

Japan Securities Dealers Association

1. Preparation for permanent cessation of LIBOR

- As LIBOR is highly likely to be permanently ceased at the end of 2021, the FSA has requested financial institutions to take necessary actions with active involvement of management officials. Today, we would like to convey some issues of concern at present, given only less than two years available until the end of 2021.
- The first is the necessity to prepare for uncertainties concerning the timing of LIBOR cessation. The Financial Conduct Authority of the United Kingdom (FCA) chief Andrew Bailey simply stated that the FCA will no longer use its powers to persuade or compel panel banks to quote LIBOR from the end of 2021 onward, but mentioned no specific timing. As for its timing, there would be various possible scenarios where the FSA and other private financial institutions would not be able to control. For example, there is a possibility that the liquidity of markets for transactions referring to LIBOR may decrease rapidly before the end of 2021 because of faster progress of transition than expected. Whereas some banks have already established internal project teams in the middle of last year and have been deliberating on necessary measures, it is important to take actions from the perspective of “crisis management”.
- The second is the necessity to make “transition” to alternative rates as soon as possible for existing contracts with a maturity prior to the end of 2021 before their due dates. For existing contracts with a maturity beyond the end of 2021, even if transition cannot be made by amending existing contracts regarding interest rates, introduction of robust “fallback provisions” should be a minimum and appropriate mean to ensure transition to a replacement rate at the time of the permanent discontinuation of LIBOR.
- The third is the necessity to be aware that if you conclude new contracts or issue corporate bonds referring to LIBOR for your customers or investors that will

mature beyond the end of 2021 without sufficient explanation and introduction of robust fallback provisions, you will face conduct risk in terms of customer protection.

Securities companies should particularly make careful considerations when newly subscribing corporate bonds.

- Lastly, we recognize that the absence of forward-looking term reference rate is one of the factors impeding transition away from LIBOR and introduction of fallback provisions while such term reference rate was the most preferred in the results of the public consultation in November 2019, but has not been established at present. However, if not taking necessary actions for developing the system and explaining to customers due to grounds of uncertainties and a lot of things left undetermined, there would be a possible risk not to make sufficient preparation for the end of 2021. We again request you to take actions with active involvement of management officials, keeping the deadline in mind.

2. Sophistication of the asset management business

- In order to effectively utilize the abundant financial assets held by Japanese households for facilitating the nation's economic growth and have people receive the benefit of the growth and stably build their assets, it is indispensable to further sophisticate the asset management business, and people's expectations for the asset management industry are increasing more and more.
- Initiatives for sophisticating the asset management business for financial groups holding asset management companies should be promoted as group-wide efforts, including banks and securities companies engaging in the sale of financial instruments, not solely by parent companies.
- As indicated in the "Assessments and Strategic Priorities" for the current business year, the FSA identified initiatives by overseas asset management companies, etc. and found the following specific cases.
 - The company has consistent management principles and investment

(Provisional translation)

philosophy, such as long-term asset management giving top priority to customer advantage, and disseminates them throughout the company, while clearly showing the strengths of the company and the goals to be achieved.

- In order to internally disseminate own principles and philosophy as an asset management company, the company's top management consists of personnel with rich experience in the asset management business, without exchanging executives with the parent company or other companies in the group, and has them serve for longer terms to ensure the company's independence in the group, thereby realizing management and investment from a long-term perspective (there was a case where the parent company and the subsidiary asset management company have concluded an agreement to ensure that the parent company will not become involved in matters concerning asset management by the subsidiary in its business).
- The company gives strong authority to its asset management sector to let it suspend conclusion of new contracts even for popular financial instruments when their scale has become excessively large, and has developed an operational system prioritizing asset management, including policies for recruitment and training of fund managers and the structures of performance-based evaluation and compensation.
- We do not mean that initiatives of overseas asset management companies under market environments and business models different from those in Japan are all optimal, but they may serve as reference for Japanese group businesses holding asset management companies.
- For example, it is critical for group businesses to clarify where to position their asset management business in the group and the goals to be achieved as well as their own strengths, discuss how to achieve those goals, and share such policies with asset management companies, including banks engaging in the sale of financial instruments.
- Additionally, the following are considered to be necessary for group businesses to develop their asset management business:

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- Ensuring a certain level of independence of asset management companies;
- Developing an operational system from a long-term perspective by management officials who have rich experience in the asset management business; and
- Strictly managing the scale of funds and developing asset management companies' own evaluation and compensation structures.

In order to implement these initiatives, it is indispensable to obtain the understanding of not only the parent company but also banks and securities companies that deal in financial instruments issued by asset management companies in the group, and group-wide efforts while sharing the same awareness of the issue are required in the medium to long term.

- We are considering to have discussions and dialogues also with bank and securities company groups, in addition to asset management companies. We appreciate your cooperation.

3. Dissemination of individual number cards and promotion of the use of individual numbers

- On June 4, 2019, the e-Government Ministerial Conference decided on the "Policy on Dissemination of Individual Number Cards and Promotion of the Use of Individual Numbers." Based on this Policy, the FSA issued three request letters regarding (i) promotion of active acquisition and use of individual number cards, (ii) digitalization and tightening of identity verification, and (iii) compliance with the Guidelines for Associating Individual Numbers with Savings Accounts.

* Issued (i) and (ii) to the Japan Securities Dealers Association

- Regarding (i) promotion of active acquisition and use of individual number cards, the "Maina-Point" initiative to invigorate consumption will be implemented in FY2020 as an incentive for using individual number cards, and it is also scheduled to make individual number cards also usable as health

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insurance cards in March 2021, from the perspective of promoting the dissemination of individual number cards.

Please encourage your association members and their employees to positively acquire and use individual number cards.

- The Clerical Guidelines for Associating Individual Numbers with Savings Accounts aim to smoothly facilitate clerical work to associate customers' individual numbers with their savings accounts from the perspective of promoting the use of individual numbers. The Guidelines were compiled by the industry at the time of the amendment of the Act on the Use of Numbers to Identify a Specific Individual in Administrative Procedures in 2016. The FSA requests the industry of Securities Dealers to check whether the system is put in place to appropriately provide customers with explanations encouraging the provision of individual numbers upon procedures for opening new savings accounts or changing registered addresses, etc., and take proper measures in compliance with the Guidelines.

4. Response to the Tokyo Olympic and Paralympic Games

- The central government is now making all-out efforts to surely host the coming Tokyo Olympic and Paralympic Games safely and smoothly, and financial institutions are required to offer financial services without any disruption as providers of critical infrastructure services.
- Changes in the external environment during the event such as large-scale traffic controls, increases in foreign tourists and other factors are supposed to exert influences broadly on financial institutions in terms of attendance of employees, transport of cash, money exchange services and so on. Accordingly, financial institutions located in the Tokyo metropolitan area need to identify all possible risks accompanying such changes in the external environment and implement control measures as needed.
- Among those possible risks that may emerge toward the Olympic and

Paralympic Games, the threat of cyberattacks is expected to increase, in particular.

The FSA has started opinion exchanges and questionnaire surveys concerning measures toward the event, targeting some financial institutions. We will promptly share common challenges that are ascertained through these activities.

- The FSA considers it significant to promote efforts for enhancing financial institutions' cybersecurity in collaboration between the public and private sectors.

We ask for your continued cooperation from this perspective.

5. Results of requests for FY2020 tax reforms

- The FSA filed requests for FY2020 tax reforms, focusing on (i) perpetuation and extension of the NISA exemption scheme and enhancement of its convenience, (ii) unification of financial income taxation, and (iii) abolishment of the special corporation tax or extension of suspension of taxation.
- The Tax Reform Outline compiled by the ruling parties, which was publicized on December 12, 2019, provides as follows regarding the NISA program: (i) The account opening period for Dollar-cost Averaging NISA is to be extended by five years (from until 2037 to until 2042); (ii) NISA is to be changed into a two-tiered structure to enable nontaxable investments using NISA accounts separately from those already made using Dollar-cost Averaging method for the five years from 2024, from the perspective of continuously encouraging continuous asset building.
- Under NISA starting from 2024, or the new NISA, the first tier is similar to Dollar-cost Averaging NISA and customers can make investments in similar financial instruments, with the aim of enabling a larger number of people to experience long-term, installment and diversified investments.
The second tier is similar to the current NISA, with the aim of supplying the growth capital and fostering shareholders who hold shares for a long term, but apart from the current program, leveraged investment trusts, as well as securities

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to be delisted and securities under supervision are excluded from investment targets.

In principle, nontaxable investments at the second tier are permitted only for people who have made investments at the first tier using Dollar-cost Averaging method, but an exceptional measure is provided to permit investments only in listed stocks at the second tier without requiring investments at the first tier. The FSA will hold sessions to explain further details of the new program.

- Regarding unification of financial income taxation, it was decided to continue deliberations further on the expansion of the scope of profit/loss offset to also include derivatives transactions. For special corporation tax, the duration of suspension of taxation was extended by three years.
- We greatly appreciate your support in various manners in the process of filing requests for FY2020 tax reforms. We need to make special efforts for disseminating information on and facilitating the use of the new NISA program, and will work hard under the initiative of Dollar-cost Averaging NISA Promotion High-level Council. We appreciate your continued cooperation.

6. Promotion of the Tokyo Global Financial Center

- The existence of financial instruments business operators who have advanced expertise and engage in the asset management business is significant for vitalizing Japanese capital markets and achieving stable asset building of the general public.

The FSA established the Financial Market Entry Consultation Desk on April 1, 2017, and has offered support to overseas asset management companies planning to set up business bases in Japan. Registration procedures have been completed so far for 19 overseas asset management companies.

- As the Follow-up on the Growth Strategy (Cabinet decision in June 2019) cited preparation of a guidebook to support registration application for the financial industry as one of the required measures, the FSA recently publicized the

following with the aim of providing information concerning registration procedures for the financial instruments business:

- (i) The Guidebook for Registration for Asset Management Business, etc., which explains the outline of the registration screening procedure and registration requirements;
- (ii) The form of a written outline (asset management business) to be prepared for the registration screening procedure

Please broadly disseminate relevant information including the Guidebook among your association members and encourage positive use thereof.

- In the meantime, we have received inquiries from overseas asset management companies regarding not only the establishment of new business bases but also means to expand their business in Japan. Under the current framework, possible means include the expansion of already registered bases in Japan, entrustment of business to Japanese companies, and utilization of the purview of a specially permitted business activity for qualified institutional investors, etc.
- In addition to these means, there may be a case where an overseas asset management company, which faces difficulties in continuing its business overseas, will choose to carry out business temporarily in Japan. In consideration of such circumstances, the FSA will amend the relevant Cabinet Office Order.

The FSA asks for your continued understanding of these ongoing initiatives.

7. Expansion of applicable electronic application procedures

- The Act on Promotion of Administrative Procedures by the Use of Information and Telecommunications Technologies, which was promulgated in May 2019, provides that administrative procedures should be undertaken online, in principle. Therefore, the FSA is now working to expand the scope of procedures for which applications can be filed electronically using e-Gov or other means.
- Specifically, it was made possible to submit documents, mainly business

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reports and notifications of business commencement, which are relatively large in number, electronically using e-Gov at the end of 2019.

- For achieving online administrative procedures, cooperation from financial institutions, which submit application documents, is indispensable. Please properly inform your association members, encouraging them to replace paper-based procedures with online procedures using e-Gov wherever possible.
- Upon adoption of online administrative procedures, financial institutions may need some operational changes for part of clerical work. The FSA will take necessary measures to the extent possible so as to avoid confusion in operation of financial institutions. If you have any questions or inquiries, please do not hesitate to ask us.