

**The main issues raised by the FSA at opinion exchange meetings with
trade associations
[held on April 20, 2021, with the Japan Securities Dealers Association]**

1. Financial Market Entry Office

- On January 12, 2021, the Financial Market Entry Office was opened to handle all procedures, from prior consultations for registration of newly entering foreign asset management companies and their registration to supervision after the registration, in English as a single point of contact. On April 16, the first registration was completed through procedures in English.
- The Financial Market Entry Office plans to also deal with consultations concerning the establishment of corporations and livelihood support as a single point of contact in collaboration with local governments, etc. In consideration of the convenience of financial business-related parties, the office will be relocated to Kabutocho, Nihonbashi, with the aim of facilitating closer communication with them. Additionally, we would like to further strengthen collaboration with the Japan Securities Dealers Association and other self-regulatory bodies.
- At present, we are preparing for the opening of the new office, which is to commence operation in June 2021. We will further promote efforts for making Japan an international financial center with your kind cooperation.

2. Cooperation concerning AI translation

- As a means to solve one of the challenges in achieving an international financial center, i.e., financial administrative services in English, the government's economic package published last December incorporates the utilization of AI multilingual translation technology.
- The FSA commissioned the National Institute of Information and Communications Technology (NICT) to develop AI translation models with higher accuracy for the financial sector. We ask you and your members to provide existing Word or Excel

documents both in Japanese and English with the same content to the extent possible by around the end of April as materials to be used for enhancing translation accuracy.

- NICT will make developed AI translation models available to private AI translation service providers for public use. This is expected to raise the level of financial businesses' capacity to offer services in English.

3. Securities companies' appropriate intermediation of funding

- The FSA would like to draw your attention to moving strike (MS) warrants.
- Due to the prolonged impact of the COVID-19 infection since 2020, Japanese companies have been endeavoring to secure funding means. While the number of issued MS warrants is increasing amid this situation, various opinions are heard regarding such an increase.
- Specifically, positive opinions include that MS warrants enable expeditious funding and prevent rapid dilution of equity, while it is also pointed out that there is a high risk of damaging the interests of shareholders, mainly existing shareholders, due to possible equity price decline and that explanations on the necessity of MS warrants have not been sufficient.
- The FSA also found through hearings that some companies pointed out the advantages of MS warrants, while there are several companies that do not understand the details thereof and others that have decided not to issue MS warrants as a result of understanding the details.
- Securities companies are requested to take into consideration such circumstances and give advice on funding means to companies based on careful examinations of diverse options, so that issuers can understand the advantages and disadvantages of MS warrants as a means of funding. The FSA considers it important for companies to secure the interests of diverse stakeholders, including shareholders, through these efforts and to further endeavor to obtain their understanding.
- The FSA will continue monitoring the status of issuance of MS warrants and would

like to discuss how to utilize them effectively together with the industry.

4. Positive promotion of women to management and executive positions

- At the joint meeting of the Headquarters for Creating a Society in which All Women Shine and the Headquarters for the promotion of Gender Equality (held on March 9, 2021), the Prime Minister instructed to vigorously promote the Fifth Basic Plan for Gender Equality, which incorporates targets for the promotion and employment of women.
- In order to realize a gender-equal society suited to the Reiwa era, please promote women to management and executive positions positively.

5. Administrative dispositions against i Global Asset Management, Co. Ltd.

- I will explain the business improvement order issued against i Global Asset Management, Co., Ltd., on which the Securities and Exchange Surveillance Commission provided explanations at the previous meeting. The company made a report based on the order, but it was revealed that the company had failed to ascertain the status of the operation and management of its investment trust (i Power Fund) and had not deliberated recurrence prevention measures. Accordingly, administrative dispositions, such as a business suspension order, were imposed on April 2.
- The investment trust in question has been sold by multiple securities companies. Relevant securities companies are requested to make responses while giving the highest priority to investor protection.
- In general terms, securities companies need to properly understand the details of the financial instruments they deal in as gate keepers of the financial market in order to ensure appropriate investment solicitation in accordance with the knowledge, purpose of investment and attributes of individual customers. As financial instruments are becoming more and more diverse and complicated, please be careful

not to sell customers financial instruments involving a risk of causing a problem from the perspective of investor protection without fully understanding such risk.

6. A case of serious concern that occurred in the social lending business

- On February 5, 2021, SBI Social Lending Co., Ltd. published a suspected case of serious concern found in the business operation of borrowers in its social lending business. On April 2, the company publicly admitted the possibility that acts falling under legal violations had been committed in solicitation activities for the relevant funds.
- A third-party panel was established for the investigation into this case, and we understand that a panel report is to be released by the end of April. The company has already announced the commencement of confirmation of the loss, etc., which will serve as the premise for a series of procedures for compensation payments.
- Also in general terms, funds are becoming more and more diverse, and their transaction volumes by securities companies are also increasing. Securities companies that deal in fund equities should ascertain the situation of investment destinations to the extent possible, such as checking how fund operators monitor investment destinations, and provide explanations to investors properly as gate keepers of the financial market, for the purpose of preventing investors from purchasing funds without a full understanding of the risks involved.

7. Risk management on a group basis and a global basis

- Since March 2021, Japanese and foreign financial groups have announced incidents of potential large losses through transactions with a certain foreign counterparty.
- Financial groups need to put in place and implement risk management measures for overseas entities in a manner consistent with their group-wide policies and business models, respectively, and take risks in line with such measures so as to ensure robust risk management even in cases of conducting highly risky, complicated business transactions outside Japan.
- The FSA will monitor the status of Japanese financial institutions' governance over overseas entities as parent companies and will also monitor the activities of

individual foreign financial institutions. The FSA would also like to exchange opinions concerning the development of risk management systems on a group basis and a global basis.

8. Visualization of customer-oriented business conduct

- Based on the “Report of the Working Group on Financial Markets of the Financial System Council” (hereinafter referred to as the “Report”), which was published in August 2020, the “Principles for Customer-Oriented Business Conduct” (hereinafter referred to as the “Principles”) was revised. The Report recommended that, in order to provide information which is easy for retail customers to understand, the FSA compare financial institutions' practices with respect to each item of the Principles and conduct a comparative analysis of the good and bad cases.
- In response to this, on April 12, the FSA published a new reporting format for financial institutions adopting the Principles to make a report to the FSA. The FSA also published the key points for its analysis of cases of good practices. The submission deadline for the first report was set for the end of June.
- Only financial institutions that have been confirmed to have explicitly presented their policies with respect to each item of the Policies will be included on the new List of Financial Institutions on the FSA website.

9. Discussions at the latest international conferences (discussions regarding Non- Bank Financial Intermediation (NBFIs))

- As mentioned at the February meeting, international standard setting bodies, including Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO), are continuing to discuss matters regarding the Non-Bank Financial Intermediation (NBFIs) in light of the market turmoil due to COVID-19 pandemic. The work on Money Market Funds (MMFs) is being carried out with the scope extending to the entire short-term financial market.
- In particular, with regard to MMFs, various options to improve their resilience have

been discussed, and a consultation report on these options is expected to be published in July. Meanwhile, public discussions on policy options are ongoing in the US based on a report by the President's Working Group, and in Europe under the initiative of the European Securities and Markets Authority (ESMA).

- In addition to the work on MMFs and open-ended funds, discussions are also underway on a wide range of topics, including the liquidity and market structure of the corporate bond secondary market under the impact of the COVID-19 pandemic. In particular, with regard to the analysis on corporate bond market liquidity and market structures, the Japan Securities Dealers Association has kindly cooperated in offering relevant data. We would like to take this opportunity to express our appreciation and ask for your continued cooperation.
- The IOSCO's Work Program 2021-2022 published at the end of February 2021 identified challenges due to COVID-19 pandemic, such as the resilience of the NBFIs and misconduct risks accompanying remote working, as priority issues. IOSCO members are also exchanging information on new modes of retail investment using social media or other recent market developments. We will keep an eye on such moves.

10. IOSCO's report titled "IOSCO Reviews the Impact of COVID-19 Government Support Measures on Credit Ratings"

- This February, IOSCO published a report titled "IOSCO Reviews the Impact of COVID-19 Government Support Measures on Credit Ratings."
- This report reviews rating actions taken and rating methodologies applied in four major categories, i.e., sovereigns, financial institutions, non-financial corporates, and structured finance during the COVID-19 pandemic last year. Through such review, the report compiles the impact on credit ratings and rating methodologies supposedly caused by government support measures and the possible impact due to the termination of those measures.
- As the impact of the COVID-19 continues persistently in 2021, the report points out

the significance of keeping an eye on the impact of government support measures.

- Please access the FSA's website or the IOSCO's website to have a look at the report.

11. IOSCO's press release on the urgency of the international standards for sustainability disclosure

- With regard to companies' sustainability-related disclosure, IOSCO aims to work together with the IFRS Foundation, established to develop the IFRS, and five major private standard setters. In this context, IOSCO presented its intention to support the establishment of a new standard setting body and to maintain collaboration with the Foundation for building a comprehensive corporate reporting system in its comment letter in response to the public consultation by the Foundation last year on sustainability reporting.
- This February, IOSCO published a statement concerning the urgent need for the international standards for sustainability disclosure and expressed its commitment to collaborating with the IFRS Foundation to create globally consistent, comparable, and reliable sustainability disclosure standards. In March, IOSCO announced the establishment of a working group to conduct technical discussions with the aim of cooperating with the Foundation in developing the standards.
- International discussions concerning sustainability disclosure are expected to become increasingly active. We appreciate your cooperation in the development of the comment letter discussed at the IFRS Council of Japan in response to the IFRS Foundation's public consultation. The FSA would like to make further efforts so as to have Japan's opinions reflected in international discussions. We hope that we can closely collaborate with the JSDA and exchange views and information for that purpose.

12. Sustainable finance

- On April 19, the second meeting of the Expert Panel on Climate Change was held

with the attendance of the Prime Minister.

- Opinions were exchanged after the Finance Minister, ASO Taro, explained as follows: (i) a draft amendment of the Corporate Governance Code was published with the awareness of the significance of information disclosure related to climate change; (ii) the government aims to create a Green International Financial Center where green bonds are traded; and (iii) the government is establishing the basic guidelines together with relevant ministries and agencies for the purpose of promoting finance especially for hard-to-abate sectors to achieve carbon-neutrality.