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←Access the online version here

<https://www.fsa.go.jp/en/newsletter/index.html>



Financial Services Agency

Address by Minister of State for Financial Services SUZUKI Shunichi at the Annual Meeting of the National Association of Shinkin Banks

The National Association of Shinkin Banks held its annual meeting on June 24, 2022, and Minister SUZUKI delivered opening remarks as follows:



Photo: Minister SUZUKI delivering a speech at the annual meeting of the National Association of Shinkin Banks

○ Introduction

Hello, everyone. I am SUZUKI Shunichi, the Minister of State for Financial Services.

Thank you very much for inviting me to the annual meeting of the National Association of Shinkin Banks.

From the bottom of the heart, I would like to congratulate you on holding the meeting and say a few words on this occasion.

Although the Japanese economy is showing signs of a recovery amid an easing of the tough COVID-19 situation, conditions that permit no optimism, such as another spread of infections and further rises in crude oil and commodity prices accompanied by the prolongation of the Ukrainian situation, are expected to continue.

Under the circumstances, I appreciate Shinkin Banks for their great efforts to support for many business operators, such as cuts in the burden of loan repayments through the acceptance of their requests for postponement.

I expect that Shinkin Banks will continue support for business operators to the best possible extent by making

use of such means as business turnaround support by the Council for Vitalizing of Small and Micro Enterprises and the Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises.

○ Promotion of sustainable finance

To rebuild Japan's economic society, which has been damaged by COVID-19, and achieve its sustainable growth, in addition to support for local business operators, it is urgently necessary to change its industrial structure in line with climate change and address social problems such as the widening of inequality and the decreasing population.

Advocating "new capitalism," the government is seeking to achieve a virtuous cycle of growth and distribution, solve social problems and establish a sustainable economy.

As financial support is important for the promotion of such objectives, expectations placed on the role of finance continue to grow.

The FSA is pushing ahead with programs to promote finance that helps solve social problems, namely sustainable finance. For example, the FSA is working out

- Disclosure rules pertaining to the issues of "sustainability" such as climate change and human capital, and
- Environmental arrangements such as the disclosure of its basis idea (draft) about financial institutions' responses to climate change, including support for client companies.

○ Investment in people

It is people who address the question of climate change and solve social problems such as the declining birthrate and aging population and inequality. Investment in people, therefore, is the most important investment.

The Grand Design and Action Plan for a New Form of Capitalism, approved by the Cabinet recently, and other initiatives call for a wage increase as a flow factor and a shift "from savings to investment" as a stock factor to promote investment in people.

In light of cash and deposits accounting for more than half of household financial assets in Japan, shifting them toward investment is considered to have the potential of greatly expanding household financial assets.

To work out a "plan to double the asset-based income of citizens" at the end of 2022, the government will examine a wide range of measures including a drastic expansion of the Nippon Individual Savings Account (NISA).

Shinkin Banks, while providing households with means of savings through the acceptance of deposits, are in the vanguard of supporting their asset building through the sale of investment trusts, among others. I would like to ask for Shinkin Banks' cooperation in promoting investment in people and the distribution of assets.

○ Efforts to solve regional problems

Regional financial institutions maintain a visible and long-lasting presence for local business operators. In particular, Shinkin Banks are cooperative financial institutions that are deeply rooted in their communities and provide services based on people-to-people relations.

I understand that Shinkin Banks, under such a philosophy, are dealing with a variety of local problems in a bid to create a society where a sense of fellowship between them and local people of various kinds is fermented.

These efforts enable financial institutions to gain clients' trust through close communication, enhance the sustainability of local economies by solving a variety of problems and lead to the improvement of their own sustainability through an increase in their name recognition and reinforcement of their customer base.

To back Shinkin Banks' efforts, the FSA will

advance the establishment of environmental arrangements such as studies to institutionalize the practice of creating security interests for the entire operations of business enterprises at an early date. I would like to ask for Shinkin Banks' efforts to vitalize local communities and solve problems by providing refined services in response to individual needs.

○ In closing

Last but not least, the FSA holds the Regional Banking Summit (Re:ing/SUM) to support regional financial institutions' efforts to establish sustainable business models and promote mutual understanding between parties concerned and share favorable cases, etc.

At the last event I attended, discussions were held on a variety of challenges surrounding regional communities, such as "SDGs and ventures" and "financial education and financial literacy" in addition to "support for business operators."

From the next event, themes and contents will be arranged and examined so that as many Shinkin Bank executives and officials as possible can take the rostrum.

I would like to conclude my speech by wishing everyone here much happiness and health and express my hopes for the Shinkin Bank industry's further development.



〔 Photo: The meeting in motion 〕

Speech by State Minister KIKAWADA Hitoshi at the Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance

On June 7, 2022, the 19th Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance was held with the attendance of State Minister for Financial Services KIKAWADA Hitoshi. The meeting heard reports from ministries and agencies concerned regarding the state of affairs, policy trends and other matters pertaining heavily indebted people. At the meeting, exchange of opinion was also held between outside intellectuals (constituent members) and officials from ministries and agencies concerned. Remarks by State Minister KIKAWADA are as follows:



〔 Photo: State Minister KIKAWADA speaking during the meeting 〕

I am KIKAWADA Hitoshi, State Minister for Financial Services. I appreciate the attendance of the members, including Chairman Yamamoto. Thank you very much. I would like to deliver a short address on this occasion of holding the 19th Consultation Meeting Relating to the Multiple Debt Problem and Consumer Finance.

This meeting was set up to examine policy measures that should be taken to address the problem of multiple debts, including responses to new challenges, while maintaining achievements made thus far, and has been held biannually. Along with endeavors by constituent members and other people concerned, government ministries and agencies and local governments have been making joint efforts to solve the problem of multiple debts.

The number of heavily indebted people has been almost leveling off in recent years. However, given the

current matters of concern such as the state of COVID-19 infections and the economic effects of rising crude oil prices, I consider it important to carry out new countermeasures, when necessary, while paying close attention to the situation.

In addition, the legal age of adulthood was lowered in April, allowing 18- and 19-year-olds to conclude contracts by themselves. To prevent consumer damage and excessive indebtedness, therefore, I think it is important to promote programs such as education and awareness-building publicity for young people and approaches to the industries concerned.

Under the circumstances, government ministries and agencies will report to today's meeting about a summary of inquiries for advice on multiple debts, responses to new types of loan sharks referred to in reports on victims and others, initiatives taken after the lowering the legal age of adulthood, trends in measures to address gambling addiction and so forth. I would like to ask constituent members to present expert reports on the state of affairs in their actual work.

In closing, I would like to say that it is important to steadily carry out necessary measures in line with environmental changes of the multiple debt problem accompanied by the COVID-19 disease, economic conditions and so forth. To this end, I humbly ask you to provide your knowledge and am looking forward listening to unrestricted opinions from you today.



〔 Photo: The meeting in motion 〕

Message to the Market (Explanation of Recommendation for Administrative Monetary Penalty Payment)

The Securities and Exchange Surveillance Commission (“SESC”) posts explanation of recommendation that it has issued on its website as an article titled “Messages to the Market.”

The content of "Message to the Market" posted on June 27, 2022, is as below.

* For the full text of “Messages to the Market,” please access the SESC's website at <https://www.fsa.go.jp/sesc/message/20220627-1.html> (Available in Japanese).



Recommendation for an administrative monetary penalty payment order against market manipulation relating to shares of SPANCRETE CORPORATION

Based on findings by an inspection, the SESC recommended on April 26, 2022 that the Prime Minister and the Commissioner of the FSA issue an administrative monetary penalty payment order.*

[Summary and features of the case]

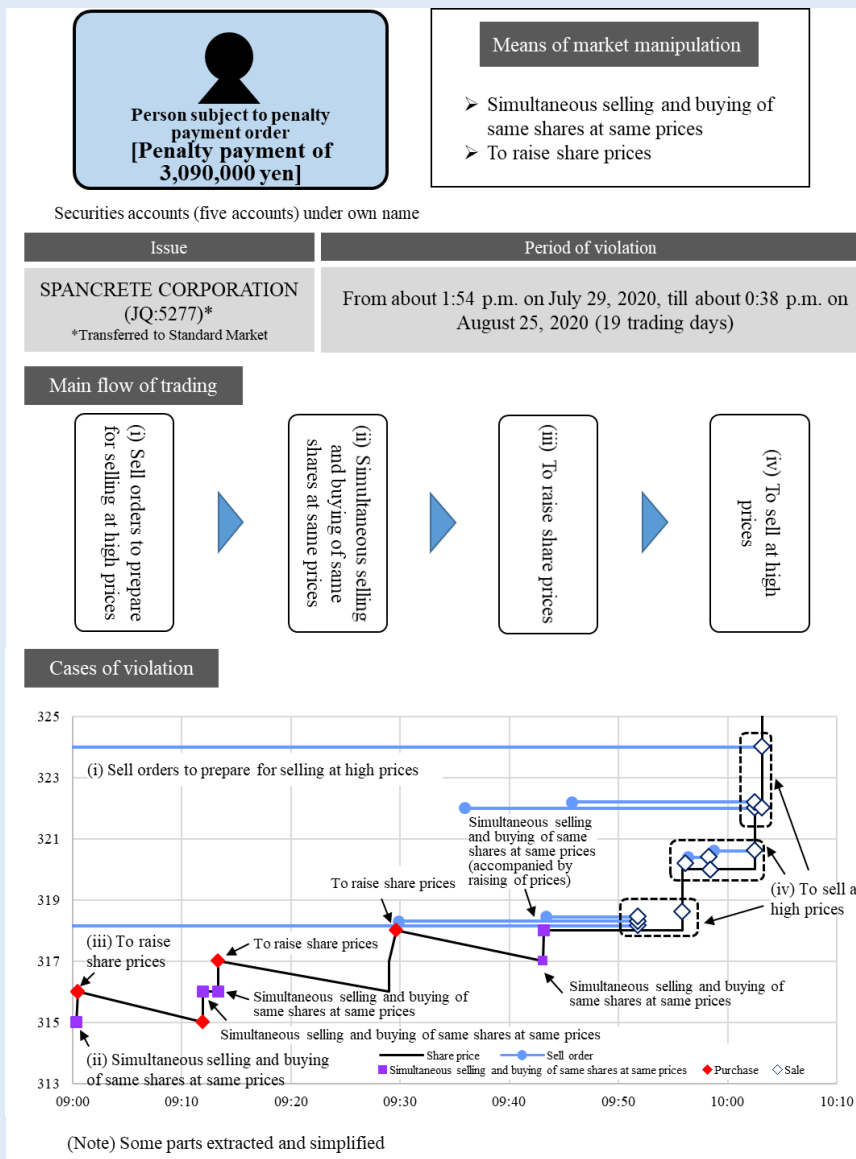
An individual subject to the recommended penalty engaged in a series of online trading to mislead other persons into believing that the sale and purchase of shares in SPANCRETE CORPORATION were thriving and to cause fluctuations in their prices through five accounts under his or her name for the purpose of inducing trading in them.

Principal means of trading for the purpose of inducing other investors to sell and buy the shares:

- (i) Placing high-priced sell orders before the start of daily trading to prepare for selling at high prices
- (ii) Simultaneous selling and buying of the same shares at the same prices through the individual's own account to raise prices
- (iii) Raising prices of minimum trading unit (100 shares in the case under review)
- (iv) Selling shareholdings at high prices

The SESC, in close cooperation with Japan Exchange Regulation, constantly keeps tabs on the securities market and conducts a strict investigation into any unfair transactions that impair the fairness and health of the market.

(Figure) Summary of facts about violation



* For “Recommendation for an administrative monetary penalty payment order against market manipulation involving shares of SPANCRETE CORPORATION ” published on April 26, 2022, visit https://www.fsa.go.jp/sesc/news/c_2022/2022/20220426-2.html (Available in Japanese).

Vanguard of Financial and Economic Education

- Messages from Officials in Charge -

NAKAMURA Kaori, Strategy Development Manager
YOSHIDA Ryusei, Staff Member
Strategy Development Division
Strategy Development and Management Bureau

The FSA is promoting financial and economic education through such measures as the publicity of NISA*1 and publication of the textbook on financial and economic education for high school students.*2 An interview with officials in the vanguard of financial and economic education follows.



Photo: Manager NAKAMURA and YOSHIDA, a staff member, of the Strategy Development Division during the interview

Q1: Attention to financial and economic education is growing. What is behind it?

[NAKAMURA]

Broadly speaking, I think there are two factors.

The cut in the legal age of adulthood, effective on April 1, is one of them. Starting at 18, people can conclude various contracts by themselves without their parents' consent. It is good but there are things they should keep in mind. For example, they cannot cancel them when a trouble occurs.

People become adults both in name and reality upon graduation from high school. The importance of acquiring general financial literacy before graduation is

more strongly recognized.

As the other factor, the curriculum guidance for high school education was amended in April this year to upgrade and expand financial education in social studies and home economics.

We receive favorable responses from adult persons as well. In a class for university students, for example, one of them said, "I have to listen to the lectures more attentively because I did not study the contents in high school."

Q2: What are difficulties of financial and economic education?

[YOSHIDA]

This is my very personal opinion, but I think that "there is no answer" is the most difficult part.

There are various courses of life after graduation from high school. Among school students, some already have knowledge about stocks while others have never thought of family budget management and allowances.

In online financial and economic education held recently for elementary school education, some generally knew the contents, while others had never heard of them at all. Aware of wide-ranging differences between students, we rack our brains to prepare materials and contents of financial and economic education.



*1 For details of NISA, visit <https://www.fsa.go.jp/policy/nisa2/index.html> (Available in Japanese).

*2 For the textbook on financial and economic education for high school students, visit <https://www.fsa.go.jp/news/r3/sonota/20220317/20220317.html> (Available in Japanese).

We publish our guidance material of financial and economic education for high school students. For its use, we hold talks with teachers in advance on questions such as which parts of it should be emphasized instead of using it as it is. We try to make such confirmation carefully on every occasion.

Q3: When do you feel a sense of accomplishment in financial and economic education?

[YOSHIDA]

I feel a sense of accomplishment especially on two occasions. First, I find my work worthwhile when students say in post-education comments that "I could learn special things we cannot learn in ordinary education at school" or "It was meaningful to learn finance and asset formation before entering the world of work."

The second occasion is when we receive feedbacks from ordinary people about "Unko Money Drill ('unko' means 'poo')" and other educational materials. Pamphlets of "Unko Money Drill" went out of stock the other day due to a flood of requests. As in such a case, I feel a sense of accomplishment when strong public interest directly gets through to us.

Q4: The final question is about the future development of financial and economic education.

[NAKAMURA]

It is highly appreciated that financial and economic education is somehow booming these days.

We are drawing attention as people say the FSA is doing this and that. Asset formation is taught at high school, and bla bla bla.

I think we have to be careful not to let the attention end as a temporary phenomenon.



Our goal is not to buzz on social media but to let everybody become financially literate. It is important for us to continue current approaches, such as education and preparation of educational materials.

Programs for adult persons are also important. I think it is most difficult to deliver wide-ranging contents of financial and economic education to adults who have completed school education.

As it is difficult for the FSA alone to do so, I think we have to address the issue with support from not only financial institutions but also many other concerns.

[YOSHIDA]

I wanted to do more in terms of publicity using the FSA's mascot character, "Tsumitane Waniisa." I hope to make the Tsumitate NISA and Waniisa a little more widely known.



【金融庁公式】 何から手をつけたらいいの？ | 「つみたて...
金融庁チャンネル

* A video of the Tsumitate NISA is available at the FSA's official website on YouTube. For details, visit <https://youtu.be/VgvLlkWR3yM> (Available in Japanese).

Publication of the "Progress Report on Enhancing Asset Management Business 2022"

KUWATA Hisashi, Developing Asset Management Office, Strategy Development Division,
Strategy Development and Management Bureau

TAKINO Keeichi, Director, Asset Management Monitoring Office, Securities Business Division, Supervision Bureau

On May 27 this year, the Financial Services Agency (FSA) published the "Progress Report on Enhancing Asset Management Business 2022."* Given below is an interview with the FSA staff members who were responsible for preparing the report.



Photo: Director KUWATA of the Developing Asset Management Office (right) and Director TAKINO of the Asset Management Monitoring Office (left)

Question 1. The Progress Report on Enhancing Asset Management Business 2022 has been taken up in various media reports. What is the purpose of the report?

[KUWATA]

The message of the report is that asset management firms must be always conscious of customer-oriented business conduct. As we believe that, in the investment chain, asset management firms play a very important role as a bridge between households and investee companies, we hope that the report will be a catalyst for vigorous discussion on practicing customer-oriented business conduct.

[TAKINO]

This is the third progress report to be published. First, discussions were held within the FSA on how to ensure that the monitoring results regarding challenges in the way of enhancing asset management firms' investment capabilities are reflected in individual firms' activities and industry-wide awareness. We prepared the progress

report because of our wish to promote industry-wide awareness, including among all asset management firms and sales companies, so that we can create an environment that encourages sound competition across the Japanese asset management industry to enhance investment capabilities.

Question 2. You prepared a report last year as well. What is new and distinctive about the new report compared with last year's report?

[KUWATA]

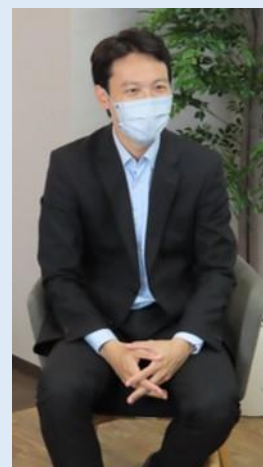
Broadly speaking, there are three major points. First, the new report for the first time disclosed the results of performance estimation regarding individual products. With respect to product origination, delivery and monitoring (product governance), the data presented there revealed various challenges. To resolve the challenges, we will continue dialogue with asset management firms.

Second, after a survey on the actual situation that continued for around half a year, the FSA for the first time set out its expectations for asset management firms handling ESG funds. We hope that asset management firms will exercise creativity to improve their activities to address the challenges.

Third, the new report for the first time disclosed the results of a sample survey concerning structured bonds and, at the same time, explained in detail the product characteristics of and challenges for structured bonds. As customers' inquiries about structured bonds are increasing, we plan to continue our analysis.

[TAKINO]

From the viewpoint of dialogue with asset management firms in particular, while we continued to discuss matters such as individual firms' management structures and business administration systems until last year, we wanted to hold more in-depth discussions on



* As for the "Publication of the Progress Report on Enhancing Asset Management Business 2022," released on May 27, 2022, access the following site: <https://www.fsa.go.jp/en/news/2022/20220527.html>.

whether those structures and systems are functioning effectively and whether product quality management covers all funds. This time, in cooperation with the Developing Asset Management Office, we analyzed individual funds whose performance was considered to be sluggish in the medium to long term, presented the analysis results to the firms, and discussed specifically what actions they were taking. We have the sense that we discussed with the firms problems related to the effectiveness of product governance that remained invisible despite the monitoring of their management structures.

Question 3. About what points did you take particular care (what problems did you have) when preparing the report?

[KUWATA]

First, we considered how to reach out to general investors. This year, in addition to a document in the usual presentation format, we prepared a document in the report format. As this made it possible to provide more meticulous explanations, it became easier to attract the attention of not only industry officials but also various media organizations. We hope that the report will be examined from various viewpoints and that necessary information will reach general investors as well.

We also took care about disclosure of raw data. Usually, only a limited group of people are given access to data prepared by data supplier companies. However, data containing actual names that had been collected through a commissioned survey was published on the FSA's website by courtesy of the data supplier company that had prepared the data. We hope that the data will be useful for your analysis.

[TAKINO]

Although this is not something limited to the preparation of the report, we took care to ensure that the contents of our dialogue and reports are satisfactory for monitored firms as well. We would like to make the report conducive to ongoing dialogue and useful as a reference for firms other than the monitored ones by presenting examples of individual firms' activities and the results of actual dialogue based on data.



Question 4. Please give us an outlook on future activities to enhance asset management capabilities.

[TAKINO]

Our goal is to create a virtuous cycle (developing a win-win situation) in which asset management firms achieve good performance and the Japanese people's assets increase, leading to an increase in the amount of assets under management and to stable profits at asset management firms that have gained public trust, and as a result, the firms further enhance their investment capabilities. We would like to continue to deepen dialogue with asset management firms.

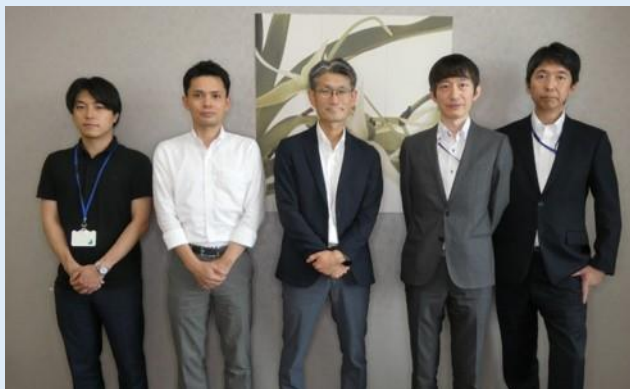


Photo: Asset Management Monitoring Office: (From left) DAIJO (staff member), SUZUKI (Section Chief), TAKINO (Director), NAKAGAWA (Coordinator), and YASUNO (Senior Director)

[KUWATA]

To enhance asset management capabilities, it is important not only for asset management firms but also for sales companies and asset owners to play their respective expected roles. While we took up structured funds, fund wraps and pension funds as points of discussion at this time, we will continue to hold dialogue with relevant organizations, conduct surveys and analyses and communicate information on the FSA's perspectives.



Photo: Developing Asset Management Office: (From left) SUGIMOTO (Deputy Director), HARA (Deputy Director), KUWATA (Director), and MATSUMOTO (staff member)

Summary of the "Progress Report on Enhancing Asset Management Business 2022"

In May this year, the FSA published the "Progress Report on Enhancing Asset Management Business 2022."* The report takes an in-depth look at the challenges that asset management firms need to overcome in order to promote business management that puts client interests first and to enhance investment capabilities from three viewpoints—the management structure, product origination, delivery and monitoring (product governance), and visions and strengths. At the same time, regarding publicly offered ESG-related investment funds (hereinafter referred to as "ESG funds"), which have increased in recent years, the report set out "supervisory expectations for asset management firms providing ESG funds" based on surveys and analyses conducted by the FSA. Among other items taken up in the report are fund wraps, structured bonds, and asset owners (pension funds). Below, the key points of the report are explained briefly.

1. Business management that puts client interests first

In order for asset management firms to achieve good investment performance over the long term and establish a stable revenue base supported by customers, it is necessary for them to develop an organizational framework and implement initiatives that give top priority to client interests. From this perspective, the FSA had dialogues with asset management firms in Japan and their parent companies regarding the progress of their initiatives. In order to put client interests first and strengthen investment capabilities, asset management firms need to let their governance framework function

properly and to make improvements and enhancement on the following three points: "1. Management structure," "2. Product origination, delivery and monitoring ('Product Governance')," and "3. Clear visions and strengths."

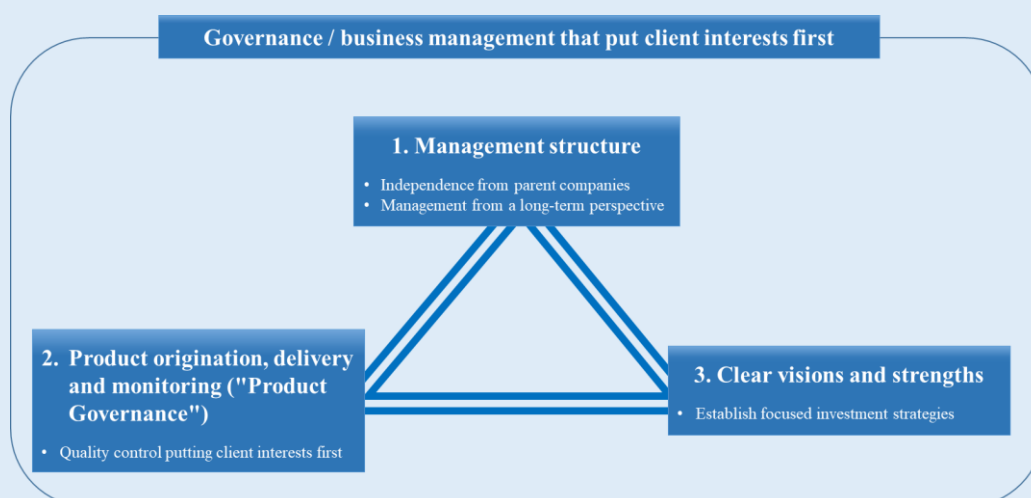
(1) Management structure

We expect that senior management of asset management firms, including independent directors, responsibly instill the idea of client interest first throughout the organization and implement appropriate frameworks of governance and business administration. In particular, the report focuses on ensuring independence as an asset management firm, a management structure focusing on expertise in investment management, and expected roles of independent directors.

(2) Product origination, delivery and monitoring (product governance)

In order for asset management firms to conduct business administration that gives top priority to client interests, it is important for them to establish a product governance framework that controls the quality of individual products from the perspectives of "whether their products truly meet investors' needs and provide them with stable long-term returns," "whether their products are managed as envisioned at inception and generate returns commensurate with costs borne by investors," and "whether the investment strategies planned at the time of inception are maintained."

(Figure 1) Initiatives to give top priority to client interests and strengthen investment capabilities



* As for the "Publication of the Progress Report on Enhancing Asset Management Business 2022," released on May 27, 2022, access the following site: <https://www.fsa.go.jp/en/news/2022/20220527.html>.

(3) Clear visions and strengths

Asset management firms should differentiate themselves from others by focusing on their core competencies, acting creatively in their areas of focus, and realizing their own visions. The report also mentions the importance of the due diligence of outsourced fund managers, performance evaluation and compensation systems for realizing visions, and initiatives to improve operational efficiency.

2. ESG funds

Amid the global spread of efforts toward carbon neutrality, ESG funds that have been newly established in succession are attracting attention. On the other hand, there are concerns that funds proclaiming environmental considerations may be misleading investors as their investment processes actually do not give consideration to the environment. This is an example of so-called "greenwashing." Therefore, since November 2021, the FSA has conducted a survey of 225 ESG funds handled by 37 domestic asset management firms on their organizational structure, positioning of ESG investments, investment strategy and processes, engagement, and disclosure.

Regarding the situation of ESG funds in Japan, the FSA found through the survey that at around 40% of the asset management firms surveyed, there was no ESG expert. There were also cases in which asset management firms depended on individual fund managers adept in ESG and failed to develop systematic investment processes. Moreover, regarding disclosure, there was no case in which an asset management firm provided sufficient explanations as to how they reflect individual companies' ESG factors in investment decisions or whether they analyze the potential for a future increase in enterprise value.

In light of the results of the survey and analysis, the report set out the FSA's expectations for asset management firms handling ESG funds. When asset management firms state that they take into consideration the ESG factors in their explanations about product characteristics and investment processes in product brochures for investors, the FSA believes that it is important for them to pay attention to the seven-point expectations and make improvement efforts. In addition, asset management firms should continuously enhance their investment processes and approaches and make explanations and disclosures in accordance with the actual circumstances of the investment processes and in a consistent manner so that customers can make appropriate investment decisions. Going forward, the FSA will continue dialogue with asset management firms based on the FSA's viewpoints and thoughts

reflected in its expectations.

3. Other Issues

Here, explanations are provided about the analysis results and challenges related to equity exchangeable bonds (EBs), which account for a portion of overall sales of structured bonds.

The redemption value of EBs is linked to the prices of specific equities due to the knock-in mechanism when the equities concerned record price drops larger than the prescribed rates, and therefore, EBs are prone to significant losses when the prices of the stocks concerned drop steeply. On the other hand, EB's upside returns are limited because they are redeemed at face value at the time of stock price rises due to the knock-out mechanism. Indeed, among the samples examined in the FSA's analysis, there were cases in which 80% of the principal value was lost in only three months. Since the risk-return ratio of EBs is inferior to that of equities while the correlation of EBs with equities is strong due to the product characteristics, there is almost no justification for purchasing EBs instead of equities.

Therefore, it is important for financial institutions and industry associations to enable customers to purchase EBs based on an accurate understanding of the product characteristics by enhancing the provision of information through measures such as voluntarily collecting and publishing data related to structured bonds periodically.

4. Conclusion

In order to achieve sustainable economic growth by dealing with various changes in the economy and society, such as increasing geopolitical tensions and the spread of COVID-19, it is important that each participant in the investment chain fully plays its expected role to achieve a virtuous cycle of funds. We hope that the report will be helpful in that respect and intend to strive to resolve the challenges through dialogue with a broad range of stakeholders, among other activities.



Photo: MATSUMOTO (left) and DAIJO (right), staff members on whose shoulders the FSA's future rests.

(Figure 2) Supervisory expectations for asset management firms providing ESG funds

In cases where an asset management firm states, for example, "ESG factors are taken into account" as an explanation of the characteristics and investment process of ESG funds it provides, the FSA expects that the firm will improve the matters described in each of the following items.

1. Overarching principle

- The investment process and approach should be further strengthened on a continuous basis, and clear explanations and disclosures should be made in a consistent manner based on the investment process so that investors can make appropriate investment decisions.
- ✓ While building the necessary organizational structure with sufficient human resources with expertise, the investment management firm should work to enhance its investment practice and ensure better disclosure so that it can clearly explain how it identifies and evaluates ESG factors that affect corporate value, how it uses them in portfolio decisions, and how it engages and exercises voting rights to improve ESG-related business opportunities and reduce business risks.
- ✓ When considering ESG factors only as one element of corporate analysis, the firm should not emphasize ESG and sustainability in its disclosure documents to prevent investors from misleading as if the main characteristics of the funds are ESG (for example, a fund that identifies ESG factors as the source of excess returns and selects companies with a high ESG score, or a fund that aims to create environmental and social impact).

2. Organizational structure

- A firm should develop effective systems for ESG investment, including the establishment of a department responsible for strengthening the sustainability promotion framework, enhancing ESG investment methods, and applying ESG experts.

3. ESG Integration

- In order for ESG analysts and investment teams to accurately share the details and reasons of ESG evaluation of individual companies, and appropriately estimate corporate value and engage with companies, fund managers should not rely solely on their own judgment, but also should take systematic measures to ensure consistency and continuity as an organization.
- ✓ In integrating ESG considerations, a framework for effectively analyzing and understanding potential business opportunities and risks that affect corporate value should be developed, such as by developing and enhancing an assessment framework that utilizes ESG scores, with the aim of identifying material ESG factors in investee companies.

4. ESG ratings and data product providers

- In order to conduct in-depth corporate research and analysis, appropriate verification of ESG ratings and data product providers should be conducted from the viewpoint of ensuring the accuracy and quality of ESG evaluations and individual data provided by the providers.
- ✓ Organizational structure of ESG ratings and data product providers (number of staff, experience, ability to provide information according to customer needs, and compliance structure), the scope of the company subject to the survey, and the transparency and quality of the evaluation method should be verified in comparison with other ESG ratings and data product providers. Quality control should be actively performed through discussions with the providers, asking questions or suggesting what they should improve.
- ✓ While disclosing its ESG initiatives (for example in sustainability reports), a firm should explain how to use and verify ESG ratings and data product providers to contribute to constructive dialogue with investee companies.

5. Stewardship Activities

- In accordance with its investment strategy, a firm should proactively conduct stewardship activities to achieve corporate value growths by improving ESG-related business opportunities and reducing business risks identified at the time of investment.
- ✓ In cases where a firm positions climate change as an ESG issue to be addressed, FSA expects that the firm conducts engagement and exercise of voting rights in more active and continuous manner from the perspective of encouraging the transition to decarbonization, mainly in industries with large amounts of greenhouse gases.

6. Disclosure

- In order for investors to correctly understand the details of investment products without misunderstanding and make appropriate investment decisions by comparing them with other products, appropriate information provision and disclosure should be promoted in a consistent manner that conforms to its investment process.
- ✓ A firm should strive to enhance disclosure of its policies and initiatives by, for example, explaining its basic ESG approach, ESG integration, engagement policies and specific examples, in its sustainability report or responsible investment report.
- ✓ The characteristics and investment process of ESG funds should be adequately disclosed in the prospectus.
- ✓ Where a firm invest in a company considering ESG factors based on the investment process described in the prospectus, efforts should be made to enhance disclosure, not only through investment reports and monthly reports, but also by using other documents, so that the firm can explain in detail "how the corporate value of investees is currently evaluated based on ESG factors" and "what engagement and voting rights are exercised toward improving the corporate value of investees based on ESG factors, as well as future policies."
- ✓ In particular, when assigning names such as "ESG," "SDGs," and "impact" to the funds, it is necessary to explain and disclose more clearly how the products meet the characteristics implied by the names so that customers do not misunderstand the meaning of the names.

7. Outsourcing

- From the viewpoint of fulfilling fiduciary responsibilities, outsourced investment managers should be appropriately managed and accurate information should be provided to customers in accordance with the characteristics of products.
- ✓ Even in cases where outsourcing including fund-of-funds type and investment advisory is used, as in the case of in-house investment, it is necessary to confirm and understand the outsourced managers' investment structure, investment strategies (investment methods and management methods) of invested assets, investment performance, etc., with appropriate frequency and depth.
- ✓ A system for appropriate management of outsourced investment managers should be established.

(References)

- "Progress Report on Enhancing Asset Management Business 2022" (Complete Version)



- A commissioned survey: "Survey on Investment Performance of U.S. and European Open-End Funds"



- A commissioned survey: "Measurement of Representative Key Performance Indicators (KPI) of Investment Performance of Domestic Asset Management Firms and Analysis of Various Points of Discussion Regarding Domestic Publicly Offered Investment Trusts"



- A commissioned survey: "Survey on Circumstances Surrounding Corporate Pensions"



Report by the Financial System Council's Working Group on Corporate Disclosure

FUKE Hiroshi, Assistant Director
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Corporate Accounting and Disclosure Division, Policy and Markets Bureau

In June 2021, the need to deliberate ideal forms of corporate disclosure was raised at the General Meeting of Financial System Council, and deliberations were conducted by the Working Group on Corporate Disclosure (chaired by Professor KANDA Hideki at the Department of Legal Affairs of Gakushuin University Law School) on nine occasions in total from September 2021. A report compiling the results of the deliberations was published* this June. The developments of the deliberations and key points of the report are introduced below.

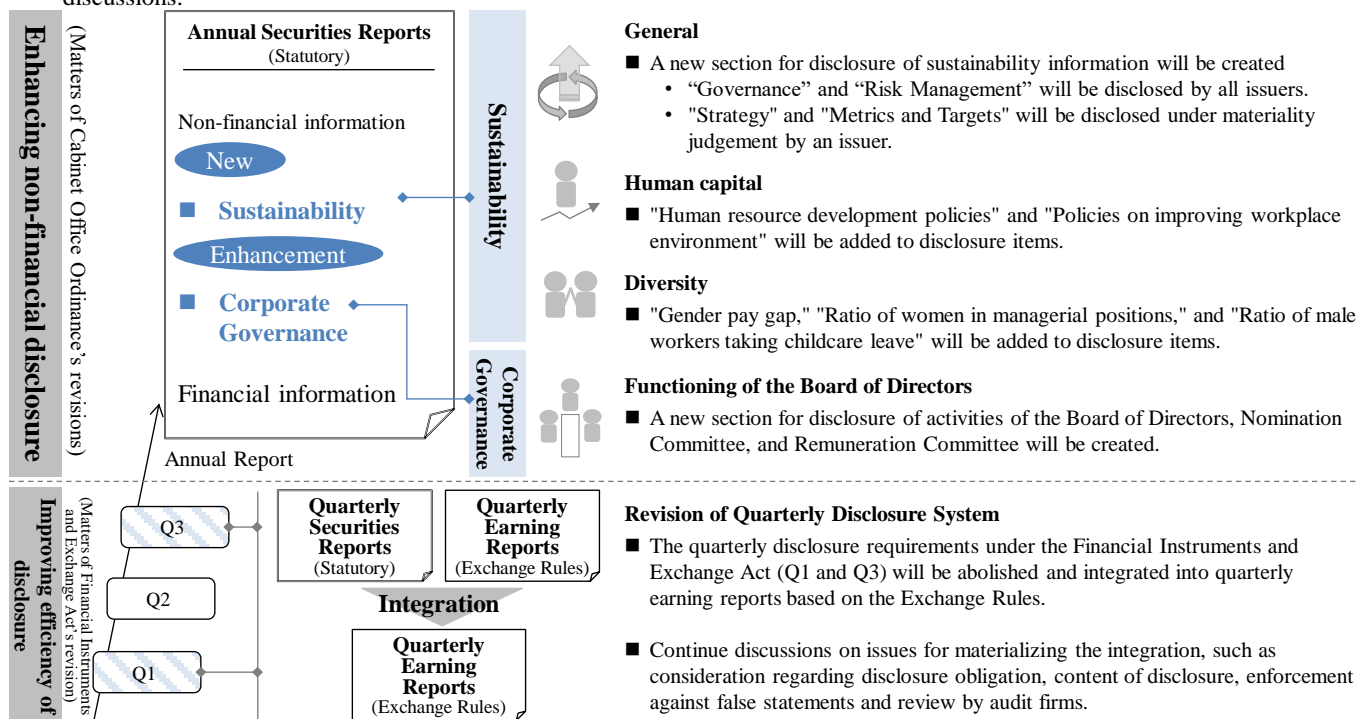
1. Developments

Amid system reforms in response to the previous report by the Working Group on Corporate Disclosure, disclosure of narrative information has been improved in particular through dialogues between companies and

investors and facilitation of disclosure practices, and corporate disclosure has thus been becoming more and more useful. When observing recent economic and social circumstances surrounding corporate disclosure, the significance of sustainability in corporate management and investors' investment decisions has rapidly come to be recognized and discussions on corporate governance have become active. Furthermore, in deliberations toward the achievement of Prime Minister Kishida's new capitalism, it is necessary to consider ideal forms of corporate disclosure from the perspective of facilitating fulfilment of capital market functions while at the same time further developing capital markets in light of international trends. Based on such awareness, the Working Group on Corporate Disclosure conducted deliberations broadly on corporate disclosure and made the following recommendations.

Summary of Report by the Working Group on Corporate Disclosure of the Financial System Council

- The Working Group on Corporate Disclosure has discussed enhancing disclosure of non-financial information and improving efficiency of disclosure in light of recent changes in economic and social circumstances. The summary below is based on the discussions.



(Note) In addition to the above, clarification of disclosure requirements for material contracts entered into by companies with other parties, and promotion of disclosure in English have been also summarized.

* For the news release on June 13, 2022, "Publication of the Report by the Working Group on Corporate Disclosure of the Financial System Council," see the following: https://www.fsa.go.jp/singi/singi_kinyu/tosin/20220613.html (Available in Japanese).

2. Disclosure of companies' initiatives concerning sustainability

(1) General

Initiatives concerning sustainability have become central challenges in corporate management and have been attracting increasing interest from investors globally. At the same time, establishment of standards for disclosure of sustainable information and active utilization thereof are rapidly progressing.

Under such circumstances, also in Japan, it is necessary to position sustainability information as major items for corporate disclosure and to make constant efforts to enhance the content of the disclosure.

In order to respond to these requests, the Working Group recommended the creation of a new section to enter sustainability information in annual securities reports, wherein information on "governance" and "risk management" is to be disclosed by all companies and information on "strategy" and "metrics and targets" is to be disclosed under materiality judgement by individual companies.

(2) Human capital and diversity

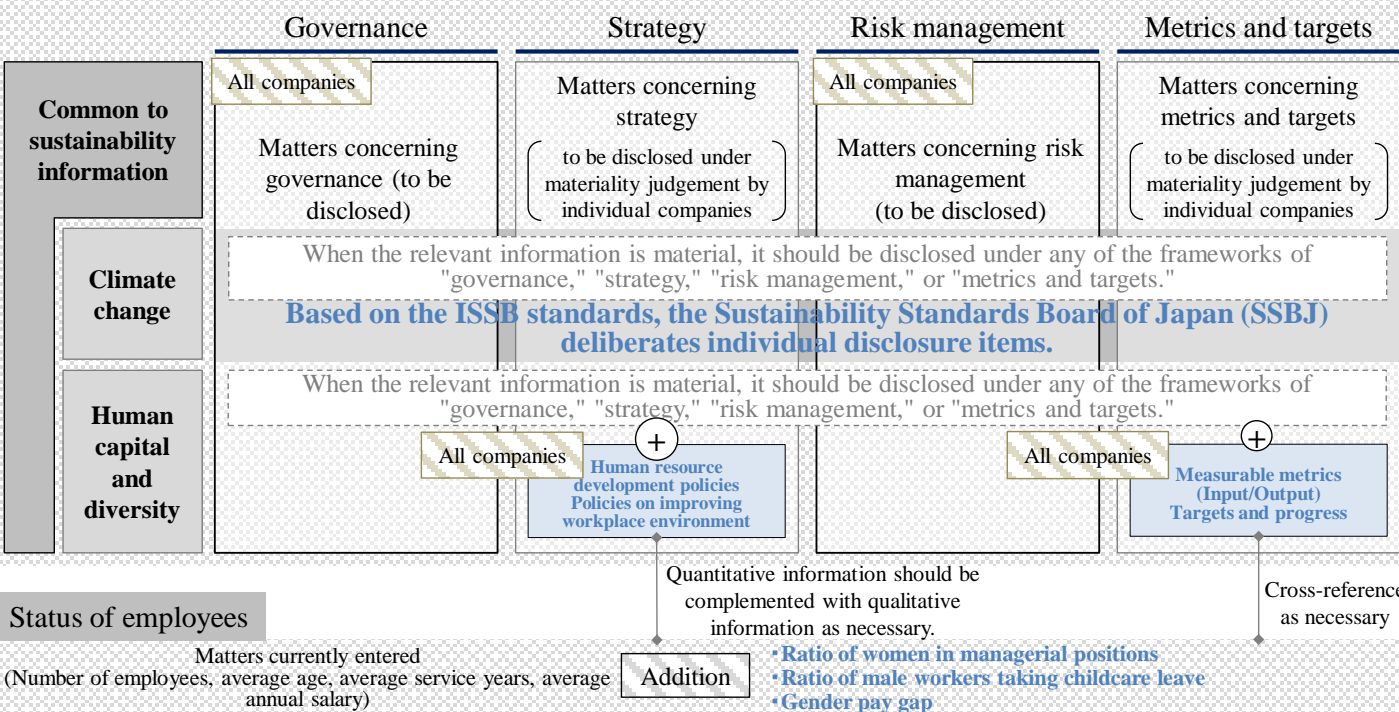
In deliberations toward the achievement of Prime Minister Kishida's new capitalism, the significance of investment in human resources is emphasized. Human capital and diversity are recently attracting the attention of institutional investors as information relating to corporate value on a long-term basis, and are included in disclosure items under multiple international frameworks for disclosure of sustainable information. Accordingly, information on human capital, including initiatives concerning diversity, has come to be disclosed recently.

In light of these trends, from the perspective of providing information necessary for investors' investment decisions, the Working Group recommended adding "human resource development policies" and "policies on improving workplace environment" as disclosure items to be entered in the strategy section for sustainability information, and also adding the "ratio of women in managerial positions," "ratio of male workers taking childcare leave," and "gender pay gap" as disclosure items, and putting these newly added items in line with other legal definitions and frameworks in consideration of burdens on companies, etc.

Disclosure of Companies' Initiatives concerning Sustainability (Summary)

- The following should be entered in the sections of "idea and initiatives concerning sustainability" and "status of employees" in annual securities reports.

Idea and initiatives concerning sustainability [new]



3. Disclosure concerning corporate governance

As of April 2022, companies with a nominating committee and a compensation committee accounted for approximately 80% of all companies listed on the Prime Market of the Tokyo Stock Exchange, and the Corporate Governance Code was revised again in June 2021. In line with these moves, investors have come to show higher interest in how boards of directors, etc. are fulfilling their functions.

Information on activities of boards of directors, etc. has come to be disclosed in corporate governance reports in Japan and has been disclosed in detail in legal documents in the United States, United Kingdom, Germany, France, etc. Accordingly, the Working Group recommended the creation of a section to enter activities of the board of directors in annual securities reports, wherein frequency of holding meetings, major agendas and attendance of individual members are to be disclosed.

4. Frequency and timing of disclosure, including quarterly information disclosure

The issues concerning the new capitalism and the relation between corporate management and quarterly information disclosure are being discussed actively from a mid- and long-term perspective.

Regarding current practices, it is pointed out that quarterly securities reports based on the Financial Instruments and Exchange Act and quarterly earnings reports based on the Exchange Rules contain overlapped content and the timings of their disclosures are close to each other. The Working Group suggested that it may be possible to reduce cost and improve efficiency through the integration of these documents by devising enforcement strategies.

Integration may be achieved either by consolidating them into quarterly securities reports or into quarterly earnings reports, but the Working Group concluded that consolidation into quarterly earnings reports would be appropriate in consideration of the following: consolidation into quarterly securities reports, which are published later than quarterly earnings reports, may decrease the usefulness and timeliness of disclosed information; quarterly earnings reports, by which information is actively disclosed to investors, are broadly utilized by investors; it is also important to encourage companies to take a positive stance toward information disclosure; and some point out that it may also possible to ensure disclosure not in the form of quarterly securities reports but by any other alternative methods from the perspective of securing accuracy. Specifically,

the Working Group recommended abolishing the legal obligation of quarterly information disclosure (the first and the third quarters) currently imposed on listed companies and integrate them into quarterly earnings reports based on the Exchange Rules.

5. Other individual problems concerning disclosure

Additionally, the Working Group recommended that types of material contracts and concrete content thereof to be disclosed in annual securities reports should be clarified and that information disclosure in English should be conducted with regard to items that are highly used in particular.

6. Conclusion

Based on these recommendations, the FSA will work on developing systems for disclosure of information concerning sustainability and corporate governance, with the expectation that the development of the environment for facilitating corporate disclosure and constructive dialogues between companies and investors will lead to the creation of capital markets that will bring about mid- to long-term improvement of corporate value. The Working Group needs to continue deliberations on challenges concerning the creation of a roadmap, clarification of the roles of the SSBJ, and integration of quarterly securities reports into quarterly earnings reports, all of which will contribute to practical preparation of companies and investors for starting disclosure of sustainability information.

Development of the FSA's Local Area Network (LAN) System - Encouraging staff's flexible work-styles –

MAMBA Daisuke, Director, Information Technology Office,
Resources and Management Division, Strategy Development and Management Bureau

This article will explain the FSA's LAN system, i.e., the core IT infrastructure system for internally exchanging and sharing work-related information.

We launched the latest FSA's LAN system in January 2020. While its predecessor system started operation in January 2014, the FSA started designing the latest system already in 2016, with the prospect that the server, peripherals and software would have become obsolete.

When developing the latest system, the FSA aimed at not only updating equipment and software, including OS, but also implementing new functions contributing to more efficient operation and as well as diverse work-styles and other functions contributing to more resilience in cyber-security, in light of an increased number of staff working remotely. In doing so, we held briefing sessions for, invited comments from, and conducted survey on all FSA staff members, and organized workshops to let them undergo its development of contents using a prototype in order to reflect, to the extent possible, users' feedback in the system.

○ Development of infrastructure for remote work

Portability of a user device would be a key to let each staff freely choose her/his work-style.

Therefore, the FSA adopted compact laptops (with 13.3 inches display) that were considerably lighter and easier to carry around. We added remote access functions to these laptops so that any staff can access internal file storages on shared drives from their home and other places outside the office.



Photo: Author

Furthermore, the FSA has installed wireless LAN in the office and meeting rooms which enable staff to organize meetings anywhere in the office and edit documents on the spot by only bringing their laptops and using displays there. Consequently, we were successful in reducing the number of paper-based meetings.

It is also important to ensure cyber-security, in order to allow staff to work remotely. Therefore, we adopted biometric authentication when staff log on their laptops, thereby reducing the risk of password leakage. The laptops are now equipped with a function to automatically erase data, so that information on a laptop is immediately disappeared when it is turned off. Data are saved only on the internal file storage rather than on each device. Accordingly, even if a staff accidentally left her/his laptop somewhere and someone else attempted to launch it, that person cannot access any business information.

○ Enhancement of communication tools

The latest system enables staff members to use a chat function, in addition to conventional emails, for their internal communications. The chat app also provides information on a status of colleagues' presence/availability. Additionally, online meeting tool makes it possible to easily shift from a (bilateral) chat to an online meeting, which can be organized both in and outside of the office building.

As its timing of the introduction of the latest system happened to coincide with the first wave of COVID-19, we were only able to prepare one online meeting tool at an initial stage. As the number of online meetings has increased, we have increased the number of available tools as needed.

As the COVID-19 continued to spread and the percentage of staff members working remotely increased, we have broadened the lines connecting between the LAN and the outside. Considering that some staff were not necessarily required to come to the office given the nature of their work, and from a quarantine point of view, which contributes to business continuity as well as staff's health management, the Information Technology Office (the Office) split all staff members into two groups, i.e., groups A and B. During this split operation, one of the two group members conducted remote work every other day in turn and we found no disruption was found in our services. While I suppose that thanks to its business nature of the Office as an IT department, shifting to remote working was relatively easier rather than other departments, the overall percentage of remote workers in the FSA was considered to have remained high.

In June 2020, the Office introduced a shared desk policy, under which any of our staff can change desks, accompanied by an office renovation so that staff members can effectively maximize the benefits of services and tools I have mentioned above. Paper documents and materials were tidied up and the office room became brighter with letting daylight in from windows.

Furthermore, we added project management function to groupware so as for members to share information with colleagues across the divisions being invited to discuss any of specific topics. With this function, staff members are now able to communicate more freely and actively, and the visibility of its progress of individual

tasks to the assigned project members has been increased.

○ Introduction of BYOD

Thanks to the latest LAN system, the infrastructure for online meetings with external counterparts has been developed and staff members can do almost the same work regardless of in the office or from home. In addition, we introduced a Bring Your Own Device (BYOD) program in March 2021 to enable all staff members to check emails, arrange schedules, and book meeting rooms in spare time without launching their laptops, and also to make/receive a phone call to/from external related parties by using her/his own device and external lines during remote work.

The BYOD is used by downloading a dedicated app in staff's private smartphones. This app enables staff members to access the FSA's internal website and make business phone calls whose costs are covered by the agency. All staff members can install this app by filing an application and individual telephone numbers only for business use are allocated to each of them.

As described above, the Office has endeavored to develop a system infrastructure to enable staff members to change their work-styles flexibly. As we believe there should be a room for further enhancement, we will continue listening to their needs of the FSA staff members, who are users of the system, and making efforts to development and operation of the system more effectively.



Photo: Office room of the Information Technology Office

JFSA's Major Activities in June (June 1 to June 30, 2022)



- [Publication of Summary of Report by the Working Group on Corporate Disclosure of the Financial System Council \(June 30, 2022\)](#)
- [Bank of Japan Review Progress toward resolvability to address TBTF problem \(June 22, 2022\)](#)
- [Assistant Commissioner of International Affairs Office Elected New Co-Chair of the FATF Policy Development Group \(June 20, 2022\)](#)
- [Overview of major banks' financial results as of March 31, 2022 \(June 17, 2022\)](#)
- [Overview of financial results of major insurance companies as of March 31, 2022 \(June 17, 2022\)](#)
- [Japan and Indonesia Sign Letters on Cooperation Framework regarding Innovation in the Financial Sector \(June 17, 2022\)](#)
- [Summary of Results of the FSA-sponsored International Symposium "Transition to Net-Zero: The Role of Finance and Pathway toward a Sustainable Future" \(June 14, 2022\)](#)
- [The first Meeting of the UK-Japan Financial Regulatory Forum and Exchange of Letters on Cooperation in the area of Financial Regulation with HMT \(June 10, 2022\)](#)
- [FSA publishes an English translation \(preliminary version\) of the "Comprehensive Guidelines for Supervision of Major Banks" \(June 8, 2022\)](#)
- [Overview of the Japanese regional banks' financial results for six months ended September 30, 2021 \(June 3, 2022\)](#)
- [Bank of Japan Review Review of JPY LIBOR Transition and Future Initiatives \(June 2, 2022\)](#)
- [Publication of the Key Results of the Survey on JBA TIBOR Exposures by JBA TIBOR Administration \(June 1, 2022\)](#)

- 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 July issue contains three articles through which the persons in charge are made visible.

Through interviews, we noticed their good team work.



If you have any opinion or topic of interest, please contact us at fsa_kouhou@fsa.go.jp.

SAITO Takafumi, Director,
Public Relations Office, FSA