

Main Topics Presented by the Financial Services Agency (FSA) at a Dialogue with the Industry Association

Held on September 19, 2023, with the Japan Securities Dealers Association (JSDA)

1. Outcomes of the G20 in July and September

- The G20 Finance Ministers and Central Bank Governors Meeting was held in Gandhinagar, India, from July 17 to 18, 2023, followed by the G20 Summit in New Delhi, India, from September 9 to 10, 2023. We would like to introduce major outcomes related to the financial sector at both meetings.
 - On the regulation and supervision of crypto-assets and stablecoins, the G20 endorsed the Financial Stability Board's (FSB's) high-level recommendations. They also asked the FSB and standard-setting bodies to promote the effective and timely implementation of these recommendations. They also expressed their support for the Financial Action Task Force's (FATF's) initiative to accelerate the global implementation of its standards for crypto-assets and for its work on risks of emerging technologies and innovations, including decentralized finance (DeFi) arrangements and peer-to-peer transactions. In addition, in the G20 Leaders' Declaration, G20 Leaders welcomed the IMF-FSB Synthesis Paper, published on September 7, and tasked the G20 Finance Ministers and Central Bank Governors to discuss taking forward the roadmap included in this report. The report includes the IMF's discussions on macroeconomic impacts of crypto-assets, as well as the FSB's work on this matter.
 - On sustainable finance, the G20 called for further efforts to advance the actions recommended by the G20 Sustainable Finance Roadmap, which was developed in 2021. The actions include the implementation of the Transition Finance Framework, formulated by the G20 in 2022.
 - The G20 welcomed the finalization of the sustainability and climate-related disclosure standards published by the International Sustainability Standards Board (ISSB) in June 2023.

- The G20 also welcomed the FSB's consultation Report on Enhancing Third-party Risk Management and Oversight, which was published in June 2023. The consultation report contains toolkits designed to improve financial institutions' risk management and financial authorities' oversight. The G20 expressed expectations that these toolkits would help to enhance the operational resilience of financial institutions and to address the challenges arising from their growing reliance on critical third-party service providers.
 - On other issues, the G20 endorsed the revised G20/OECD Principles of Corporate Governance, which were adopted by the OECD Ministerial Council Meeting. They also welcomed other initiatives, such as the FSB's consultation report on liquidity mismatch in open-ended funds and on cyber incident reporting.
- We will continue to communicate with financial institutions and contribute to global discussions.

2. Publication of the Latest JFSA Strategic Priorities

- On August 29, 2023, we published the JFSA Strategic Priorities July 2023-June 2024. This policy document sets out directions for the FSA's policies for each program year (PY). The JFSA Strategic Priorities for this PY is made up of four pillars.
- We believe that it generally reflects the JFSA's traditional concerns and administrative approaches.
- The FSA considers it important to share concerns and have constructive dialogue with financial institutions. It believes that the policy document provides a good topic in that regard. The FSA plans to hold briefing sessions on the policy document in many parts of the country. If you have any questions, concerns, or suggestions, please feel free to contact us.

3. Cross-sectoral monitoring policies, etc.

- The JFSA Strategic Priorities July 2023-June 2024 (PY2023) describes

cross-sectoral monitoring policies for this program year. Please take a look.

- The FSA intends to conduct monitoring for each item in depth through data analysis and dialogues with financial institutions. We will endeavor to ensure efficient operation. We appreciate your cooperation.

4. Securities business monitoring in general for PY2023

- The JFSA Strategic Priorities for PY2023 incorporates monitoring policy items regarding securities companies. They include the following:
 - The first policy item concerns development, sales, and solicitation arrangements for high-risk financial instruments such as structured bonds. Securities companies have taken steps to cope with the self-regulation guidelines for complex structured bonds that came into force in July 2023. We plan to monitor how they are observing them as a follow-up.
 - We also plan to monitor what they are delivering on product governance. The monitoring items include whether they are deepening customer-oriented business conduct initiatives to develop and sell products that are truly relevant to customer needs. We understand that securities companies introduce various risk-involving financial products, identify expected customer groups, make an after-the-fact assessment of the merchantability of these products after their introduction, and reconsider and even discontinue some products if necessary. We specifically check whether this cycle is designed to help bring the greatest benefit to their customers.
 - To detect and prevent unfair transactions, it is important for securities companies to have relevant arrangements in place. As such, our monitoring also checks whether they have effective compliance controls and internal controls in place.
 - Now, more and more transactions are being made online and transaction costs are being reduced. Products and services offered by securities companies are being diversified. The question is how securities companies can build sustainable business models in a competitive

environment that is changing day by day like this. We hope to have in-depth dialogue with them with the involvement of top management. We also intend to encourage them to establish risk management controls according to the nature of their business.

- The last monitoring policy item concerns major securities companies that operate globally. We also monitor whether they have in place effective governance and risk management controls that are compatible both with their strategies and initiatives for securing stable profitability of their overseas business and with their overall business strategies.
- In this manner, we will work to maintain in-depth dialogue while taking their characteristics and their relevant challenges into full account.

5. Publication of the List of Financial Services Providers relating to customer-oriented business conduct

- The FSA regularly updates and publishes the List of Financial Services Providers that have adopted the Principles for Customer-Oriented Business Conduct (the "Principles"). On September 8, the FSA published the latest version of the List.
- To advance their initiatives for implementing the Principles for Customer-Oriented Business Conduct, financial institutions are advised to reread their implementation policies from the perspectives of their customers and front-line employees in order to check the following items. They are also advised to work to ensure that their implementation policies are practiced by sales representatives.
 - Do implementation policies that financial institutions have developed and published achieve the following?
 - (1) Accommodate the needs of their customers (whether the policies specify what kind of support they offer for asset management and building), and
 - (2) Accommodate the needs of their employees (whether the policies are clear in terms of what needs to be done and can be practiced by sales representatives) (qualitative improvement of the *implementation*)

policies)

- Are sales and management arrangements, second-line and the third-line arrangements, performance evaluation, etc., appropriate, and are sales representatives practicing the implementation policies (practice of the *implementation policies*)?

6. Strengthening cybersecurity

- To enhance the incident response capacity of the entire financial sector, the FSA plans to conduct an annual cybersecurity exercise (Delta Wall WIII) in October.
- For participating financial institutions, the top management is encouraged to participate in the exercise in order to verify the effectiveness of the contingency plan in terms of decision-making, cyberattack detection, customer handling and the recovery of operations in case of cyber incident.
- In addition, in late June, the FSA asked financial institutions via the JSDA to carry out a self-assessment according to the Check Sheet for Cybersecurity Self-Assessment. Currently, the Bank of Japan (BoJ) and the FSA are compiling and analyzing the results of the self-assessment.
- In November or later, the FSA plans to provide financial institutions with feedback on how they are positioned in relation to their peers. The top management of the financial institutions is encouraged to lead the initiative to develop organizational framework and enhance the effectiveness of measures to strengthen cybersecurity including staffing and financial resources as well as human resource development.

7. Publication of the Cabinet Office Order based on the Economic Security Promotion Act

- The system for *ensuring stable provision of essential infrastructure services* as provided for in the Economic Security Promotion Act will be launched in the spring of 2024. Under the system, *specified essential infrastructure service providers* are required to make a prior submission of plans to the

competent minister, if any, for installing *specified critical facilities* or for entrusting the *critical maintenance, etc.* of such facilities to other service providers.

- The FSA has recently solicited public comments on the draft Cabinet Office Order on *the criteria for designating specified essential infrastructure service providers* and *specified critical facilities*. On September 15, the FSA also began to solicit public comments on the draft Cabinet Office Order on *critical maintenance, etc.* and related procedures.
- The FSA is committed to considerate dialogues with financial institutions for smooth launch of the system. The FSA would appreciate the continued cooperation with financial institutions. The FSA, together with other ministries and agencies concerned, has set up a consultation counter for accepting pre-filing consultations on the installment of specified critical facilities and other matters, and keeping constant communication with specified essential infrastructure service providers and other operators concerned. Financial institutions are encouraged to make the most of this service as well.

8. Public relations on anti-money laundering measures

- In July 2023, the FSA began to distribute internet ads (YouTube adds and banner ads) for the public in order to promote the importance and necessity of continued customer management by financial institutions. The distribution period will end in mid-March, 2024.
- Financial institutions are encouraged to make the most of this PR in briefing customers by, for example, including QR code links to URLs on the website of the FSA on confirmation documents for customers.
- We will remain committed to PR so that more general users will understand and cooperate with anti-money laundering measures.

9. Japan Weeks

- We will hold Japan Weeks from September 25 to October 6. We plan to intensively invite overseas investors, asset management companies, etc., to Japan and then showcase the appeal of Japan as a financial and capital market as well as relevant government initiatives.
- Some events are open to you. For details, visit the special webpage of Japan Weeks. Your participation is most welcome.

10. Tax reform requests

- On August 31, we published our tax reform requests for fiscal 2024.
- Main requests include:
 - (i). Measures to implement the Doubling Asset-based Income Plan and realize an Asset Management Nation:
 - Improving the convenience of NISA, including the digitization of relevant procedures,
 - Rethinking the payment-in-kind requirements regarding the inheritance tax for exchange-listed stocks, and
 - Integrating financial income taxes
 - (ii). Measures to make Japan an *international financial hub for Asia and the whole world*:
 - Rethinking measures for tax agreements, etc., to revitalize cross-border investing,
 - Perpetuating or extending tax exemptions for interest on deposits for over-the-counter derivatives transactions, and
 - Treating branch offices and subsidiaries outside Japan on an equal footing in terms of taxation
 - (iii). Expanding the system of deduction for life insurance premiums, and
 - (iv). Rethinking taxation based on year-end fair market valuations for crypto-assets owned by third parties.

- While serious discussions are going to be held toward the year end, we would like to receive your continued cooperation.

11. Toward the launch of the new NISA program

- As part of the FY2023 tax reform, the fundamental expansion and perpetuation of NISAs have been achieved. The result is the planned launch of the new NISA program in January 2024.
- The new NISA program is based on long-term, installment, and diversified investment. It allows for flexible investment that accommodates the needs of individual users while lending itself to corporate growth investment. We believe that the new program contributes to stable asset-building over the long term for a wide range of the public, centering on the middle-income group.
- The FSA wants many people to build their assets through the new NISA program. To that end, your response and cooperation is essential as you interact with users on a daily basis.
- You at securities companies that act as dealers are encouraged to reconfirm the institutional purpose of achieving more stable asset-building through long-term, installment, and diversified investment. We appreciate your continued cooperation in customer-oriented sales and solicitation and reliable service delivery so as to allow customers to make investments that accommodate their individual needs.

Take, for example, the Growth-type of the new NISA program. This type excludes monthly-distribution-type products, which are unlikely to perform well with long-term compound interests. We consider it important to question whether products that provide dividends by chipping away at the principal and those with frequent dividends are consistent with the institutional purpose of long-term asset-building and whether these kinds or products truly benefit customers. These questions should be asked in the sale of and solicitation for such products.

- We would like to continue discussions with you on these and other issues for better products and services from the perspective of customers toward

enhancing the brand value of NISA.

12. Recent business performance of securities companies

- We would like to comment on the recent business performance of securities companies.
- We recognize that securities companies' financial results for the first quarter were generally good owing in part to improvements in the market environment such as global high stock prices.
- Meanwhile, we hear that securities companies are facing not a few management challenges of their own. We thus conclude that the management environment is far from being favorable.
- Under these circumstances, global financial institutions (investment banks) are beginning to show some signs of gradual recovery. Although some of them are suffering from underperformance due to a slump in some operations, others are taking positive steps with a view to the future.
- Turning to Japanese securities companies, they are now beginning to take a number of bold steps amid severe market and competition environments, including strengthening alliances with local financial institutions and acquiring foreign companies.
- As an agent for facilitating stable asset-building for family finances, securities companies are supposed to play a major role in delivering on the Doubling Asset-based Income Plan. We would like to have in-depth dialogue with securities companies on business models as well.

13. Efforts to realize an Asset Management Nation

- We are considering what needs to be done to realize an Asset Management Nation while soliciting input from various stakeholders toward developing specific policy plans by the end of this fiscal year.
- In this regard, the JFSA Strategic Priorities, published at the end of August, provides future directions. The FSA will make organization-wide efforts to realize an Asset Management Nation in cooperation with relevant

ministries and agencies. As an oversight agency, the FSA will watch asset management companies in financial groups with special focus on their position in the management strategies of these groups and on their performance in terms of operational talent development.

14. Actions financial Institutions are asked to take in light of the disasters caused in 2023 by Typhoons No. 6, No. 7, and No. 13

- We would like to express our heartfelt sympathy to all victims of the disasters caused by Typhoons No. 6, No. 7, and No. 13 in 2023.
- With the application of the Disaster Relief Act to Okinawa, Kyoto, Hyogo, Tottori, Chiba, Ibaraki, and Fukushima prefectures after the disasters, the Okinawa General Bureau and the Local Finance Bureaus responsible for the regions, jointly with the BoJ, issued a Request for Financial Actions to financial institutions concerned and other relevant parties.
- We ask again for financial institutions doing business in the affected areas to take into consideration our requests and fully recognize the voices and needs of those suffering from the disasters for providing detailed support tailored from their viewpoint.

(End)