKAU, Professor, Faculty of Business Administration, Tokyo Keizai University
 WANI Akihiro, Attorney at law (Senior Counselor, Morrison & Foerster LLP)

○ Submitted opinions

Submitted opinions are sent to senior FSA employees and other relevant people with opinions from financial policies monitors attached. Until now, 272 opinions (as of December 31, 2022) have been received, and summaries of major opinions, together with the actions taken by the FSA, have been posted on the FSA's website.

For example, among the opinions submitted are those regarding cases related to revisions of institutional systems, such as the introduction of flexibility into the treatment of the business year period for foreign banks' branches in Japan and the abolition of the monetary amount threshold for reporting of misconduct related to the loss of cash, etc. Recently, opinions regarding the revision of the scope of people eligible to receive COVID-19 hospitalization insurance benefits have also been received.

(Reference) Flow of financial policies monitoring



◆ The action taken in relation to the revision of the scope of people eligible to receive COVID-19 hospitalization insurance benefits

[Submitted opinion, etc.]

The FSA issued to the Life Insurance Association of Japan and other relevant organizations a written notice dated September 1, 2022, titled "Regarding the scope of people eligible to receive hospitalization insurance benefits due to so-called 'deemed hospitalization' (Request)." Based on the request, individual insurance companies will change their policy regarding the scope of people eligible to receive hospitalization insurance benefits due to deemed hospitalization and to limit the scope to a risk-prone group of people (e.g., people aged 65 or older).

The overarching premise for insurance contracts is that contracts concluded under the same terms should provide the same scope of coverage. However, because of this request, even people who would normally have needed to be treated in hospital will become ineligible to receive hospitalization insurance benefits unless they belong to a risk-prone group of people, a situation that overturns the overarching premise. Therefore, making the request was a completely wrong action that have brought inequality among policyholders and infringed citizens' rights.

Although I do not know the background to the request, a notification that brings inequality among policyholders should not be issued.

[The action taken by the FSA]

We understand that since the onset of the COVID-19 pandemic, insurance companies have flexibly interpreted and applied insurance clauses so that people can be deemed to have been hospitalized even when they have received medical treatment at home under observation by doctors, etc. in order to enable the payment of hospitalization insurance benefits as a special arrangement.

Recently, the government's Novel Coronavirus Response Headquarters decided to limit the scope of COVID-19 cases subject to reporting obligation to cases of patients at high risk of developing severe symptoms (Note) after September 26, 2022. In addition, as how doctors are involved with people receiving medical treatment at home may change depending on whether or not they are at high risk of developing severe symptoms, the FSA requested the Life Insurance Association of Japan, etc. to consider treating the matter of hospitalization insurance benefits payment in light of the abovementioned government policy. Our understanding is that in response to the FSA's request, individual insurance companies respectively considered this issue, and as a result, many insurance companies decided to return to the normal arrangement.

(Note) (i) People aged 65 or older, (ii) people who require hospitalization, (iii) people who are at risk of developing severe symptoms and for whom doctors have judged that a drug to treat COVID-19 needs to be administered or that oxygen administration needs to be started, and (iv) pregnant women

Due to the variation of medical insurance products and insurance clauses across insurance companies, generalization is difficult. However, even if cases arise in which policyholders are excluded from the scope of people eligible to receive hospitalization insurance benefits as a result of the recent revision, we believe that such cases do not constitute an arbitrary contract modification (a so-called disadvantageous modification) by an insurance company. The FSA will continue to firmly call on insurance companies to carefully inform and explain to insurance policyholders, etc. about such modifications.

○ We will be glad if the Financial Policies Monitor continues to be used as a communication channel through which opinions and proposals regarding financial policies are conveyed to the FSA.

← For detailed information, please see "Financial Policies Monitor" on the FSA's website.

Reference URL: <https://www.fsa.go.jp/en/monitor/index.html>

* When you have general questions and opinions or need consultation about specific cases of trouble with financial institutions, please contact the FSA's Counseling Office for Financial Services Users.



JFSA's Major Activities in February (February 1 to February 28, 2023)



- [The FSA publishes the status of loans held by all banks as of the end of September 2022, based on the Financial Reconstruction Act \(February 28, 2023\)](#)
- [Joint session of the 51th general meeting of Financial System Council and the 39th meeting of Sectional Committee on Financial System \(February 24, 2023\)](#)
- [Updated list of issuers of gift certificates in repayment procedures based on the 'Payment Services Act' \(February 21, 2023\)](#)
- [Stewardship Code : 323 institutional investors have signed up to the Principles for Responsible Institutional Investors as of January 31, 2023 \(February 10, 2023\)](#)
- [Cooperation framework in the area of Insurance Supervision with the European Insurance and Occupational Pensions Authority \(February 10, 2023\)](#)
- [FSA will host "International Conference on Sustainability Disclosure" \(February 7, 2023\)](#)
- [Updated statistics of money lending business \(February 7, 2023\)](#)

- JFSA's official English Twitter account
https://twitter.com/JFSA_en



We are promoting
information dissemination
using Twitter!

-
- Please send your opinions using the following email address to the Public Relations Office's personnel in charge of Access FSA.

E-mail : fsa_kouhou@fsa.go.jp

Editorial Postscript

As the end of the fiscal year approaches, I assume that many people are about to reach a turning point in life and have increasing expectations for the new fiscal year, which starts in April.

Meanwhile, as I have become accustomed to the program year cycle (which starts in July and ends in June next year) because of the many years of working as a government employee (as I mentioned in the previous issue's Editorial Postscript), the feeling that I tend to have in March is that "there are still four more months to go."

However, over and over again, I have felt that those "four more months" seem to pass in an instant. Reminding myself of this lesson, I will take this opportunity to review once again what I can do before the end of this closing fiscal year and within the ongoing program year.

We appreciate your continued readership of Access FSA.

MORIYA Takayuki, Director,
Public Relations Office, FSA