

1. Japan-UK EPA Agreement in the Field of Financial Services

- The Japan-UK Comprehensive Economic Partnership Agreement (EPA) reached an agreement in principle on September 11.
- The Japan-UK EPA is largely based on the existing Japan-EU EPA. One major enhancement is the installation of a clause of prohibition of requirement for Location of Computing Facilities in financial services. This development is consistent with strong interests of Japanese financial institutions doing business globally.
- Furthermore, as with the EU, while the UK intends to maintain the framework for equivalence assessment and decision on financial regulations of third countries (including Japan), the Annex "REGULATORY COOPERATION IN FINACIAL SERVICES" is adjusted to achieve further flexibility in the equivalence framework.
- The FSA expects that the Japan-UK EPA will further encourage mutual business expansion in the area of financial services and enable customers of both countries to benefit better financial services.

2. Strengthening of Cybersecurity Measures

- At present, cyberattacks are causing damage, such as illegal money transfers and thefts of credit card information. Financial institutions are accelerating their countermeasures against the COVID-19 infection, such as teleworking and the introduction of online and remote services, and this further increases the risk of cyberattacks.
- Accordingly, it is important to further advance efforts to strengthen cybersecurity measures.
- Managers of financial institutions are requested to fulfil their leadership by proactively getting involved in the formulation of action plans and management of the progress thereof.

3. Further Postponement of the FATF Mutual Evaluations due to Spread of the COVID-19 Infection

- The FATF announced that the discussion on evaluation of Japan, which was scheduled this October, would be conducted at the plenary session in February 2021.
- While the FATF Mutual Evaluations are being conducted continuously, financial institutions should continue their efforts for AML/CFT measures based on a risk-based approach, including risk assessment of all customers and ongoing customer due diligence depending on risks, in line with the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism.

4. Customer Services in Relation to AML/CFT Measures

- We understand that many financial institutions are updating customer information for commencing ongoing customer due diligence, but there is concern that some do not fully understand the purpose and the necessity thereof.
- The FSA will continue awareness-raising activities targeting the general public, but financial institutions are also expected to deliberately ask customers for cooperation and provide a sufficient explanation as to why it is necessary to update customer information.

5. Development of New Electronic Application and Notification System

- The Report on Promotion of Regulatory Reform compiled recently by the Council for Promotion of Regulatory Reform states that ministries and agencies should make emergency responses regarding administrative procedures requiring documents, seals and face-to-face contact as promptly as possible until the COVID-19 pandemic ends and should also take permanent institutional measures. In order to ensure steady implementation of regulatory reform as described in the report, a regulatory reform action plan was formulated.

- Against such a background, the FSA issued a notice on July 17 to announce its emergency responses until permanent institutional measures, including computerization and legal amendments, are put in place, to the effect that financial institutions may file applications and notifications, etc. with the FSA by e-mail in principle and that applications and notifications, etc. without seals are also considered to be valid.
- In addition to these emergency responses, the FSA will develop a new electronic application and notification system within FY2020 and commence operation thereof within FY2021 as permanent institutional measures to enable financial institutions to submit all applications and notifications, etc. with the FSA online.
- For the new electronic application and notification system, the FSA plans to develop an original one using IDs and passwords that does not require electronic certificates, prioritizing the convenience of financial institutions so that they can easily use the system for all applications and notifications, etc. The current e-Gov-based system for applications and notifications and the Financial Services Agency Business Support Integration System that temporarily receives notifications of disgraceful events will remain available for some time even after the commencement of the operation of the new system. We appreciate your understanding and cooperation for required procedures such as the issuance of IDs and passwords, etc. in the process of the system development.

6. Revision of the Comprehensive Guidelines for Supervision for Clarifying the Details of the Principle of Suitability

- The "Report of the Working Group on Financial Markets under the Financial System Council – For Promoting Customer-Oriented Business Conduct" (published on Wednesday, August 5) recommends that it would be appropriate to revise the Comprehensive Guidelines for Supervision in order to clarify the details of the duty of good faith and fair dealing and the principle of suitability for the purpose of

effectively preventing improper sales activities. Based on this recommendation, the FSA is deliberating the revision mainly as follows:

(i) Add the following to the points to note regarding the currently adopted principle of suitability, which includes the requirement to ascertain customer attributes and the transaction statuses of customers:

- To appropriately understand the details of the financial instruments;
- To reasonably review and evaluate whether targeted financial instruments and a series of transactions with customers are suited to the attributes and investment purposes of customers.

(ii) Add specific examples of improper and unfaithful manners of solicitation.

- With regard to the revision of the Comprehensive Guidelines for Supervision, together with the revision of the Principles for Customer-Oriented Business Conduct, the FSA plans to solicit public comments within days. Please check the details.

7. Enforcement of the Act on Provision of Financial Services

- Toward the enforcement of the Act on Provision of Financial Services, which was enacted this June, the FSA will proceed with the formulation of related Cabinet Orders, Cabinet Office Orders, and Guidelines for Supervision and the establishment of an efficient registration screening system.
- The FSA considers it significant that new associations are established and effective voluntary regulations are formulated. Some associations, including the FinTech Association of Japan, have presented their intention to start activities for establishing a new self-regulatory association on their websites, and the FSA will closely pay attention to such moves. We would appreciate it if the Japan Securities Dealers Association would give constructive advice to those associations for the formulation of sufficient voluntary regulations based on your accumulated know-how as a self-regulatory association.

- The financial service intermediary services newly defined under the Act may provide your members with new contact points with customers, in addition to existing intermediary services. Financial institutions should proactively utilize this new system to provide financial services even more suited to the needs of individual customers.

8. Review of Voluntary Regulations from the Principle-based Approach

- With regard to the review of voluntary regulations from the principle-based approach, which you have deliberated since the end of last November, we heard that the panel will publish a report compiling proposals on the direction of review today. Each working group of your association is supposed to discuss agenda of the panel in detail toward the revision of voluntary regulations in line with that direction. We expect that the Japan Securities Dealers Association will continue discussing those agenda and other themes as well in a constructive manner so that voluntary regulations will be developed in a mutually complementary form by optimally mixing principle-based regulations and rule-based regulations.