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Inaugural Interview with Mr. SUZUKI, Minister of State for Financial Services



We interviewed Mr. SUZUKI Shunichi, who took office as Minister of State for Financial Services when the KISHIDA Fumio Cabinet was inaugurated on November 10. In this interview, Mr. Suzuki talked about his resolutions and thoughts on financial sector policy .

Outline of the interview

- ◆ Support business operators and citizens affected by the COVID-19 pandemic in collaboration with financial institutions.
- ◆ Pave the way for young and other people to think positively about investment.
- ◆ As a politician, always respond to new needs.

SUZUKI Shunichi

Minister of State for Financial Services, Minister of Finance

Born on April 13, 1953, as son of former Prime Minister SUZUKI Zenko. Ran for a member of House of Representatives in 1990 for the first time and was elected then. Appointed as Minister of the Environment in September 2002, entering the Cabinet for the first time. Appointed as Minister for the Tokyo Olympic and Paralympic Games in August 2017 and April 2019. Served as Chairman of the General Council of the Liberal Democratic Party from September 2019. Numerous hobbies include golf.

—Please tell us about your resolutions as Minister of State for Financial Services.

First, in the current situation, the COVID-19 pandemic may be the greatest matter of concern for the people. Infection prevention measures and human traffic control obstructed the economic activity. As there are many business operators and citizens affected by the COVID-19, we have to implement economic support for them seamlessly. Among them are many small and medium-sized and micro business operators who face cashflow difficulties. As it is important to adequately provide working capital in cooperation with financial institutions, we have to request surely financial institutions to provide support.

To allow the Japanese economy to firmly grow in the future, it is vital that these business operators

overcome the COVID-19 pandemic and then make business efforts. Financial institutions' further efforts may be important to this end. I would like financial institutions to cooperate with various business operators and provide them with various advice and information about business operations, in order to play a role in encouraging business operators to take steps forward.

I have one more point to make. Now, there is about 2 trillion yen in household financial assets, of which cash and deposits account for half. As assets kept at hand make little economic contribution, we have to pave the way for these assets to be used proactively for investment.

In the past, there might have been an impression that only rich elderly people would hold financial assets and make various investment. However, I would like to pave the way for ordinary wage earners and young people to take a positive view of investment based on their life plans.

At present, the Nippon Individual Savings Account (NISA), the Tsumitate NISA (Dollar-Cost Averaging NISA) and other investment mechanisms have been developed. As there are household financial assets, I think that it is important to create an environment in which these mechanisms would be used to enhance Japan's economic wealth and national strength.

—What are impressive among the policies you have tackled so far?

I joined the Cabinet for the first time as Minister of the Environment 19 years ago. At that time, the Kyoto Protocol was being negotiated. Since around then, global warming has been touted as an important issue, but at that time my understanding of global warming was superficial, and I did not greatly feel the impact of the problem. As two decades have passed since then, I think that people are directly sensing climate change. Overseas, there was the greatest flood in 10 centuries. A wild fire burned an area equivalent to the combination of Japan's Hokkaido Prefecture and Tohoku Region. In recent years, Japan has seen great damage from torrential rain disasters and increasingly large typhoons. I think that global warming accompanying climate change is an urgent issue.

In tackling the issue, we must create various industries that respond to global warming. I think that investment in the ESG (Environment, Society and Governance) must be promoted in this regard. It is important to widen the scope of green investment by non-green areas' transition to green ones. In this way, financial sector policy can make sufficient

contributions to global warming countermeasures. Initiatives against global warming, including those seen 20 years ago, have been impressive to me, as now I really sense the impact of global warming.



Photo: During the interview

—What motivated you to become a National Diet lawmaker?

The biggest factor may have been that my father (former Prime Minister SUZUKI Zenko) engaged in politics for a long time. My father became a National Diet lawmaker in 1947, when the first election under the new constitution took place. When I was born, in 1953, my father was a politician, and I have only known him as a politician. Since my childhood, I saw my father's various activities. At that time, he reiterated how Japan should stand up after its defeat in World War II. He frequently used phrases like "revitalization of the Japanese" and "reconstruction of Japan." From that time, I saw politics over the long term, including periods when Japanese citizens placed serious hopes on politics. As I grew, I became confident that politics is very important, and began to pursue a political career.

—*What do you pursue as a politician?*

Simply put, I would like to meet the expectations of citizens. During the three decades since my first election to the National Diet, I have felt that citizens' needs regarding politics have changed. This might be the case particularly in my constituency, Iwate Prefecture. Initially, requests for the development of roads and other infrastructure were great because of the absence of various infrastructure facilities. As the constituency has seen depopulation, a major challenge now is how to maintain industries and communities.

Amid technological advancement, rural areas have a greater need for digitalization than urban areas. For instance, the need for self-driving cars is seen in rural areas, where public transportation services have gradually declined. During the COVID-19 pandemic, people have tried telework and found that it is a good option. They now think that they may work while living in rural areas.

Challenges in rural areas have changed in the past three decades. I seek to closely watch situational changes, respond to new needs, and meet voters' expectations. I think that this is what I should do.

—*How do you unwind on your days off?*

I think that my hobby, golf, has contributed to my relaxation and health management. Recently, however, I have not been able to play golf as before. Sometimes, I cannot go out due to COVID-19. Incidentally, I found an affordable running machine in a TV shopping program and bought it. Instead of playing golf, I use the running machine for 30 minutes for refreshing exercise at home. I live with one of my grandchildren, and another lives nearby. I enjoy playing with my grandchildren on my days off.

—*Finally, what is your favorite phrase to live by?*

When asked to write my favorite phrase, I write “Cherish harmony among people.” because I am reluctant to conflict with others. I may be characteristically similar to how my father was. My father frequently wrote the word “harmony.” His Cabinet was operated under the slogan of “politics of harmony.” I have not necessarily followed this, but when asked about my favorite phrase, I do answer, “Cherish harmony among people.”



〔 Photo: During the interview 〕

(Interviewer: SAITO Takafumi, Director, Public Relations Office)

Minister of State for Financial Services SUZUKI's roundtable discussion with citizens on people's asset formulation and financial literacy

In his policy speech on October 8, 2021, Prime Minister KISHIDA Fumio instructed his Cabinet members to hold roundtable discussions with citizens from various cohorts and perform comprehensive checks on whether or not policies are well-tailored to the people's needs. In response, the FSA hosted Minister SUZUKI's roundtable discussion with citizens on "people's asset formulation and financial literacy" on November 26. The venue was KABUTO ONE in Kabutocho, Nihombashi. Kabutocho was the location of the first head office of the First National Bank, the oldest Japanese bank, founded by SHIBUSAWA Eiichi. Hosting the Tokyo Stock Exchange now, Kabutocho symbolizes Japan's financial industry. Invited to take part in the roundtable discussion were seven people – a university student interested in asset formulation and financial education, a young business person, an non-professional but experienced investor whose occupation is not within financial industry, an economic analyst, a journalist, a certified financial planner, and a certified consumer affairs adviser.

The participants made the following points:

- I lead an investment club at a university. Some club members fail to open brokerage accounts due to their parents' disagreement. In many cases, universities lack understanding about students' investment, declining to officially recognize investment clubs. It is very good to provide young people with financial education, but I feel that students' parents and society as a whole must change their perception of investment.
- Young people are more interested than ever in investment management. They have already started investment through online brokers. In contrast, people in their 40's and older are negative about investment and money and may be left behind.
- Financial education is not limited to investment education; it covers a wide scope. Financial education should begin with what money is.
- While it is important for individuals to improve their financial literacy, it is also significant for financial institutions as financial instrument sellers to provide information necessary and important for investor. It is

important to select financial instruments that feature not only high yields but also full information disclosure.

- It is important to provide financial education for the younger generation, who have no aversion to money. Having said that, it should also be noted that such financial education should not be conducted for the sake of people into just purchasing financial instruments.

Minister SUZUKI thanked these participants for the informative discussion that he cannot obtain if he stuck himself in his office. He also indicated a determination to promote citizens' asset formulation and improve their financial literacy, based on the opinions given by the participants.

The roundtable discussion was very fruitful. The participants in various fields introduced a wide range of initiatives and provided their specific views or ideas regarding problems and recommendable policy measures, not only emphasized that citizens' asset formulation and financial literacy are important. While referring to views given in the roundtable discussion, the FSA will continue to consider systems conducive to citizens' asset formulation and pave the way for their financial literacy to be improved and utilized.



{ Photo: During the roundtable discussion }

Joint session of the 48th general meeting of Financial System Council and the 36th meeting of Sectional Committee on Financial System

--Minister SUZUKI consulted with the council on the improvement of the certified public accountant system --

On November 22, 2021 (Monday), a joint session of the 48th general meeting of the Financial System Council and the 36th meeting of the Sectional Committee on Financial System was held. At the joint session, Minister SUZUKI Shunichi consulted with the council on a new matter after making an address. In addition, reports were made about an interim summary of issues by the Study Group on Digital and Decentralized Finance and the FSA's economic measures.



Photo: Minister SUZUKI reading out consultative remarks

○ Study on how to improve the certified public accountant system

[Consultative remarks]

In light of changes in the economic and social situation surrounding accounting and auditing, a study should be conducted on the improvement of the certified public accountant system to contribute to securing the reliability of accounting and auditing to further demonstrate and upgrade the abilities of certified public accountants.

The FSA has convened the Advisory Council on the Systems of Accounting and Auditing since September 2021. The council discussed how to improve the auditing quality of small and medium-sized audit firms and other auditors of listed companies and how to respond to the diversification of working styles of certified public accountants. Then, the council has published a summary of discussions on ensuring confidence in auditing and improving the capacity and capabilities of certified public accountants. The abovementioned consultation was based on this summary. The Financial System Council's Subcommittee on Certified Public Accountant System will study and discuss how to improve the system.

○ Report

● Interim report of issues by the Study Group on Digital and Decentralized Finance

It was reported that an interim report of issues by the Study Group on Digital and Decentralized Finance had been published. The study group has met four times since July 2021, considering issues including remittance and settlement. The report summarized the points of discussion on responses to stablecoins.* The Financial System Council's Working Group on Payment Services will further discuss legal and regulatory issues related to stablecoins.

● FSA economic measures

A report was made on FSA-related measures among the Economic Measures to Overcome COVID-19 and Pioneer a New Era, on which the Cabinet decided on November 19, 2021.

The FSA will continue to promote relevant measures in light of discussion at the Financial System Council.

* While there is no clear definition of so-called stablecoins, the report concludes that digital assets issued at a price pegged to the value of fiat currency (e.g., 1 coin = 1 yen) and surely redeemed at par (the same price as the issue price) (and other digital assets with equivalent features) will be subject to the further discussion.

General meeting of the Business Accounting Council and the 8th meeting of the Corporate Accounting Committee -- State Minister KIKAWADA received a written opinion --

On November 16, 2021, the Business Accounting Council held its general meeting and the eighth meeting of its Corporate Accounting Committee to discuss the revision of the Quality Control Standards for Audit and recent trends concerning accounting audits and accounting standards.



Photo: State Minister KIKAWADA at the general meeting

○Revision of the Quality Control Standards for Audit

To require audit firms to perform appropriate audit engagements, the council approved the revision of the Quality Control Standards for Audit to call for the proactive identification of and response to risks that have the potential to affect audit quality.

The revision includes the introduction of a system of quality management on a risk-based approach in which audit firms establish quality objectives, identify and assess risks with the potential to adversely affect the achievement of the quality objectives, and design and implement policies or procedures for addressing the assessed risks.

As the system of quality management on the risk-based approach varies depending on the audit firm's engagements and circumstances, the revised quality control standards require audit firms to design, implement and operate systems of quality managements properly in consideration of public interests regarding audit engagements.

At the general meeting, Audit Standard Committee Chairman HORIE Masayuki explained the deliberations at his committee. Then, the Business Accounting Council compiled a written opinion on the revision of the Quality Control Standards for Audit, which State Minister KIKAWADA Hitoshi received from the council's Chairman, TOKUGA Yoshihiro.



Photo: Chairman TOKUGA (right) hands over the written opinion to State Minister KIKAWADA (left)

○Recent trends concerning accounting audits and accounting standards

Discussions covered the following:

- Summary of discussions at the Advisory Council on the Systems of Accounting and Auditing
- Deliberations at the Financial System Council's Working Group on Disclosure
- Status of voluntarily application of the IFRS in Japan
- Development of Japanese accounting standards and provision of comments on international accounting standards etc.
- fostering global accounting human resources, etc.

The international financial center of New York and the Japanese market

KOBORI Takuya, Consul, Consulate General of Japan in New York

1. The international financial center of New York and interstate/intercity competition

Many globally leading financial institutions and financial services-related companies are based in Manhattan, New York, engaging in vigorous financial and capital transactions. Many financial institutions were located around Wall Street in downtown New York from the first half of the 1800s, when New York replaced Philadelphia as the financial center, to the mid-1990s, which is why New York's financial industry is called "Wall Street." Since the 1970s, however, information and communication technology development has encouraged major financial institutions to relocate to Midtown Manhattan. The relocation has accelerated since the 9.11 terrorist attacks in 2001. Mainly financial companies have concentrated in Midtown, leading to hikes in office rents there, so financial institutions have also been relocating to the Hudson Yards, a redevelopment area in western Manhattan.

Under the impact of the COVID-19 pandemic, however, hedge funds and other financial companies have recently been relocating to Florida and Texas, which feature lower costs, including tax. Interstate and intercity competition in attracting companies has grown fiercer. When some New York State Assembly lawmakers proposed a stock transaction tax to cope with a tightening fiscal balance under heavy pandemic spending, the New York Stock Exchange CEO indicated the exchange's relocation to another state. In a manner to counter Miami's initiative to become a cryptocurrency center, New York City Mayor-elect Eric Adams has come up with a plan to make New York such a center. The concept of interstate regulatory competition or competitive governance has seemingly remained alive within the United States while spreading globally.

In addition to New York, due to historical reasons, the United States has various other global financial centers, such as Boston, which has attracted investment managers, Chicago, which hosts commodity and derivatives exchanges, and Silicon Valley, where venture capital funds have gathered.

Incentives for relocating and starting up companies, local governments' business invitation policies and their effects, and business distribution in the United States serve as a useful reference for Japan to sustain and improve its position as an international financial center.

2. U.S. investors investing in Japan

Foreign investors have a great presence in the Japanese market, serving as key market players who exert great influence on market price formation, business administration, and economic conditions. For instance, foreign investors accounted for 60% of total trading value on the first section of the Tokyo Stock Exchange in 2020, demonstrating their great presence.

While it may be difficult to contact foreign investors in Japan, in New York we can directly hear remarks by investors investing in Japan. Investors range from large investment management companies to hedge funds, such as global macro and quant funds, as well as activist investors and private equity funds, having various sizes, investment targets, strategies and views.

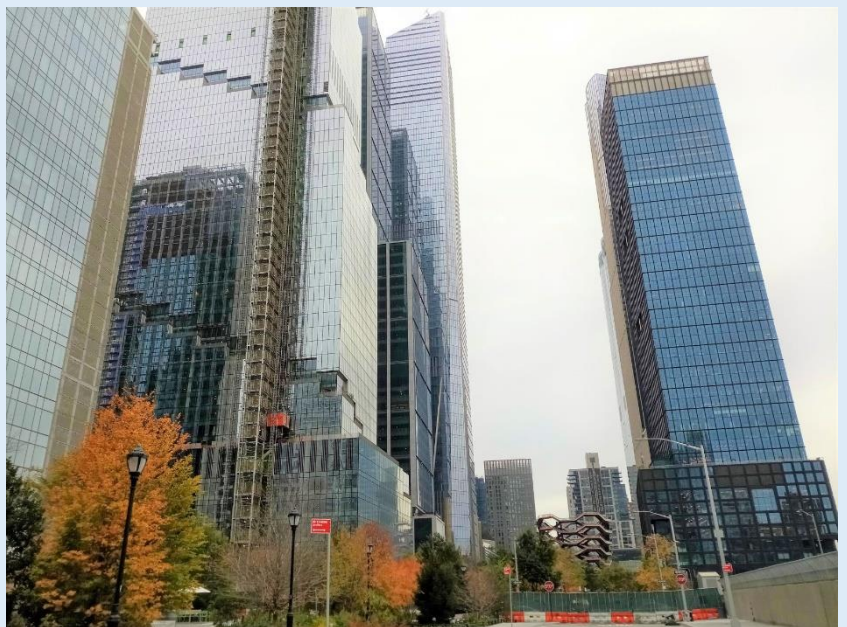


Photo: Hudson Yards under redevelopment. Japanese real estate companies engage in the redevelopment. The impact of the COVID-19 pandemic is attracting attention.

U.S. investors always question why they invest in Japan at a time when U.S. stock prices are rising, with attractive investment targets seen throughout the world. U.S. investment managers in charge of investment in Japan mostly accumulated their experience in Japan in the 1980s and 1990s, when the Japanese economy had a greater presence in the world than at present, and now they are aging. At their companies, they say, it is difficult for them to get money for investment in Japan.

In such situation, most investment managers for U.S. investors are seriously considering the strengths and challenges of Japan's economy and market in a bid to find investment opportunities in Japan. While there are harsh points in their opinions, they place great hopes on and give high ratings to some Japanese initiatives, such as corporate governance reform. Here in New York, I obtain findings that I would not be able to in Japan.

As a matter of course, foreign investors give top priority to improving their own investment returns. In this sense, their opinions are not necessarily right. The policies and interests of short-term or speculative investors differ sharply from those of long-term investors. Meanwhile, the markets shunned by foreign investors are not necessarily good for Japan. While referring to foreign investors' opinions, we should always check Japan's policies and systems and make necessary and adequate improvements to make the Japanese market more attractive and conducive to economic growth.

In this respect, U.S. financial and capital markets serve as a useful reference. In the United States, the way has been paved for ideas to grow into businesses. Endowment funds and other institutional investors, as well as retail investors, have robust ambitions to invest in such new businesses. Financial systems have been developed to allow businesses to raise funds by issuing private and public shares that can be purchased and traded by investors. Japan's financial systems and practices have been modelled after U.S. ones. Ever evolving U.S. economic and financial systems may continue to serve as models for Japan.

At the same time, we must pay attention to differences between premises in Japan and in the United States. Contributors to today's efficient U.S. financial systems include not only public sector policy measures but also private sector initiatives to interpret market inefficiencies as business chances rather than obstacles and eliminate such inefficiencies through business operations. For instance, businesses are launched one after another to create new fund flows, including investment management companies specialized in investment in emerging investment managers and companies that raise funds as benefit corporations, instead of investment funds, to invest in long-term decarbonization projects. We should consider whether Japan has the same premises as the United States and what Japan should do in the absence of the same premises.

3. Steady exchanges with financial stakeholders

The Consulate General of Japan in New York regularly holds seminars to help local investors and other financial stakeholders to deepen their understanding about Japan's economic and financial policies and business trends. It expects to receive constructive feedback through these seminars. In March 2021, for instance, the Consulate General held a webinar for U.S. investors on the development of Japan as an international financial center open to the rest of the world. In the webinar, Mr. Okada, who was the FSA Planning and Management Division Director at the time, and Assistant Director Yamakawa briefed U.S. investors on an initiative for government agencies and other relevant organizations to cooperate in



Figure: Notice on a webinar on an initiative to realize an international financial hub open to the world

attracting foreign financial institutions and investors to Japan and had vigorous discussions with the participants. The Consulate General plans to deepen exchanges with financial stakeholders in New York through such seminars and other meetings to contribute to making the Japanese market more attractive and developing the market.

Financial and economic education initiative

-- e-learning program and Unko (Teacher Poopy) Money Drill --
 UEOTANI Kiichi, Assistant Director, Planning and Management Division

The FSA has tackled financial and economic education to enhance Japanese financial literacy level, sending lecturers to senior high schools and universities. Since the COVID-19 outbreak, however, online classes have increased rather than face-to-face classes. One pitfall is an online class environment has not necessarily been equipped for every school. And what's more, needs for on-demand classes, which give more flexibility and easier access for students compared to real-time online classes, have increased, too. Taking into account these points, the FSA has developed and published video tutorials and guides targeted for senior high school students and teachers. While these have been developed solely under the FSA's exclusive education initiatives, I am pleased to announce that the FSA has developed another new e-learning tool in cooperation with other relevant organizations.

The Financial and Economic Education Promotion Council, whose secretariat function resides within the Central Council for Financial Services Information at the Bank of Japan, has served as a hub for financial education initiatives in Japan, consisting of the FSA and other business organizations. On November 25, 2021, the Financial and Economic Education Promotion Council launched an e-learning program titled "MONEY × VITAMIN – Wisdoms of money management enriching well-being life" (applications for the program began to be accepted on October 29).

Although the program is designed for university students and young business people who are slightly older than those targeted by the abovementioned FSA videos targeted for high school students, it is provided to anyone regardless of age cohorts at free of charge. The program consists of 13 parts of various key agendas, including economic mechanisms, interest rates and other financial fundamentals, life planning, borrowing, asset building, insurance and financial troubles, covering a wide range of financial matters. Besides going through e-learning programs from head to tail, those who apply this e-learning course are allowed to view just some of the parts that they are interested in. The agenda FSA has taken charge of is placed at outset part titled "To materialize your dreams and to develop sustainable society ---- why financial literacy is the key".

The "gacco" free online class platform of DOCOMO gacco, Inc. is used for distributing the program. Although the current version distribution via gacco is set to terminate on March 31, 2022 for the time being, it will be updated later for further ongoing distribution. Program materials are made available for secondary use as long as some required conditions are met so that the program will be used by a wide range of potential users from school staff to corporate training organizers.

The COVID-19 pandemic has caused to change the way how to conduct school classes and corporate training dramatically, and led to utilizing new services, such as on-demand classes. The MONEY × VITAMIN program is one of such on-demand programs made available for anyone at free of charge. We would like encourage any interested parties to subscribe to the "gacco" platform and view the videos. Even those who have acquired basic financial knowledge already may learn something new by starting from the very basics again. We would be very pleased to receive any suggestions on how to improve the program, too.



Scan the code on the right to access
 "MONEY × VITAMIN – Wisdom of
 money enriches life."



Another recent financial education initiative which FSA boasts of is Unko (Teacher Poopy) Money Drill. Unko (Teacher Poopy) Drill, as many of you may know, is a popular workbook series using the cute cartoon mascot of unko (poop) for questions. Published by Bunkyoisha Co., Ltd., the series has become very popular among children, selling more than 8.9 million copies.

As noted above, the FSA has implemented numerous classes for senior high schools and universities. The problem is that it has provided only limited content and few classes for younger children. Therefore, Bunkyoisha has proposed a collaboration project with the FSA, leading to the release of the online Unko (Teacher Poopy) Money Drill in March 2021. The drill attracted great attention, even taken up by the Financial Times. This first edition drill, named “Money drill for Day-to-day Life edition,” released in March 2021 was designed to cover agendas dealing with money-related everyday life events that children are likely to experience.

And in October 2021, the second edition of Unko (Tacher Poopy) Money Drill was released, which is titled as "Economy Edition." The Economy Edition provides a situation where Unko Neko (poop cat), one of the Unko Drill characters, opens a cookie shop, helping children to learn about the fun and troubles of business and the economic mechanism such as how money circulates in society. It thus differs from the Day-to-day Life Edition in concept and learning contents. Both editions allow anyone regardless of age cohorts to work on exercises online. The final outcomes, i.e., alternative answers for each drill quiz featuring the key word “Unko (Poopy)” are based on intentive and serious debate among Bunkyoisha and FSA officials on how to make stories more interesting and what alternative answers are better to deliver the key learning message. We would like you to give a try the drill.

Incidentally, other Japanese government agencies have also collaborated with Bunkyoisha in offering Unko Drill. In addition to Unko Drill for the Fire and Disaster Management Agency, there are Unko Maritime Safety Drill for the Japanese Coast Guard and Unko Tax Drill for the Ministry of Finance. If interested, please take a look on them, too.

Financial and economic education has recently attracted much attention due partly to changes in the social environment, including the planned addition of learning asset formulation concepts to educational guidelines for the home-economics course at senior high schools in April 2022, as well as the lowering of the age of legal adulthood, which, for example, will allow credit cards to be issued to people aged 18 or more rather than the current 20 years old. The growing attention to financial and economic education also reflects not just the increase in the number of investors but also a rising tendency to view money management connected with a broader sense of each individual’s life-planning, To further improve financial literacy proficiency in Japan, the FSA plans to take advantage of this recent growing societal attentions, and consider and implement various initiatives further.



Unko Drill is available from the link below.



Establishment of “the Frontrunner Support Desk on Financial Institution’s systems”

KOIZUMI Ryohei, Assistant Director, FinTech and Innovation Office,
MUKOYAMA Aya, Assistant Manager, Macroeconomic and Market Analysis Office, Risk Analysis Division,
Strategy Development and Management Bureau
YAMAMOTO Kohei, Assistant Director, Regional Financial Planning Office, Banking Business Division II,
Supervision Bureau

Complexity of enterprise systems has recently become a challenge at many financial institutions. Complicated enterprise systems not only sometimes take a lot of expenses to develop and operate, but also make it difficult to take flexible measures to improve service, including digitalization for greater user’s convenience.

In a bid to overcome the challenge, some financial institutions and system vendors have taken new initiatives regarding enterprise systems. To support such initiatives, the FSA established “the Enterprise System and Frontrunner Support-Hub” in March 2020.

In order to make it easier for financial institutions to seek the FSA consultation, the FSA developed the hub into “the Frontrunner Support Desk on Financial Institution's systems” on November 2, 2021. Specifically, the following two points have been improved.

- (1) Provide consultation regarding not only enterprise systems but also other systems, including information systems, and API (Application Programming Interface) to interact with external systems,
- (2) Abolish prior applications and results reports from financial institutions.

As it was before, the desk gives consulters advices about interpretation of laws and system monitoring regarding IT governance and risk management from the early stage of system development planning to back up their initiatives. The desk will publish knowledge gained through consultation in various reports and feed such knowledge back to financial institutions, without releasing a report on each support case.

Finally, we here report five cases in which the hub is providing support, covering (1) transition to open systems, (2) development through cloud computing, (3) compression of the core of accounting systems and flexible responses in strategic domains, (4) component microservices and (5) agile development initiatives, which we had initially assumed.

- (1) The Shizuoka Bank, Ltd.: The bank sought to enable the flexible selection of hardware systems and locations for introducing booking and settlement systems using open technology and to modularize system functions for flexible connections with external services. After the new system launch in January 2021, customer-affecting initial troubles occurred, but they were attributed to difficulties in taking over old system business specifications rather than to any problem peculiar to open technology.

(As a support period ended, a final report was presented and published on November 10, 2021.)

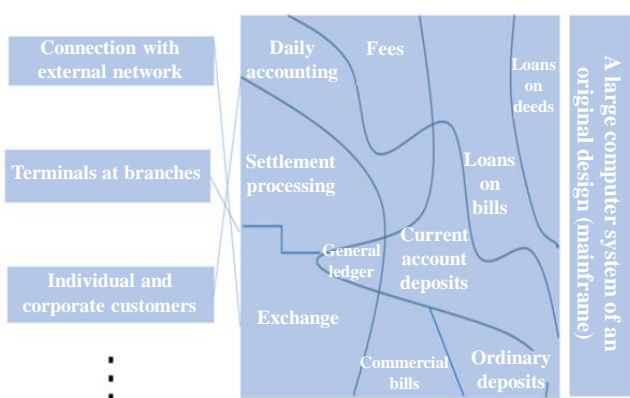
- (2) The Dai-ichi Life Insurance Company, Limited: The company attempts to realize new services and improve operational efficiency by leaving the management and storage of core customer and contract data in the on-premise environment and developing external collaboration and data analysis functions in cloud infrastructure for the enterprise system focusing on existing contract management functions.

- (3) Minna Bank, Ltd. and Zerobank Design Factory Co., Ltd.: An accounting system is planned to be developed in the form of loosely coupled microservices on the public cloud. An agile development approach has been introduced. Furthermore, they pursue the BaaS (Banking as a Service) business model to provide financial functions to other business operators through API connections.

- (4) The Bank of Yokohama, Ltd.: The bank plans to position collaboration with external services and its sales system as the strategic domain for realizing the flexible addition of functions at low cost, cut costs for the non-strategic accounting system by shifting it to an open system and curtailing the addition of functions, and establish online data collaboration infrastructure for collaboration between strategic and non-strategic domains.
- (5) The Saikyo Bank, Ltd.: The bank plans to shift its enterprise system from a shared system operating on a mainframe system to a cloud package that has been operated at other banks. It plans to develop computer systems on its own without depending on system vendors in order to cut development costs and flexibly introduce FinTech and other news services.

(Example) Image of a bank's accounting system

Problems related to the existing system



Examples of new activities

- ✓ An open system
This is a system created by integrating software programs and equipments developed by multiple vendors in an environment created in accordance with universal specifications, enabling a flexible product choice.
- ✓ A shift to a component-based approach and microservices
This approach makes it possible to minimize the impact of system modifications by loosely integrating components for various independently installed functions and services.
- ✓ A shift to a cloud system
This approach enables timely procurement of necessary system resources without the possession of its own resources by installing the accounting system on a public cloud. It also reduces the operator's burden of hardware maintenance. In addition, this approach facilitates the use of AI and other new technologies provided via the cloud.

(Note) Support provided by the Enterprise System and Frontrunner Support-Hub is not limited to that for deposit-taking financial institutions such as banks.

Consultation counter (Available only in Japanese)

- ❑ Hours of accepting applications for consultation
Weekdays: From 9:30 a.m. to 6:15 p.m.
- ❑ Contact
Email: pochub@fsa.go.jp
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- ❑ Division in charge:
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FSA Published “Principles for Model Risk Management”

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Introduction

The FSA published “Principles for Model Risk Management” (“the PMRM”) in November 2021. In this article, we present the objectives and overview of the PMRM.

Growing Need for Model Risk Management

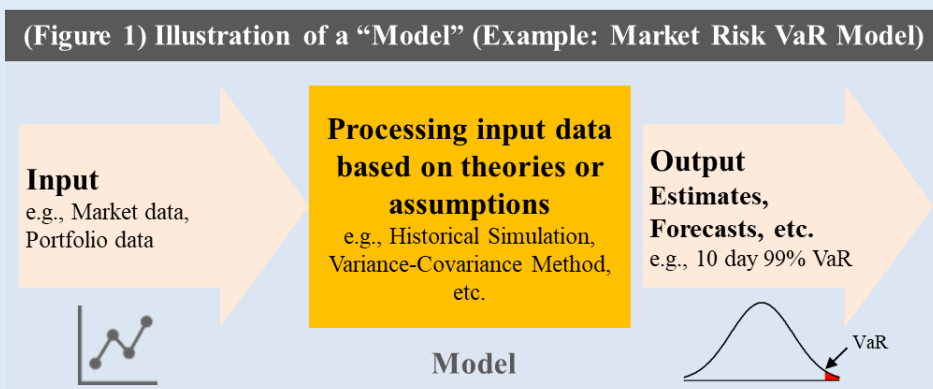
Use of numerous models is prevalent in financial institutions. The recent years have witnessed expanding use of models in broader areas: beyond pricing/valuation of financial products, risk measurement, and stress testing, areas such as provisioning, anti-money laundering, fraud detection, and algorithm trading are becoming increasingly model-based. Many of these models are often harnessing the technological advancements, such as increasing computational power and development in methodologies of machine learning and artificial intelligence.

Models, however, present risk to financial institutions. Models intrinsically entails a great deal of simplifications and assumptions, and they may contain fundamental errors or be used inappropriately. These gives rise to the risk of inaccurate or misinformed decision making, consequently causing a material damage on a financial institution's earnings or reputation.

Model risk management is a relatively new domain that seeks to manage such risks. The need for comprehensive model risk management was recognized after the global financial crisis, prompting large financial institutions to establish a model risk management framework. More recently, the Covid-19 pandemic and the subsequent economic and market dislocation have reminded us of the fact that observed patterns in the past would not necessarily hold in the future, highlighting the growing need of comprehensive and proactive model risk management. It was against this background that the FSA, following engagement with the financial institutions and due consideration, published the PMRM with the aim of promoting further development of the model risk management practices in the industry.

Overview of “Principles for Model Risk Management”

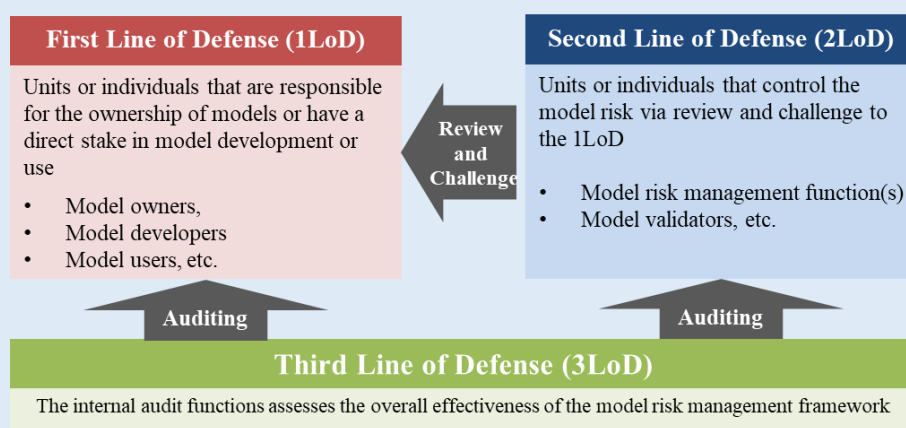
The PMRM requires financial institutions with systemic importance to have a model risk management framework in place. The term “model” in the PMRM refers to “a quantitative process (...) that applies theories and assumptions to process data into outputs, such as estimates, forecasts, scores or classification” (Figure 1). The term is expected to cover a wide range of models; the view underlying the PMRM is that risk should be managed for all sorts of models, as long as the models present risk. A key characteristic of a model is that it presents simplified representations of realities and provides outputs such as estimates and forecasts. Uncertainties arising from this characteristic is the fundamental source of the possibilities of erroneous decision making, thereby giving rise to model risk.



The PMRM presents the three key concepts of model risk management: “the three lines of defense,” “model life cycle” and “risk-based approach.” Firstly, *the three lines of defense* in model risk management are assumed to take the form as illustrated in Figure 2. Whereas the first line of defense (1LoD) consists of model owners, model developers, and model users, the second line of defense (2LoD) consists of model risk management functions and model validators who reviews and challenges the 1LoD. Secondly, *a model lifecycle* means, as the term suggests, the entire life of a model—a process along which models evolve through the passage of time, from identification of models to risk rating, development, use, change, and exit. Lastly, *the risk-based approach* refers to assessing the risk of models, managing and mitigating the risk informed by the assessment. One such example is that while validation of high-risk models should be on a regular basis, validation of low-risk models may be carried out on a non-regular basis.

The PMRM consists of eight principles that that firms should have regard to in model risk management. In what follows, the eight principles are classified into three categories (Figure 3).

(Figure 2) Three Lines of Defense for Model Risk Management



(Figure 3) Overview of Eight Principles for Model Risk Management

Governance & Infrastructure	Principle 1	The board of directors and senior management should establish a framework of comprehensive model risk management .
	Principle 2	Financial institutions should identify models, record them in a model inventory and assign a risk rating to each of them.
Management of Individual Models	Principle 3	Financial institutions should have in place a sound model development process , adequately develop model documents , and carry out model testing .
	Principle 4	Financial institutions should have a robust internal process of model approval at various stages of a model lifecycle, e.g., at the inception, material changes and revalidation of a model.
	Principle 5	After a model goes into use, it should undergo ongoing monitoring by the 1LoD to confirm that it is performing as intended .
	Principle 6	As an integral element of review and challenge by the 2LoD, models should be subject to independent validation . This includes initial validation prior to use, validation of material model changes and revalidation after a model goes into use.
	Principle 7	When using vendor models or external resources , financial institutions should have adequate controls in place over the use of them.
Assessment of Effectiveness	Principle 8	As the 3LoD, the internal audit functions should assess the overall effectiveness of the model risk management framework .

■ Principles 1 and 2 – Governance and Infrastructure

The first two principles provide for governance and infrastructure for model risk management. First, the board of directors and senior management are required to establish a framework of comprehensive model risk management (Principle 1). In doing so, financial institutions should designate a model owner as the 1LoD and a model risk management function(s) as the 2LoD. Next, financial institutions are required to identify models and record them in a model inventory (Principle 2). To conduct risk-based model risk management, they should assign risk ratings (e.g., high, medium, and low) to models (Principle 2).

■ Principles 3 to 7 – Management of Individual Models

Principles 3 to 7 provide for the management of individual models. A model's life starts with its development by the 1LoD (Principle 3). To avoid the model becoming a black box, financial institutions are required to develop a model document describing the model's methodologies and assumptions.

Prior to its official use, the model should be subject to independent validation (Principle 6) and approval (Principle 4) by the 2LoD, where the approval is informed by the result of the validation. Model validation and approval are a key process by which the 2LoD performs review and challenge to the 1LoD. To prevent the process from becoming perfunctory, the 2LoD should have the authority to grant a conditional approval or reject the use of a model. After a model goes into use, it undergoes ongoing monitoring by the 1LoD (Principle 5) and revalidation by the 2LoD (Principle 6) to evaluate whether the model is actually performing as intended.

Whereas the use of vendor models is a commonly observed practice, financial institutions are also required to have adequate controls in place over the use of vendor models (Principle 7).

■ Principle 8 – Assessment of Effectiveness

Principle 8 requires internal audit functions to assess the overall effectiveness of the model risk management framework. Financial institutions are expected to strengthen their model risk management framework through assessment by the 3LoD as an independent reviewer.

Conclusion

The key for sound model utilization is to manage the risk of models as well as to harness their benefits to increase efficiency and effectiveness, ultimately providing better financial services. We hope that the PMRM would serve as a catalyst for the change.

FSA conducted “Delta Wall VI” Financial Industry-Wide Cybersecurity Exercise

The FSA conducted the sixth annual Financial Industry-Wide Cybersecurity Exercise, called “Delta Wall VI” October 20-27, 2021.

1. Increasing cybersecurity threats to the financial industry

Large-scale cyberattacks have occurred in various countries, employing further sophisticated and complicated techniques. Japan has seen cyberattacks hindering business operations, stealing critical information and causing financial losses. The impact on the financial industry has become a matter of concern.

The threat of these cyberattacks poses significant risks with the potential to undermine the stability of the financial system. It is crucial to further improve the entire financial industry’s incident response capabilities.

The FSA conducted six of such cybersecurity exercises to date. The number of financial institutions participating in the annual exercise stood at 77 in FY2016, 101 in FY2017, 105 in FY2018, 121 in FY2019, and 114 in FY2020. Through these exercises, many financial institutions have revised their contingency plans, incident response manuals and other internal rules, and implemented measures to enhance information sharing procedures internally and externally, improving their incident response capabilities.



〔 Photo: During the exercise 〕



2. Overview of this year’s exercise - Delta Wall VI

This year, the number of participating Shinkin banks, credit associations and fund transfer service providers increased because the FSA expanded the coverage of entities that have participated in the exercise in these sectors and some of these sectors experienced illicit fund transfers. The number of financial institutions participating in the latest exercise hit a record high of 150. Local Finance Bureaus, the Bank of Japan and the Japanese Institute of Certified Public Accountants also took part in the exercise, responding to communication from financial institutions.

Based on recent cyberattacks, the exercise scenario assumed system troubles and the leakage of customer information and assets triggered by targeted attacks and ransomware infections.

In the exercise, basic technical challenges, including research into cyberattack details, were introduced to lead participants to confirm not only information sharing and business continuation but also adequate communication with outsourcing destinations during incidents.

In a bid to take advantage of findings revealed by the exercise for day-to-day business operations, the FSA held a hotwash with banks within one month after the exercise to share and discuss best practices and lessons learned in the exercise to improve their incident response capabilities.

3. Assessment of exercise results and feedback

The exercise gives priority to post facto assessment, including the provision of specific improvement measures, encouraging participating financial institutions to rotate the PDCA (plan-do-check-act) cycle to improve incident response capabilities.

Regarding the latest exercise, participating financial institutions analyzed matters that they failed to address during the exercise. For instance, they analyzed whether problems found during the exercise were related to contingency plans or responses. Analysis results were also subjected to the assessment to further clarify what problems financial institutions face. In this way, efforts were made to increase the effects of the exercise.

Assessment results are fed back not only to participating financial institutions but also to the entire financial industry to improve cybersecurity measures on an industry-wide basis.

To Bank Customers

-Cooperate in money laundering and terrorist financing countermeasures-

銀行をご利用のお客さまへのお知らせ

日本および国際社会がともに取り組まなくてはならない課題として、マネー・ローンダリングおよびテロ資金供与対策の重要性が近年益々高まっております。銀行は、関係省庁と連携しながら、複雑化・高度化するマネー・ローンダリングおよびテロ資金供与の手口に対応し、有効に防止することが出来るように対策を進めております。

こうした中、金融庁は、2018年2月に、金融機関等における実効的なマネー・ローンダリングおよびテロ資金供与対策の基本的な考え方を明らかにした「マネー・ローンダリング及びテロ資金供与対策に関するガイドライン」を策定、公表しました。

これに基づき、お客さまのお取引の内容、状況等に応じて、追加でのご確認など、次のような対応をさせていただきます場合がありますので、ご理解、ご協力をお願いいたします。

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- ✓ 追加のご確認をさせていただきますお取引や、確認方法、確認内容は銀行によって異なる場合があります。
- ✓ 追加のご確認等のため、通常よりお手続きのお時間をいただく場合があります。
- ✓ 特定の国に居住・所在している方等とお取引等をされる場合は、資産・収入の状況等を確認させていただきますことがあり、その際に、従来とは異なる資料のご提示や質問へのご回答をお願いする場合があります。
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- ✓ 各種質問へのご回答やご依頼した資料のご提出について、ご回答の状況やお取引の内容にもとづき、やむを得ず新規のお取引をお断りさせていただく場合があります。また、既にお取引のあるお客さまにおかれましても、ご回答の状況やお取引の内容および預金規定等にもとづき、やむを得ずお取引を制限等させていただく場合があります。
- ✓ 詳しいことは、お取引銀行の窓口にお問い合わせください。また、本件に関し、お取引銀行の窓口へのお問い合わせ後もお尋ねしたいことがありましたら、下記までお問い合わせください。

●全国銀行協会相談室

電話番号：0570-017109 または 03-5252-3772

受付日：月～金曜日（祝日および銀行休業日を除く） 受付時間：午前9時～午後5時

●金融庁 金融サービス利用者相談室

電話番号：0570-016811 または 03-5251-6811

受付時間：平日午前10時～午後5時



一般社団法人
全国銀行協会



Financial Services Agency

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 Dec. 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	1/1
1/2	1/3	1/4	1/5	1/6	1/7	1/8

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 September

(November 1 to November 30, 2021)



- [FSA's Vice Commissioner for International Affairs Elected as a New Vice Chair of the Executive Committee of the International Association of Insurance Supervisors \(November 26, 2021\)](#)
- [Updated list of issuers of gift certificates in repayment procedures based on the 'Payment Services Act' \(November 26, 2021\)](#)
- [The fourth meeting of the Working Group on Corporate Disclosure of the Financial System Council \(November 24, 2021\)](#)
- [To Operators of Specially Permitted Businesses for Foreign Investors, etc./during Transition Period \(November 22, 2021\)](#)
- [Business Reports on a Special Provision for Deductibility in Performance-based Compensation \(November 22, 2021\)](#)
- [Summary from "The JFSA Strategic Priorities July 2021-June 2022" \(November 17, 2021\)](#)
- [Joint session of the 48th general meeting of Financial System Council and the 36th meeting of Sectional Committee on Financial System \(November 15, 2021\)](#)
- [FSA publishes an English translation of Principles for Model Risk Management \(November 12, 2021\)](#)
- [Stewardship Code : 320 institutional investors have signed up to the Principles for Responsible Institutional Investors as of October 31, 2021 \(November 11, 2021\)](#)
- [Publication of NGFS Glasgow Declaration and FSA's Sustainable Finance strategy as NGFS member \(November 4, 2021\)](#)
- [Summary of Results of the Brief Survey on the Use of JPY LIBOR \(November 1, 2021\)](#)

- 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

The top story of the December issue of "Access FSA" is an interview with Minister Suzuki. During the interview, the interviewer strongly felt Minister Suzuki's passion for local community and nation with his solid experience.

In this "Access FSA", one article is from New York, following the one from Singapore in October and from India in November. We will see contributions from Europe as well.

Best wishes for the New Year.



SAITO Takafumi, Director,
Public Relations Office, FSA