

1. Financial Administration in English and Acceleration of Registration Procedures for Foreign Asset Management Companies, etc.

- The national government as a whole has been broadly deliberating measures for making Japan an international financial hub for Asia and the whole world.
- As part of related initiatives, the FSA (i) started to make responses in English to newly entering foreign asset management companies, and (ii) has made preparations to establish the "Financial Market Entry Office" to handle all procedures from pre-application consultation to supervision as a single point of contact for enhancing convenience and accelerating registration procedures. The FSA commenced pre-application consultation services in English on November 6, 2020.
- Through these initiatives, the FSA intends to facilitate entries of highly professional foreign asset managers, etc. into Japanese markets, thereby contributing to activating Japanese capital markets and people's stable asset building.
- Public-private cooperation is indispensable for establishing Japan's status as an international financial hub. We appreciate your continued cooperation for PR strategies and other initiatives for internationalization of Japanese markets in various fields for the purpose of activating Japanese capital markets.

2. Unification of Regulatory Reports

- We received requests from financial institutions, etc. to unify similar regulatory reports to the FSA, Bank of Japan, and other associations, and to establish an one-stop reporting for duplicated reports. Specifically:
 - (i) To digitize reports currently submitted in writing (to receive submission thereof through the Financial Services Agency Business Support Integration System and e-Gov-based application/notification system);
 - (ii) To consolidate similar reports to the FSA, Bank of Japan, and other associations;
 - (iii) To receive submission of the same reports at one place.
- Responses to these requests are to be made as part of the wider initiative to develop

a better environment for accepting foreign financial institutions under the international financial hub initiative of the FSA.

- The FSA has started discussions with the Japan Securities Dealers Association for the digitization of reports to be submitted and the establishment of a single point for receiving submission. Broad deliberations, including those from technological and operational aspects, will be required, but we would like to proceed with deliberations to bring them to realization earlier from the perspective of easing the burdens of financial institutions. We would appreciate it if you could offer us positive cooperation.

3. Management of Progress in Measures toward the Permanent Cessation of LIBOR and Earlier Ratification of the ISDA Protocol

- Based on the Dear CEO Letter issued in June 2020, the FSA recently conducted monitoring of major financial institutions' efforts for transition from LIBOR. Through the monitoring, it was found that some financial institutions are managing the progress of their measures using their own internal KPIs. The FSA will regularly check situations through monitoring continuously.
- Managers are expected to consider introducing a mechanism to ascertain progress on a timely basis, such as to check the current status based on a quantitative indicator, like the number of contracts for which the transition from LIBOR to alternative reference rates has been completed.
- Out of LIBOR-based transactions, the International Swaps and Derivatives Association (ISDA) published the ISDA Protocol^(*) for derivatives transactions on October 23, 2020. Ratification by market players will be commenced and the Protocol is scheduled to be effectuated on January 25, 2021.

* ISDA Protocol: An ancillary contract to apply fallback clauses to an existing contract without bilateral negotiations between parties thereto

- It is preferable that fallback clauses are broadly applied as a result of ratification of the ISDA Protocol. The Financial Stability Board (FSB) also presented a statement to strongly recommend broad and early ratification of the Protocol.

- Ratification of the ISDA Protocol is for the application of fallback clauses. As fundamental measures for the permanent cessation of LIBOR, it is significant to achieve a transition to alternative reference rates at an early point.

4. Efforts for Strengthening Cybersecurity Measures

- There have been media reports on cyberattacks targeting the Tokyo Olympics and Paralympics Games. Not only organizations related to the Games but also financial institutions may be targeted, and the risks of cyberattacks are thus increasing.
- Financial institutions are requested to make efforts for strengthening cybersecurity measures while paying attention to the following three points:
 - Leadership of the top management team is important. As awareness of the top management team passes on to employees, they should not only have an intellectual understanding of the significance of cybersecurity but transmit it to employees and cultivate a corporate culture and attitude prioritizing cybersecurity.
 - When initiating various new businesses, an approach of Security by Design to ensure security from the stage of planning and designing should be adopted.
 - Security reports often have technicality. Therefore, the top management team should improve their own literacy levels through having direct communications with personnel in charge of cybersecurity on a regular basis and should ascertain and understand the company's security-related risks in advance.

5. International Trends Concerning Technological Innovation in Finance

- In October 2020, major international financial conferences, including the G7 and G20 Finance Ministers and Central Bank Governors' Meetings, were held and multiple reports by the Financial Stability Board (FSB) were submitted to G20 and published.
- Many of these reports were on technological innovations in finance, such as global stablecoins, enhancing cross-border payments, and cyber incidents response and recovery. Although work on these areas started even before the

outbreak of the COVID-19 pandemic, the pandemic has further increased their importance and required acceleration of the discussion.

- In particular, Ransomware Annex to G7 Statement was exceptional as compared to other G7 Statements given that it directly works on the financial sector, not on the public authorities, to take countermeasures to ransomware attacks. This reflects G7 countries' high vigilance on this topic.
- For financial institutions, three key countermeasures against ransomware attacks are considered: (i) to avoid being victimized; (ii) not to pay ransom (even having been victimized); and (iii) not to be used for ransom payments (if not victimized themselves). The Ransomware Annex to G7 Statement especially emphasizes the third one.
- Recently, numerous ransomware attacks causing large-scale damage have been reported from non-financial sectors in Japan as well as from overseas financial sectors. Criminals' methods are becoming even more sophisticated and vicious, such as requesting ransom for restoring data and then requesting ransom again by threatening to disclose the confidential information that the criminal had stolen before encryption. It is pointed out that the amounts of requested ransom are becoming larger.
- In foreign countries, ransomware proceeds could be used to finance terrorism, which has caused high tensions in society. Cyberspace has no borders. We hope that you will brace yourselves for ransomware attacks.
- The FSA will utilize opinion exchange meetings or take other opportunities to introduce recent developments of international discussions on financial regulations, not limited to technological innovations in finance. We hope this helps you operate your businesses.

6. Revision of the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism

- The FSA plans to revise the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, which it formulated in February 2018 and revised in April 2019.
- Based on the results of the monitoring so far, the FSA has identified the matters for which its ideas are not sufficiently understood. The FSA intends to clarify those matters through the revision, thereby facilitating financial institutions' efforts to enhance their AML/CFT measures.
- The FSA will solicit public comments on the revision on its website. We would like to make the Guidelines easier and more convenient for you, and would like to hear your candid opinions.

7. Request for Cooperation for Promoting People's Acquisition and Use of Individual Number Cards

- The national government has been endeavoring to disseminate the use of individual number cards.
- Using individual number cards as health insurance cards is expected reduce companies' health insurance-related cost and is also beneficial for employees. Individual number cards thus have a big advantage.
- The FSA plans to issue a written request regarding the promotion of people's acquisition and use of individual number cards. We appreciate your cooperation.

8. Promotion of Digitalization

(Regulations requiring documents, seals and face-to-face contact)

- The FSA commenced consultative discussions on October 27, 2020, with the aim of eliminating provisions to require seals, etc. for applications and notifications, etc. to be submitted by financial institutions with the FSA from relevant laws and regulations under the jurisdiction of the FSA and Guidelines for Supervision.

- With regard to procedures among the private sector and notifications, etc. of the FSA for which laws and regulations under the jurisdiction of the FSA and Guidelines for Supervision require documents, seals and face-to-face contact, the FSA will examine their necessity and will review them by the end of June 2021.

(Review of procedures requiring documents, seals and face-to-face contact among the private sector)

- At the meeting in September 2020 of the "Panel for Reviewing Procedures Requiring Documents, Seals and Face-to-Face Contact in the Financial Industry," which was established in June 2020, the Japan Securities Dealers Association made a presentation on challenges and a future policy for reviewing procedures requiring documents, seals and face-to-face contact that have been adopted in the securities industry. Thank you very much.
- The FSA plans to compile a summary of issues within this year. In the aforementioned presentation, the Japan Securities Dealers Association presented the policy to proactively promote the industry-wide efforts to enhance efficiency and improve customer convenience through digitalization. You are expected to continue reviewing the current procedures requiring documents, seals and face-to-face contact in conjunction with the FSA's review of the regulations mentioned above.

9. IOSCO Report on Conflicts of Interest within Debt Capital Raising Process Involving Traditional Corporate Bonds

- On September 21, 2020, the International Organization of Securities Commissions (IOSCO) published the final report on conflicts of interest and associated conduct risks during the debt capital raising process.
- The report is the second part of IOSCO's two-stage project on conflicts of interest in capital raising. In the first stage, in September 2018, IOSCO published the final report on conflicts of interest and associated conduct risks during the equity capital raising process, which sets out eight guidance for regulators to address conflicts of interest stemming from the role of intermediaries that might compromise the

integrity and efficiency of the process.

- The 2020 report sets out guidelines that are aimed to help regulatory authorities recognize and address potential conflicts of interest and associated conduct risks in the debt capital raising process. It also seeks to address some concerns(*) about the integrity of the capital raising process that have been observed during COVID-19 crisis.

* e.g.) Banks pressuring issuer clients to use them in future primary market transactions leveraging on their lender/borrower relationship, etc.

- The report describes the key stages of the debt capital raising process, identifies possible conflicts of interest caused by intermediaries, and comprises nine measures that address potential issues when issuers are preparing to raise debt finance, including the use of risk management transactions, the quality of information available to investors, and the allocation process.
- Please access the FSA website or IOSCO website to read the report.