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←Access the online version here  
<https://www.fsa.go.jp/access/index.html>

# Speech by State Minister AKAZAWA Ryosei at the Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance

On Tuesday, June 22, 2021, the 17th Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance was held with the attendance of State Minister AKAZAWA Ryosei. His speech is introduced below.



Photo: State Minister AKAZAWA delivering a speech at the Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance

Good morning. I am AKAZAWA Ryosei, State Minister for Financial Services. I appreciate the attendance of the members, including Chairman Yamamoto. Thank you very much. I would like to also express my heartfelt gratitude for the members' continued significant contribution to the meeting.

This meeting is also held online, following the previous two meetings held in June and in December 2020 after the outbreak of the COVID-19 pandemic. I would like to extend my greetings upon the opening of the 17th Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance.

This Consultation Meeting was established as a platform to discuss policies concerning the multiple debt problem, including measures against new challenges, while confirming the outcomes of the efforts made so far. It has been held biannually, as you know.

At present, the number of people who come to have multiple debts is not increasing and this suggests that our efforts and the efforts of people in relevant ministries and agencies have been bearing fruit. I would like to show my respect.

However, we need to be cautious about the possibility that the COVID-19 infection or severer economic conditions may cause people facing economic difficulties to borrow money from multiple sources and may cause them to end up having multiple debts. We must remain vigilant to keep an eye on such trends and positively take new measures as necessary.

Today, participants from relevant ministries and agencies will explain the outline of consultations regarding

multiple debts, how they have coped with new tactics of loan sharks as reported in damage cases, and trends of measures against gambling addiction, etc. The FSA will continuously deal with this problem in collaboration with relevant ministries and agencies.

I am in charge of not only the FSA but also various matters as State Minister of Cabinet Office, such as economic and fiscal policy and economic recovery, for which the Basic Policy on Economic and Fiscal Management and Reform and the Growth Strategy were approved at the Cabinet meeting recently, as well as measures against the COVID-19 infection.

The national government has been supporting the domestic economy by spending some trillion yen for the system of effectively interest-free and unsecured loans and the Employment Adjustment Subsidy to assist companies with their personnel cost, or the like. Since the outbreak of the COVID-19 pandemic, I have tried to disseminate the idea that balancing infection control measures and socioeconomic activities is not an issue of prioritizing either people's lives or the economy.

As you may know, it is statistically evident that when the unemployment rate increases by 1%, 2,000 to 4,000 people commit suicide in Japan. Accordingly, balancing infection control measures and socioeconomic activities is solely an issue of people's lives. As the responsible minister, I strongly feel the necessity to decrease both deaths due to the infection and deaths due to economic reasons. As I mention earlier, some statistical data shows a strong link between the unemployment rate and the number of suicide victims. It is important to pursue policies to protect people's lives and daily living. We are committed to working hard to put an end to the COVID-19 pandemic as the top priority and then to facilitate economic activities to the extent possible after the end of the crisis of shortage in hospital beds.

Under the current situation, the total amount of effectively interest-free and unsecured loans is accumulating and we will have to consider exit in earnest at some point. As the most negative aspect, measures for the multiple debt problem will become more and more important in that process. Their significance will surely increase in that context.

Now that many people are facing difficulties due to severe economic conditions as a result of the COVID-19 infection, and some people who intend to take advantage of others' vulnerability with new tactics are emerging. We strongly request you to make your utmost efforts to protect people and the national economy through flexible responses in accordance with changes in situations.

Today, we expect to benefit from your knowledge as experts. Please provide us with your frank opinions as always.

Thank you very much.

# Joint Session of the 46th General Meeting of Financial System Council and the 34th Meeting of Sectional Committee on Financial System

On Friday, June 25, 2021, the 46th General Meeting of Financial System Council and the 34th Meeting of Sectional Committee on Financial System were jointly held. After an opening speech by State Minister AKAZAWA, a new consultation was conducted and the Working Group on Capital Market Regulations made a report on consultative remarks.



Photo: State Minister AKAZAWA reading out the consultation document

## ○ Review on ideal disclosure of corporate information

### [Consultative remarks]

Disclosure of corporate information should be reviewed broadly so as to provide information necessary for investors' decision making on a timely basis and contribute to constructive dialogues between companies and investors, in light of the changes in the socioeconomic circumstances surrounding companies.

In order to concretely review the matters pointed out through the consultation, the establishment of a working group under the Financial System Council was decided at this General Meeting. The working group will discuss the ideal disclosure of corporate information broadly, in consideration of changes in the socioeconomic circumstances surrounding companies, on such themes as emphasis on sustainability in corporate management and promotion of discussions on corporate governance in preparation for corporate transformation in the post-COVID era.

## ○ Report on consultative remarks

The Second Report by the Working Group on Capital Market Regulations and the Report by the Task Force to

Discuss Optimal Ways to Ensure Best Execution were approved.

## ● Second Report by the Working Group on Capital Market Regulations

Regarding the provision of capital for growth, the Second Report recommends the expansion of the system for professional investors to ensure smooth supply of such funds to unlisted companies from the perspective of developing an environment to make it easier for professional investors to take risks, while thoroughly protecting general investors. Additionally, regarding the firewall regulations, the report suggests the need to revise regulations on sharing information concerning listed companies, etc. and to strengthen the effectiveness of measures to prevent market abuse from the perspective of the better-functioning of Japan's capital markets further fulfill its functions. The working group plans to review problems in the firewall regulations with regard to leading medium-sized and small and medium-sized companies and individuals.

## ● Report by the Task Force to Discuss Optimal Ways to Ensure Best Execution

The report by the task force recommends a new approach for regulations on financial instruments business operators' best execution policies based on environmental changes after the introduction of the current regulatory framework, such as the increase in the share of the Proprietary Trading System (PTS) trading and the widely use of the Smart Order Routing (SOR: a system that enables execution of orders by searching an exchange facility presenting the best price from among multiple facilities). More specifically, the report recommends placing emphasis on prices in best execution policies for individual investors and making responses against problems from the perspective of investor protection (increase of the transparency of the SOR etc.).

The FSA will strongly support efforts to achieve preferable capital market regulations toward the new society and economy in the post-COVID era, based on discussions by the Financial System Council.

# Main Points of the Second Report by the Working Group on Capital Market Regulations, Financial System Council

OTAWARA Masanobu, Former Director, Financial Markets Division, Policy and Markets Bureau

(\*The opinions expressed in this report are the personal views of the author and do not necessarily reflect the organization with which the author is affiliated.)

On June 18, 2021, the "Second Report by the Working Group on Capital Market Regulations – To Create an Attractive Capital Market toward the Post-COVID Era" (hereinafter referred to as the "Report") was published by the working group under the Financial System Council. The main points of the Report are outlined below.

## 1. Developments

It is indispensable for the banking sector and capital market of Japan to focus on the new post-COVID society and economy and make efforts as the financial intermediary system as a whole to strongly back up the transformation of industrial structure, while supporting the recovery of the domestic real economy toward the post-COVID era.

Against such a background, on September 11, 2020, the State Minister for Financial Services made the following consultative remarks to the Financial System Council: Review should be conducted on such themes as the development of systems for supplying funds for growth and accepting foreign financial institutions, etc. and the sharing of customer information between financial instruments business operators and banks, while giving due consideration to the protection of investors, with the aim of recovering the economy and achieving sustainable growth through further facilitating the functions of the domestic capital market, in light of the emergence of the post-COVID society and economy. In response, the Working Group on Capital Market Regulations (chaired by Professor KANDA Hideki at the Department of Legal Affairs of Gakushuin University Law School) was established and conducted a review on eleven occasions from October 2020. On December 23, 2020, the First Report was published (explained in Access FSA No. 211 (issued on March 1, 2021)\*).

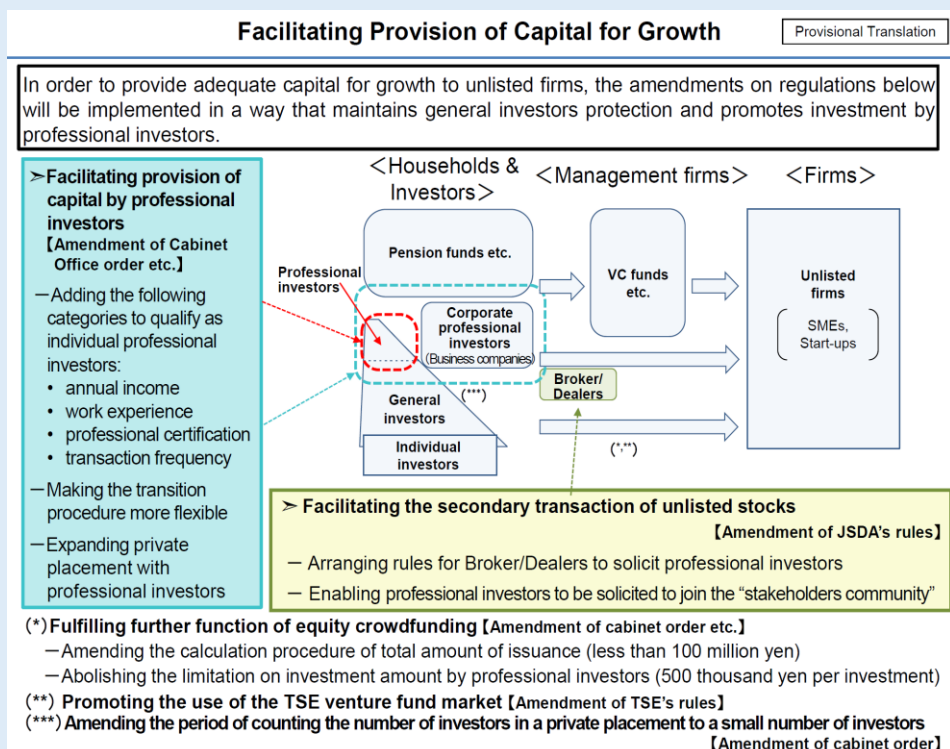
The Report compiles the results of the review on the following problems left unaddressed in the First Report:

- Ideal provision of capital for growth; and
- Firewall regulations concerning domestic customers.

## 2. Ideal provision of capital for growth

Cash flow support for companies has been offered amid expansion of the effect of the COVID-19 infection, but it has become necessary for some companies to improve their balance sheet through fund procurement from the perspective of achieving sustainable growth.

Additionally, in order to cope with discontinuous changes in society and economy and industrial structure in the post-COVID era, it is becoming even more important to secure funds recognizable as capital that support innovation by start-up companies and restructuring and reorganization of existing businesses.



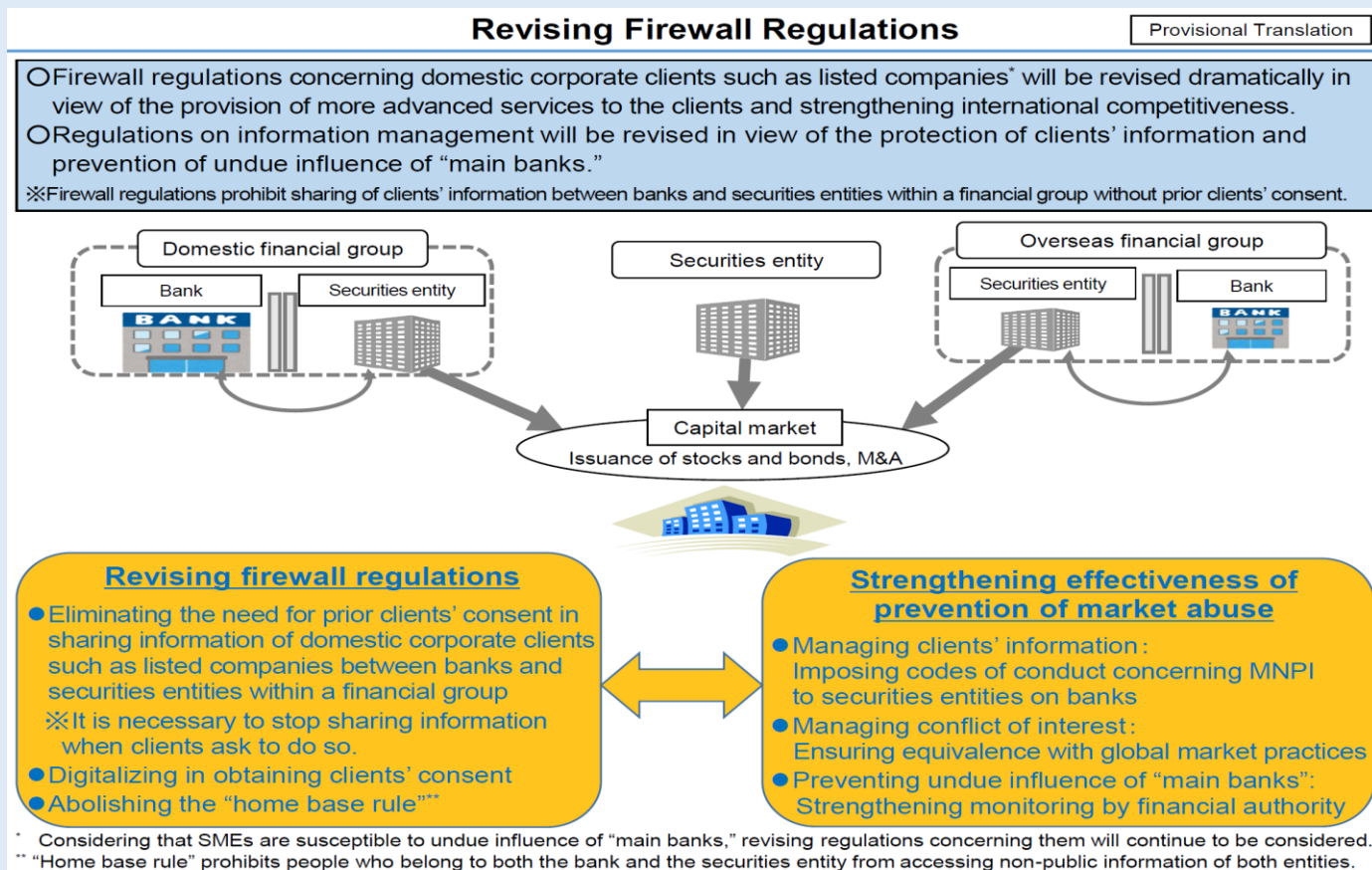
The following recommendations are made from the perspective of developing an environment to make it easier for corporate and individual professional investors with high risk management capacity and risk tolerance to take risks, while thoroughly protecting general investors, with the aim of facilitating and diversifying flows of funds recognizable as capital:

\* For "Access FSA No. 211" (issued on March 1, 2021), see <https://www.fsa.go.jp/en/newsletter/accessfsa2021/211.pdf>.



- Facilitating provision of capital by professional investors
- Facilitating the secondary transaction of unlisted stocks
- Fulfilling further function of the equity crowdfunding, which can also be used by general investors, and promoting the use of the TSE venture fund market
- Amending the period of counting the number of investors in a private placement to a small number of investors so that companies can procure funds more flexibly

### 3. Firewall regulations concerning domestic customers



The firewall regulations were reviewed significantly in 2008 (deregulation through the introduction of the opt-out system for corporate customers and the elimination of the regulations on concurrent holding of positions by officers, and the introduction of the obligation to develop a conflict of interest management system and measures to prevent adverse effects concerning the prevention of abuse of superior bargaining position). However, since then, the environment surrounding the financial industry has changed dramatically due to prolonged low interest rates, fund surplus among industrial corporations, entry of FinTech companies or companies in other fields into the financial industry, and significant effects of the COVID-19 pandemic on society and economy as a whole. Under such circumstances, the following problems are pointed out regarding the firewall regulations:

- Banks and securities companies do not fully utilize the opt-out system on such grounds that, due to the need to provide customers with explanations on a large number of matters, the opt-out system is not so advantageous compared with the opt-in system in consideration of the burden and convenience.
- Regulations to prohibit information sharing unique in Japan are recognized as being excessive and this undermines the efforts to enhance Japan's attractiveness as an international financial hub.
- The firewall regulations interfere with business activities to propose and provide comprehensive financial services to customers and are imposing a heavy burden both on customers and financial institutions.

### 4. Conclusion

Based on the ideas presented in the Report, the FSA will further discuss and make efforts for developing an appropriate system with the aim of achieving a market system suited to the new society and economy in the post-COVID era.

In addition to the remaining problems of the firewall regulations, such as the regulations on information exchange regarding leading medium-sized and small and medium-sized companies and individual customers, the Working Group on Capital Market Regulations will continue deliberations on other challenges for further facilitating the functions of Japan's capital market, while taking into account expected changes in market environments and the needs of users of financial institutions and financial services.

# Publication of the "Report by the Expert Panel on Sustainable Finance"

FUKASU Taiki, Deputy Director, Sustainable Finance Office, Strategy Development Division, Strategy Development and Management Bureau

(\*The opinions expressed in this report are the personal views of the author and do not necessarily reflect the organization with which the author is affiliated.)

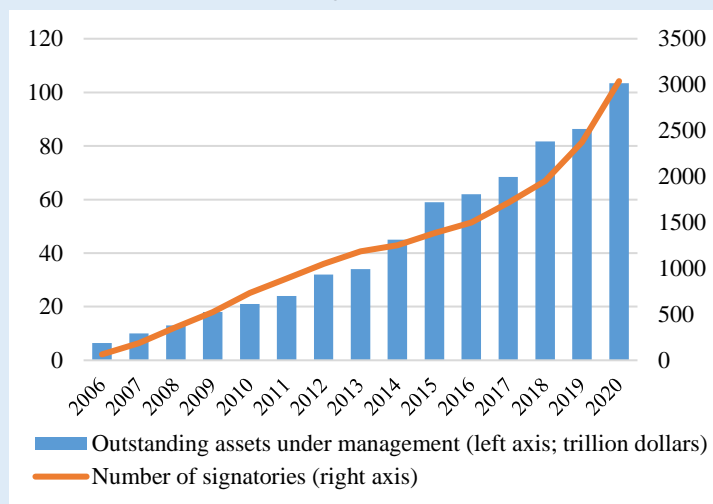
In December 2020, the FSA established the Expert Panel on Sustainable Finance (chaired by Dr. MIZUGUCHI Takeshi, President of Takasaki City University of Economics) and has discussed measures for promoting sustainable finance. In June 2021, the Expert Panel published the "Report by the Expert Panel on Sustainable Finance," which compiles experts' recommendations to the FSA.\*1 The background leading to the compilation of the report and the major content are introduced.

## 1. Background leading to the establishment of the Expert Panel on Sustainable Finance

As climate change issues have become obvious, private financial institutions and institutional investors have been taking the initiative in expanding sustainable finance (finance for realizing a sustainable society). One example is the steady increases in the number of signatories to the Principles for Responsible Investment (PRI), which provides for the principles concerning ESG (environment, social and governance) investment, and in outstanding assets under management (Figure 1).

In October 2020, the government of Japan also announced its intention to endeavor to achieve carbon neutrality by 2050. For that purpose, it is important that financial institutions and the financial capital market of Japan properly fulfil their functions to attract ESG investment funds to Japanese companies from overseas. From such perspective, the FSA established the Expert Panel on Sustainable Finance to have it discuss various related problems.

(Figure 1)



(Figure 2)

The report consists of Chapter 1, which compiles the underlying principle and overarching issues as the basic concept, and Chapters 2 to 4 addressing specific details (Figure 2).

Report by the Expert Panel on Sustainable Finance (Overview)  
Building a Financial System that Supports a Sustainable Society  
2021.6.18

<p><b>Chapter 1 Basic concept</b></p> <p><b>Underlying Principle</b></p> <p>Sustainable finance is an infrastructure that supports sustainable social and economic systems. It should be driven not only by private initiatives but by policy initiatives.</p> <p><b>Overarching Issues</b></p> <p>Consideration of ESG factors is favorable to fulfill fiduciary duties.</p> <p>A wide range of approaches needs to be sought to raise awareness and accumulate business practices regarding impact finance.</p> <p>It is important to participate in international discussions on taxonomies for sustainable activities and promote transition finance (including the formulation of roadmaps for high emission industries).</p>	<p><b>Chapter 2 Enhance Corporate Disclosure</b></p> <p>Broad discussion needs to be held on appropriate corporate disclosure regarding sustainability for constructive dialogue with investors and financial institutions.</p> <p><b>Sustainability</b> Towards comparable and consistent sustainability reporting standards worldwide, it is important to actively participate in the process of developing sustainability reporting standards at the IFRS Foundation.</p> <p><b>Climate Change</b> Following the revisions of the Corporate Governance Code (June 2021), the quality and quantity of climate-related disclosure should be enhanced based on the TCFD recommendations or an equivalent framework. Continued discussion is recommended with close attention paid to international development.</p> <p><b>Chapter 3 Demonstrate Capital Market Functions</b></p> <p>Developing a "green international financial center" can contribute to more loans and investment towards sustainable societies in Asia and rest of the world. Market participants need to play their role to demonstrate capital market functions.</p> <p><b>Institutional Investors</b> Institutional investors should enhance ESG investments and engagement with investees. They should seek to accumulate knowledge and skills in this regard, for instance by participating in global investors' initiatives that collectively call for decarbonization of invested corporations.</p> <p><b>Opportunity for Retail Investors</b> Asset managers should carefully explain the characteristics of an ESG-related investment trust at its establishment and distribution, and be accountable for ESG aspects of the selected issues on an ongoing basis. The FSA should monitor asset managers in this regard.</p> <p><b>ESG Rating and Data Providers</b> FSA is encouraged to promote discussions on issues of ESG rating and data providers, including code of conduct.</p> <p><b>ESG Platform</b> As illustrated by initiatives of foreign securities exchanges, it is encouraged to develop a platform for practical information of ESG-related bonds including green bonds and a mechanism which provides objective certification of the eligibility of ESG-related bonds.</p> <p><b>Chapter 4 Financial Institutions' Support for Borrowers and Risk Management</b></p> <p>Financial institutions need to support the transition of the real economy, integrating sustainability opportunities and risks into their business strategies and risk management.</p> <p><b>Support for Borrowers</b> To support loan recipients and investees' climate transition, financial institutions are expected to accumulate know-how, improve skills, and develop analytical tools.</p> <p><b>Risk Management</b> FSA should continue to discuss with financial institutions the effective use of scenario analysis and encourage them to develop a risk management system for climate change (supervisory guidance on climate transition support and risk management to be developed).</p>
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## 2. Underlying principle and overarching issues

As the underlying principle, the report positions sustainable finance as an "infrastructure that supports sustainable social and economic systems," the promotion of which is the key in building a sustainable society.

Then, as the overarching issues, the report first cites fiduciary duties. In light of the fact that whether ESG should be considered under fiduciary duties has been a hot issue in foreign countries, the report concludes that it is also possible in Japan to consider it desirable to take into account ESG-related factors in fulfilling fiduciary duties.

\*1 For "Report by the Expert Panel on Sustainable Finance" Announced," published on June 18, 2021, see <https://www.fsa.go.jp/en/news/2021/20210618.html>.

Secondly, the report cites impact investment. Impact investment aiming to create concrete environmental and social impact, in addition to financial return, is increasing in recent years, but there are challenges to be addressed, such as the establishment of a method for evaluating concrete impact. The report states that it is desirable to further examine the above issues and implement diverse ideas through private-public partnership including the academic sector and NGOs in the future.

Thirdly, the report cites transition finance and points out the significance of promoting it while ensuring international credibility and transparency. With regard to transition finance, see "Formulation of the Basic Guidelines on Climate Transition Finance" in Access FSA No.214, 2021, June issue.\*2

### **3. Specific details**

The first topic is corporate disclosure. It is pointed out that in order to create a sustainable society, it is indispensable for companies to run businesses by properly responding to environmental and social risks and opportunities, including climate change issues, from the perspective of improving and maintaining their corporate value in the medium to long term. For that purpose, constructive dialogues are required between companies and investors and financial institutions that provide funds to companies, and appropriate corporate disclosure of sustainability information will be a key. With regard to corporate disclosure regarding sustainability, including climate change-related information, the report points out recent international moves to establish comparable and consistent sustainability reporting standards and make disclosure mandatory, and states that Japan should pay close attention to the trends and proactively take part in the discussions for the formulation of standards.

The second topic is the need to demonstrate capital market functions. In April 2021, the government of Japan announced its intention to aim to create a green international financial center to attract ESG funds domestically and internationally. For that purpose, each market player needs to properly fulfil their expected roles.

Institutional investors should enhance their commitment to actively promoting ESG investments, disclosure thereof and engagement with investees. In order to accumulate necessary expertise and skills and to develop human resources, it is also useful to actively participate in an international initiative. It is advisable for both government and the private sector to consider a framework for supporting such involvement or participation.

Recently, ESG-related investment trusts for individual investors are attracting attention. However, it is left to the discretion of each company on what criteria they use the term "ESG" for their financial instruments, and therefore, each company is required to carefully explain their own criteria to customers.

Amid the expansion of sustainable finance, ESG rating and data providers, which analyze corporate approaches to ESG and provide related data, are becoming more and more significant. The report points out some challenges they face, including the issue of transparency and fairness in rating, and states that the FSA is encouraged to promote discussions on an ideal code of conduct expected of ESG rating and data providers.

In foreign countries, stock exchanges are taking various measures to expand transactions of ESG-related bonds, such as green bonds issued for the purpose of procuring funds for environmental projects. In Japan as well, efforts should be made to build a platform for information practically useful both for companies and investors and to develop a framework to objectively certify the eligibility of ESG-related bonds.

The third topic is about financial institutions, such as banks and insurance companies. In Japan, where the ratio of indirect financing is high, banks and other financial institutions need to incorporate opportunities and risk perspectives for sustainability into their business strategies and risk management.

More specifically, they need to mitigate the transition risk of borrowers and investees through constructive dialogue to play a role to contribute to the creation of new business opportunities through identifying corporate environmental issues, etc. Additionally, it is also important for financial institutions to develop their own risk management systems. Climate-related risks should be integrated into their existing risk management framework in a consistent manner, for example through use of scenario analysis which evaluates business impact referred to certain assumptions of climate change (= scenario).

The FSA plans to formulate a guidance incorporating its supervisory expectation concerning these matters with an eye on international trends.

### **4. Conclusion**

As introduced above, the report contains recommendations from considerably broad perspectives. Using these recommendations as a starting point, the FSA will deliberate concrete measures to take in collaboration with relevant stakeholders.

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\*2 For Access FSA No.214 issued on June 1, 2021, see <https://www.fsa.go.jp/en/newsletter/accessfsa2021/214.pdf>.

# Publication of the "Research Report Regarding IT Governance of Financial Institutions" and the "Analysis Report on Financial Institutions' IT System Failures"

SAITO Tsuyoshi, Director, Cyber Security Policy Office

KATAYOSE Sayuri, Chief Financial Inspector,

Risk Analysis Division, Strategy Development and Management Bureau

(\*The opinions expressed in this report are the personal views of the authors and do not necessarily reflect the organization with which the authors are affiliated.)

On June 30, 2021, the FSA published the following reports as a result of compiling the current status of financial institutions' IT governance and the causes and measures concerning system failures.

## 1. Research Report Regarding IT Governance of Financial Institutions

The FSA published the **Research Report Regarding IT Governance of at Financial Institutions**, which compiles the current status and challenges ascertained through the survey conducted in program year 2020 (July 1, 2020, to June 30, 2021) with the aim of facilitating financial institutions' efforts to strengthen their IT governance. In program year 2020, the FSA also conducted a questionnaire survey for shinkin banks in addition to regional banks and compared collected data.

As a result, it was found that the indicator, "system expenditure/amount of deposits,"\*1 shows better cost effectiveness of shinkin banks' systems, in the same manner as in the IT governance report in program year 2019.

(Reference) System Expenditure / Amount of Deposits by Business Category

	PY2019		PY2020	
	Regional banks (104 banks)	Shinkin banks (estimate)	Regional banks (103 banks)	Shinkin banks (254 banks)
<b>BS</b> Amount of deposits (average)	3.3 trillion yen	554.0 billion yen	3.4 trillion yen	571.9 billion yen
<b>P/L</b> System expenditure	4.70 billion yen	0.66 billion yen	4.90 billion yen	0.61 billion yen
<b>Indicator</b> System expenditure / Amount of deposits	0.18%	0.12%	<b>0.17%</b>	<b>0.11%</b>

As a background for such cost structure, the following factor is presumed: regional banks' systems for their basic functions regarding exchange and deposit operations, etc. (nonstrategic field) and for other functions regarding management assistance, etc. (strategic field) are tightly coupled and have become too complicated and bloated, and this increases cost for additional development and maintenance. However, some regional banks have already solved the problem of complicated and bloated systems and have started deliberations for developing a next-generation core banking system to enable flexible responses to digitalization. The FSA established the "Enterprise System and Frontrunner Support-Hub" in March 2020 to support such pioneering efforts, and has been offering support by encouraging financial institutions to utilize this Support-Hub from an early stage.

Additionally, the FSA conducts a comparison of the responses to the questionnaire survey regarding how financial institutions have been making efforts for the "Six Approaches and Viewpoints Relating to IT Governance."\*2 In the sector of "IT resources," the percentage of those responding "Yes" (= making efforts) was the lowest, both for regional banks and shinkin banks, and it was found that they have problems especially with regard to the securing and fostering of human resources and are required to take measures more strategically.

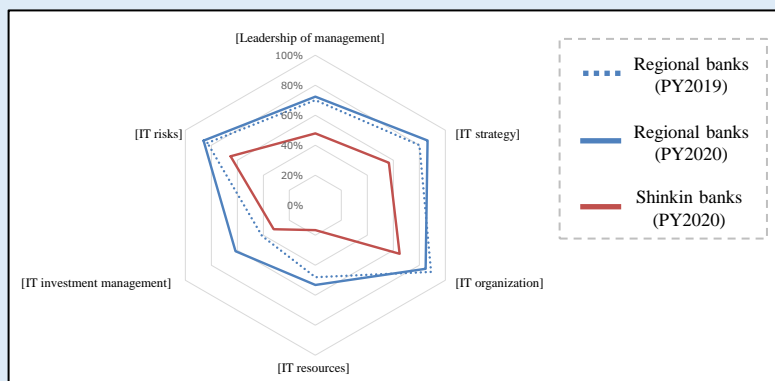
Regarding the Six Approaches and Viewpoints Relating to IT Governance, the FSA has also had dialogues with targeted financial institutions to ascertain their implementation status, in addition to conducting the questionnaire survey, and has published a compilation of concrete examples obtained through those dialogues since PY2019. The FSA will incorporate valuable information obtained through dialogues with financial institutions and experts into the relevant compilation and disseminate and deepen understanding broadly through opinion exchanges or on other opportunities, while encouraging financial institutions to utilize the information to strengthen their IT governance.

\*1 The amount of data and throughput increase in accordance with the increase in the amount of deposit (financial institution's size) and cause increases in IT cost. Therefore, the efficiency and appropriateness of IT cost are evaluated using "system expenditure/amount of deposit" as the indicator.

\*2 (i) Leadership of management; (ii) IT strategy that matches management strategy; (iii) IT organization that consistently implements the IT strategy; (iv) Optimized IT resources (resource management); (v) IT investment management processes that results in the creation of corporate value; and (vi) Properly managed IT risks



(Reference) Percentages of Those Responding "Yes" to Questions Regarding Six Approaches and Viewpoints Relating to IT Governance



## 2. Analysis Report on Financial Institutions' IT System Failures

The FSA compiled the causes and countermeasures for characteristic system failures, etc. associated with the progress of digitalization into the "Analysis Report on Financial Institutions' IT System Failures"<sup>\*3</sup> and published it.

The report is intended to be referred to by financial institutions in strengthening their IT risk management systems, from the perspective of ensuring stability of the financial system and protecting users.

The report analyzes the causes and problems regarding system failures reported from April 2020 to March 2021, with the focus placed on "timing of failures" as follows.

### (1) System failures upon the integration and update of systems

Upon large scale projects, such as the integration and updating of core banking systems and shift to cloud services, system failures occurred due to lack of understanding of the specification of former systems, etc. Problems relating to the development of IT professionals and IT assets, such as system specifications and work procedure manuals, were revealed.

### (2) System failures caused by program updates or other irregular work

A system change or other irregular work different from ordinary system operation often caused associated system failures. Failure to envisage possible system failures led to insufficient awareness of risks in these cases and this was pointed out as a problem.

### (3) System failures during daily operation and maintenance

There were several system failure cases in which a redundant configuration in preparation for hardware fault, etc. did not work as had been intended. It is necessary to put in place measures in consideration of the possibility of a failure to shift to spare equipment and to ensure early detection and responses in the event of a system failure in order to continue critical duties.

### (4) System failures due to intentional causes, such as cyberattacks and unauthorized access

There were cases of unlawful transactions in cashless payment services by illegally linking bank accounts and accounts for cashless payment services while fraudulently taking advantage of their identity verification systems.

Additionally, there were cases of unauthorized access to online transactions, etc. mainly among financial instruments business operators.

As measures to prevent unlawful transactions, a more effective authentication system, such as multifactor authentication, needs to be introduced depending on the details and risk characteristics of services, and it is also necessary to formulate and implement policies for compensation and develop a system to sincerely respond to consultations from users so as to secure user protection even in the event of an unlawful transaction.

The FSA will continue analysis of causes and problems of system failures with the aim of having financial institutions strengthen their risk management systems.

\*3 Based on the Comprehensive Guidelines for Supervision, upon a system failure, the FSA receives a "Report on Problem Occurrence, etc." from the relevant financial institution, conducts hearing, etc. to check the status of restoration of the system, and also receives a report from the financial institution concerning the causes examined and analyzed by itself and remedial measures.

# Results of Monitoring Customer-Oriented Business Conduct of Investment Trust Distributors (2020 Program Year)

SATO Toshiaki, Senior Deputy Director, Risk Analysis Division,  
 Strategy Development and Management Bureau  
 HAYASHIDA Takuro, Financial Securities Inspector

(\*The opinions expressed in this report are the personal views of the authors and do not necessarily reflect the organization with which the authors are affiliated.)

On June 30, 2021, the FSA published the "Results of Monitoring Customer-Oriented Business Conduct of Investment Trust Distributors (2020 Program Year)" (hereinafter referred to as the "Report").

The FSA developed and published the "Principles for Customer-Oriented Business Conduct" (hereinafter referred to as "the Principles") with the aim of achieving people's stable asset building, and has encouraged financial institutions to provide customers with better financial instruments and services or otherwise implement initiatives for customer-oriented business conduct. The Report compiles the analysis of the facts and problems ascertained through dialogues with major investment trust distributors and financial institutions' customer surveys.

Key points of the Report are picked up and introduced here with the future challenges concerning customer-oriented business conduct.

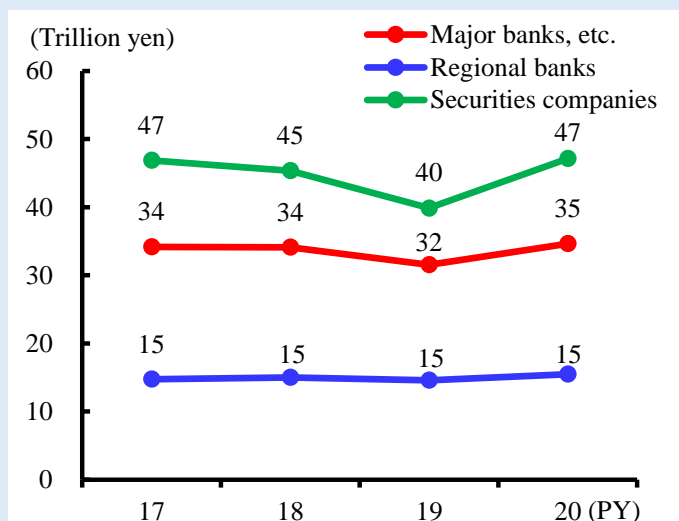
## 1. Key points of the Report

### (1) Status of the sale of risk-involving financial instruments

Outstanding assets on deposit for risk-involving financial instruments of major banks and securities companies turned to increase from PY2019 to PY2020 due to market fluctuations by the impact of the COVID-19 infection and subsequent market recovery (Figure 1). In the meantime, for these several years, outstanding assets on deposit of major banks and securities companies have been almost flat since PY2017. The major cause is considered to be the continued outflow of cash, mainly because there are cases where the amounts of cancellation or redemption of investment trusts exceed sales amounts and because investment principals are decreasing due to investment trusts paying monthly dividends that were sold a lot in the past.

Looking at the changes in the number of customers of major banks and securities companies who hold investment trusts, from the perspective of distributors' customer expansion, network securities companies have increased their customers, with increases in the number of newly opened accounts mainly among young people and investment beginners (Figure 2). On the other hand, major banks, regional banks, and large securities companies have failed to increase customers despite their efforts to attract young people. At this point in time, the initiatives of network securities companies seem to be more effective than those of others.

(Figure 1) Outstanding Assets on Deposit for Risk-involving Financial Instruments



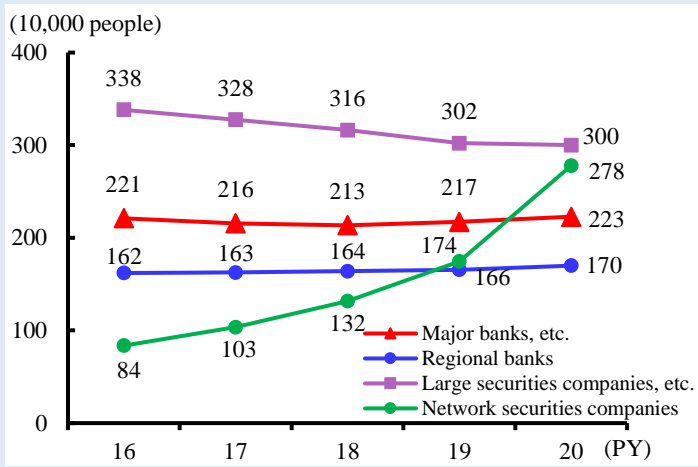
(Note 1) Aggregated data from 8 major banks, etc., 21 regional banks, and 7 securities companies (6 securities companies due to a business merger for PY2020), from which valid responses were obtained

(Note 2) For banks, on a combined basis of their own sales, sales through brokers, and referral sales

(Note 3) Risk-involving financial instruments refer to single premium policies, investment trusts, fund wraps and bonds.

(Source) FSA

(Figure 2) Changes in Number of Customers Holding Investment Trusts



(Note 1) Data from 9 major banks, etc., 26 regional banks, 8 large securities companies, etc. (7 large securities companies, etc. due to a business merger for PY2020), and 4 network securities companies was aggregated.

(Note 2) For the number of customers holding investment trusts for banks, on the basis of their own sales (Note 3) Individual customers with assets on deposit as of the end of each fiscal year are covered.

(Source) FSA

(2) Customers' awareness and behavior

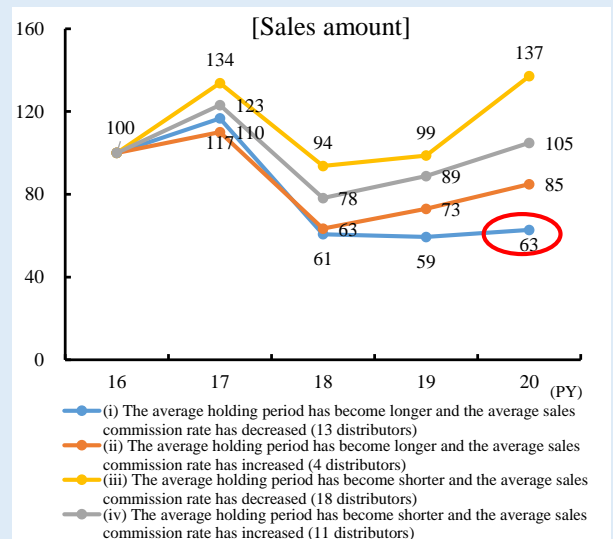
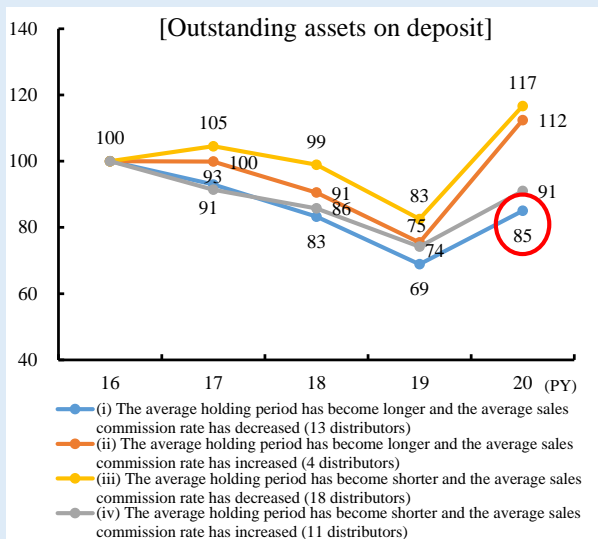
It was confirmed that customers generally consider that asset management should be on a long-term basis and are apt to obtain necessary information via the internet.\* On the other hand, in actual asset management, there seems to be a tendency to sell off financial instruments they hold on a short-term basis when any appraisal gain arises. Additionally, it was also confirmed that "policies for achieving the Principles" and "respective KPIs" of individual financial institutions are not fully utilized by customers as a means to collect information.

To a question regarding changes in main financial institutions' services regarding asset management in the most recent few years, only nearly 10% of customers responded that services have improved. This tendency is almost the same for all business categories, which suggests that many financial institutions are implementing initiatives for customer-oriented business conduct but the outcomes thereof have yet to be recognized by customers.

(3) Distributors' systems

Major distributors have endeavored to increase outstanding assets on deposit based on long-term diversified investments, and as a result, the average period during which customers hold investment trusts is becoming longer and the average sales commission rate is decreasing, mainly among major banks. However, it was confirmed that distributors for which the average period of holding investment trusts has become longer and the average sales commission rate has decreased in the past five years have decreased their outstanding assets on deposit and sales amounts for investment trusts (Figure 3). This suggests the difficulty for distributors to perform customer-oriented business conduct and achieve an outcome of securing a stable customer base and revenues.

(Figure 3) Relationship between Average Holding Period and Average Sales Commission Rate and Outstanding Assets on Deposit and Sales Amount Regarding Investment Trusts



(Note 1) Data from 9 major banks, etc., 26 regional banks, 8 large securities companies, etc. (7 large securities companies, etc. due to a business merger for PY2020), and 4 network securities companies was aggregated.

(Note 2) For banks, on a combined basis of their own sales and sales through brokers

(Source) FSA

\* As this survey was conducted online, regarding the survey results, it should be noted that the response tendencies may have been influenced by the survey method.

Under such circumstances, some large-scale distributors focus their management resources on transactions with wealthier customers that are highly profitable and make approaches more efficiently to customers who are building their assets mainly through non-face-to-face services. There are also distributors that clarify their targeted customers and offer financial instruments and services suited to such customers, thereby differentiating themselves from other distributors.

Major distributors are introducing their own tools to be used in the process of making proposals to customers, but front-line sales personnel have yet to utilize them sufficiently. Distributors are expected to analyze optimal portfolios based on individual customers' life plans and make proposals on long-term diversified investments based thereon, while utilizing their tools more effectively.

#### (4) FSA's efforts

The Report by the Working Group on Financial Markets, Financial System Council, published in August 2020 made a recommendation on the visualization of financial institutions' initiatives for customer-oriented business conduct to further promote and embed the Principles, and the FSA published a notice concerning expected initiatives based on the recommendation of the report in April 2021. For the purpose of enhancing comparability of financial institutions' initiatives, the notice introduced the FSA's decision to include only financial institutions that have explicitly presented their policies with respect to each of the items of Principles in the list of financial institutions adopting the Principles, and presented key points for analysis when the FSA compares and analyzes best practices and provides related information. Financial institutions are expected to understand the purpose of making their initiatives visible and review their policies for achieving the Principles as necessary so that they can provide information on their initiatives for customer-oriented business conduct to customers in an easy-to-understand manner.

## **2. Challenges whose significance will increase in the future**

In addition to the above, the FSA compiled key points for future monitoring based on dialogues with distributors and analysis of data in PY2020.

The first is how individual financial institutions will materialize their policies and progress in KPIs that they have disclosed in a manner beneficial to customers based on the Principles. More specifically, top managements' sincere attitude is required on the part of financial institutions, and the FSA is required to devise a means for disclosure and for dialogues with financial institutions. Another challenge is how financial institutions should exert their originality and ingenuity to truly achieve customer-oriented business conduct and how the FSA should disseminate such best practices in a more accessible manner for customers.

The second is whether important information and sales processes are disclosed to customers based on individual financial institutions' policies. Distributors are expected to improve their explanation and proposal processes, such as including comparisons beyond categories of financial instruments, and to provide customers with appropriate and meticulous explanations in particular when selling financial instruments with specific themes.

The third is how to evaluate the performance of sales personnel in a manner to motivate them to perform customer-oriented business conduct. Distributors should consider how to build an incentive system in conformity to their own business strategies, while incorporating the concept of customer-oriented business conduct in performance evaluation.

The fourth is the importance of reviewing business strategies to balance customer-oriented business conduct and operational sustainability. While the implementation of initiatives for customer-oriented business conduct has only partially brought about outcomes in business, distributors are expected to endeavor to offer financial instruments and services unique to themselves compared with other distributors or otherwise review and establish their original business strategies.

The FSA will continue monitoring and having dialogues with distributors centered on these points and facilitate people's asset building.



# To Bank Customers

## - Request for the Prevention of COVID-19 Infection -

# Dear valued customers

### – COVID-19 safety precautions and considerations –

As a bank, we will work to provide essential banking to support our customers' everyday life and business through these challenging times.

As we rise to meet these challenges, the health and safety of our customers remain our top priority. With that in mind, we have implemented measures in order to avoid the "Three C's"; closed spaces, crowded places and close-contact settings.

We also would like to kindly ask our customers to consider the below actions in order to minimize the spread of the COVID-19.

## 01 When visiting a branch

### Social Distancing



We are limiting the number of customers permitted in our branch at one time so you may experience longer than normal wait times.

### Masks and temperature checks



Please consult your bank prior to your visit for any urgent services you may need to perform when feeling sick. And even fully vaccinated people should continue to wear mask and other infection prevention measures.

## 02 Other banking options

- Please refrain from visiting a branch on dates that are expected to be crowded.
- Please consider using other channels available to you, such as online & ATM services and call centers.

### Expected crowded dates in Aug. 2021

  the expected crowded dates.

SUN.	MON.	TUE.	WED.	THU.	FRI.	SAT.
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

#### Services available as usual

Deposits and withdrawals of ordinary account

Cancellation of time deposits, investment trust etc.

–Transfer funds  
–Taxes and utility bill payments

Reporting of lost items

–Issuance of new passbook and card  
–Magnetic malfunction of card

Help with borrowing loans

#### Services for you to kindly reconsider performing on crowded dates

Opening and closure of accounts

Depositing money into a time deposit account

Notice of amendment and bank statements

Request to withdraw certain coins and banknotes

Property accumulation products

Money exchange

\* Please ask the bank or check its website for the details of transaction handled.

\* Please consult the bank for your specific reasons of the needed transaction.

## JFSA's Major Activities in July

(July 1 to July 31, 2021)



- [FSA Staff Report: An analysis of the transaction network in the Japanese OTC derivatives markets \(July 7\)](#)
- [Stewardship Code : 309 institutional investors have signed up to the Principles for Responsible Institutional Investors as of June 30, 2021 \(July 7\)](#)
- [FSA publishes an English translation of the "Comprehensive Guidelines for Supervision of Insurance Companies" \(July 7\)](#)
- [The main issues raised by the FSA at opinion exchange meetings with trade associations \(July 7\)](#)
- [Publication of the "Social Bond Guidelines \(Draft\)" – Open for Public Comments \(July 21\)](#)
- [International Forum of Independent Audit Regulators published its Report on "Internationally Relevant Developments in Audit Markets" \(July 27\)](#)
- [Comment letter on the IFRS Foundation Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards \(July 28\)](#)
- [Updated statistics of money lending business \(July 30, 2021\)](#)
- [Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism \(July 30\)](#)

- JFSA's official English Twitter account  
[https://twitter.com/JFSA\\_en](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](mailto:fsa_kouhou@fsa.go.jp)

### Editorial Postscript

Thank you very much for reading Access FSA.

FSA's public relations office members were reshuffled this summer.

This Access FSA by the new members introduces the State Minister's speech and several FSA's reports. Those reports are annual outcomes of respective FSA's project teams.

Your feedback is more than welcome!

SAITO Takafumi, Director,  
Public Relations Office, FSA