

1. Responses in consideration of the spread of COVID-19 (novel coronavirus)

infection

(1) Statement by Minister for Financial Services based on the declaration of a state of emergency, etc.

- In response to the declaration of a state of emergency issued by the central government on April 7, the Minister for Financial Services publicized a statement regarding the maintenance of the function of the financial system and financial markets to financial institutions and the general public.
- For details, please read the publicized materials. The statement compiled the basic approach regarding continuation of customer services by financial institutions in areas subject to the declaration, and requests for the securities section were as follows:
 - Type I financial instruments business operators including securities companies and investment management business operators should continue required services, such as transactions of shares, bonds, and exchanges, etc., while using remote functions (the internet, call centers, office telephones, etc.) and reducing attendance at work to the minimum necessary.
 - Other types of financial institutions should continue services by using remote functions, such as the internet, call centers, ATMs, etc., in principle.

Furthermore, for all financial institutions, the Minister requested the following:

- Counter services should basically be limited to cancellation or realization of existing contracts for financial instruments, such as investment trusts and insurance, which should be handled by the minimum necessary number of staff. For new contracts, remote functions should be used in principle.
- Face-to-face PR activities on the street or by holding seminars should be suspended.
- Financial institutions should devise means to prevent the spread of infection,

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such as securing sufficient distances between customers and employees at head offices and branches, etc.

- When continuing required services, securities companies should make utmost efforts to prevent the spread of infection in line with the requests from the central and prefectural governments.
- Based on the statement by the Prime Minister at the 28th meeting of the Novel Coronavirus Response Headquarters (April 11), all companies, including SMEs and small businesses, are required to reduce attendance at work by at least 70% to 80% by such means as introducing a rotation system for employees who cannot avoid attending work.

Banks, securities companies, and other entities that are required to continue services even under the declaration of a state of emergency are requested to prioritize the continuance of services while taking sufficient measures to prevent infection, including efforts to avoid the 3Cs, and to make the utmost efforts to reduce attendance at work by 70% based on each entity's business continuance plan (Monday, April 13).

(2) Publication of new deadlines for submission of reports and notifications by financial institutions (Monday, March 30)

- It is supposed that due to COVID-19 infection, financial institutions will face difficulties in performing clerical work for the submission of reports and notifications, etc. (including prior notifications) under the Banking Act, the Financial Instruments and Exchange Act or other Acts. The FSA will flexibly respond to delays in the submission of these documents in full consideration of the status of business of affected financial institutions. Please do not hesitate to make consultations with us.

(3) Reconfirmation of prudential standards in response to the increasing impact of the spread of COVID-19 infection (Tuesday, March 17)

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- The FSA stipulates prudential standards in order to assure the soundness of financial institutions, and reconfirmed the following three points concerning the standards in response to the needs of financial support for business enterprises due to the increasing impact of the recent COVID-19 outbreak:
 - (i) A risk weight of 0% can be applied to loans, etc. guaranteed under the guarantee system related to management stability.
 - (ii) Banks can draw down on their regulatory capital buffers as necessary in order to absorb losses or maintain the provision of key financial services to the real economy.
 - (iii) The liquidity coverage ratio (LCR) may fall below the minimum requirement through the use of the pool of liquidity assets in times of stress.
- * Regarding the Japan Securities Dealers Association, (ii) and (iii) were reconfirmed.

(4) National implementation of the finalized Basel III standards

- As publicized on the FSA's website on March 30, the Group of Central Bank Governors and Heads of Supervision (GHOS) announced a deferral of the national implementation date of the finalized Basel III standards by one year, from 2022 to 2023. The deferral is aimed to temporarily reduce the burden on financial institutions, which are endeavoring to cope with the recent expansion of the impact of COVID-19 infection.
- In response, the FSA plans to implement the finalized Basel III standards in Japan from March 2023. Regarding the "JFSA's Initiatives for User Oriented Financial Services in a New Era - Financial Services Policy: Assessments and Strategic Priorities 2019," which was scheduled to be publicized by the end of June 2020, the publication date will be reviewed through dialogue with stakeholders, given sufficient consideration to their administrative burden, etc.

(5) Joint press release by the Basel Committee on Banking Supervision (BCBS)

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- and the International Organization of Securities Commissions (IOSCO)
- On April 3, 2020, the BCBS and the IOSCO issued an announcement that they have agreed to extend the deadline for completing the final two implementation phases of the margin requirements for non-centrally cleared derivatives (phase 5 scheduled on September 1, 2020, and phase 6 scheduled on September 1, 2021) by one year, respectively, in consideration of the spread of the impact of COVID-19 infection. The agreement is intended to temporarily reduce the practical burden on financial institutions accompanying the implementation of phase 5 and phase 6, thereby helping them focus on countermeasures against COVID-19 infection, and at the same time to encourage them to steadily observe the internationally agreed new deadline.
 - The FSA is now working to immediately amend related laws and regulations in line with this international agreement.

2. Continuation of reporting on transaction status and implementation status of measures against ML/TF (AML/CFT Survey)

- AML/CFT Survey was newly introduced in Program Year 2017. Financial institutions are required to report quantitative and qualitative information as of the end of March by the end of May every year and are expected to make reports this Program Year as well.
- As we have explained so far, please make efforts to enhance your program upon submitting AML/CFT Survey under the current situation by
 - (i) confirming the status of your transactions, development of the relevant program, and the effectiveness of the measures, and
 - (ii) verifying your measures based on the AML/CFT Guidelines again with regard to critical matters, such as "ongoing customer due diligence" and "transaction monitoring and screening."
- You will be busy for account settlement, etc. in coming few months, but we ask you for cooperation.

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- If you have any trouble in preparing AML/CFT Survey due to the impact of COVID-19 infection, we will consider flexible responses. Please feel free to consult with the FSA or the competent Local Finance (Branch) Bureau.

3. Influence on system integration and development amid changes in the external environment

- In response to the spread of COVID-19 infection, the central government has been taking measures to prevent further spread of infection.
- In consideration of such changes in the external environment, in case that shortage of personnel for system integration and development is concerned, financial institutions need to make flexible responses such as reviewing current plans or/and allocating required personnel.
- When any need to reschedule for system integration and development arises, please consult with us in advance.

4. Preparation for Permanent Cessation of LIBOR

- Regarding LIBOR, the FSA has requested financial institutions to take the required actions with responsible and active involvement of management officials, in consideration of its permanent cessation as of the end of 2021. We will provide the following explanations concerning the recent publication, "Summary of Survey Results on the Use of LIBOR and Main Actions Needed," and moves toward the development of term reference rates, one of the alternatives replacing LIBOR. We hope these will further promote the transition from LIBOR.
- First of all, we publicized the Summary of Survey Results on the Use of LIBOR in March 2020. Please read it.
Looking at the results for securities companies, the following characteristics are observed: (i) Securities companies themselves hold derivatives contracts

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referring to LIBOR at a scale exceeding those held by major banks¹; and (ii) Securities companies sell a large amount of financial products referring to LIBOR, mainly bonds issued by issuing entities, to investors including individuals.

It is important to proceed with actions toward the transition from LIBOR in light of such characteristics. Some large securities companies must have started to take actions, but the following are main actions required for financial institutions:

- For customers of contracts referring to LIBOR that mature beyond end-2021 with no fallback provisions, securities companies, as contracting parties, are required to at least set fallback provisions. In order to avoid postponing responses on the ground of the absence of term reference rates, securities companies need to promptly provide training to employees to disseminate such necessity with a view to addressing conduct risks or otherwise make preparations and start providing explanations to customers from wherever possible. From the perspective of curbing increases of contracts referring to LIBOR, securities companies should proceed with the development of new products referring to risk-free rates and decide their policies on how to deal with new contracts referring to LIBOR, immediately. On the other hand, it may be controversial to what extent securities companies need to take responsibility in cases where they have sold financial products issued by issuing entities to investors. However, as issuing entities and investors are both customers of securities companies, they are expected to properly offer customer services in order to facilitate the transition from LIBOR. For example, for issuing entities, securities companies are expected to give advice based on knowledge as financial experts, such as encouraging utilization of bonds with early redemption provisions, not only making responses at bondholders meetings, to help issuing entities take appropriate actions without delay toward the transition

¹ The total amount of principals for derivatives contracts is supposed to be approx. 6,300 trillion yen (of which, approx. 65% are held by securities companies).

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from LIBOR.

- Regarding IT systems, even if those requiring updates have already been identified, certain amounts of time and costs are required to complete upgrades. Therefore, it is necessary to set priorities in systems, clarify the schedule, and secure sufficient budgets for such upgrades.

In collaboration with the Bank of Japan, the FSA will monitor whether financial institutions take necessary actions with responsible and active involvement of management officials. To this end, the two entities will deliberate on the need to set more specific core targets and conduct on-site monitoring, taking into account the progress in financial institutions' preparations for LIBOR transition.

- As an entity to calculate and publish reference rates for Japanese yen term risk free rates, QUICK Corp. was selected in February 2020. Term reference rates are highly requested by market players as alternative benchmarks to replace Japanese yen LIBOR rates. The decision of an entity to calculate and publish prototype rates marks significant progress.

Term reference rates are scheduled to be developed based on data on Overnight Index Swap (OIS) derivatives markets, and the vitalization of OIS markets is an immediate challenge. For that purpose, it is most important to facilitate market players' use of OIS markets. From this perspective, please make efforts to use OIS markets for new interest rate swap transactions. Securities companies with large amounts of LIBOR swap exposure should be aware of the necessity to take preemptive actions to ensure smooth transactions in derivatives markets after the cessation of LIBOR, which is coming near.

The FSA considers it necessary to think harder together with the Bank of Japan and private market players, in addition to deepening deliberations at the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, in order to develop term reference rates into a robust and reliable financial index. If you notice any problems, please share them with us.

5. Enforcement of the Amended Financial Instruments and Exchange Act

(Provisional translation)

- For the enforcement of the “Act for the Partial Revision of the Payment Services Act, etc., to Address the Diversification of Financial Transactions based on Advances in Information Communication Technology” (provisional English law title), which was enacted on May 31, 2019, relevant applicable Cabinet orders and cabinet office orders were promulgated on April 3 . The amended Financial Instruments and Exchange Act, cabinet orders and cabinet office orders are scheduled to be enforced on May 1, 2020.○ Under the Amended Act
 - crypto-assets are added as underlying assets for Derivatives Transactions,, which are subject to regulations under the Financial Instruments and Exchange Act, and
 - out of rights that are deemed as securities under the provisions of Article 2, paragraph (2) of the Financial Instruments and Exchange Act,² those that are indicated on property value that can be electronically recorded and transferred using an electronic data processing system are defined as "Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc.," and regulations on disclosure and solicitation regarding these rights and regulations on separate management when accepting deposits of these rights. The registration of changes is required for conducting Derivatives Transactions using crypto-assets as underlying assets or intermediation for the purchase and sale of Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc. If there is any plan to commence these services, please consult with the FSA ahead of time.
- The latest legal amendments were for developing regulations necessary for protecting investors and securing fair transactions in cases where securities are issued by the use of new technologies such as blockchain technologies. The FSA requests you to develop self-regulatory regulations based on the details of

² Including rights, such as shares and corporate bonds, that fall under the category of Paragraph (1) Securities

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these legal amendments.