

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

1. Financial measures in response to the heavy rains from July 1, 2021

- We express our condolences and sympathies to victims of the heavy rains from July 1, 2021.
- The Disaster Relief Act is applied to Shizuoka, Tottori, Shimane and Kagoshima Prefectures in relation to the latest disaster. In response, the Tokai Local Finance Bureau, Chugoku Local Finance Bureau, and Kyushu Local Finance Bureau respectively issued a notice requesting financial measures to relevant financial institutions, etc. Financial institutions in disaster-affected areas are requested to ascertain disaster victims' opinions and needs and offer support meticulously from their standpoints based on the issued requests.

2. Monitoring of securities business for this business year

- Since last year, backed by favorable market conditions, etc., securities companies' operating profit and loss and balance of deposited assets have been generally steady. Under such relatively favorable circumstances, securities companies need to squarely face their structural management challenges and review and implement their management strategies from a medium- and long-term perspective. The securities industry as a whole faces various challenges, such as the need to expand the scope of customers, take measures to respond to digitalization, and make efforts to achieve SDGs. Individual companies are requested to seriously consider how they can properly ascertain customer needs and continue developing their business sustainably, while obtaining customers' trust.
- The FSA would like to continue deepened dialogues with securities companies this business year as well. The overall direction for this business year is as follows.
- We have asked securities companies to exercise their financial intermediary function and firmly support Japanese companies and households, and we are maintaining this stance also this business year. The roles to be played by securities companies in asset

building of general households are becoming increasingly important. Securities companies are expected to continue promoting customer-oriented business conduct both on a principle basis and on a rule basis.

- The spread of the COVID-19 infection has been exerting a significant influence on the growth and development of Japanese companies and the Japanese economy as a whole. It is predicted that companies' needs will further increase not only for operating funds but also for equipment funds toward the post-COVID-19 era, and securities companies' financial intermediary function through markets will become more and more important. We ask for securities companies' continued efforts to offer support for fund procurement appropriately in accordance with the various financial conditions of individual companies, and thereby back up post-COVID-19 economic development.
- As people have come to adopt new lifestyles amid the pandemic, securities companies' online services are increasingly utilized, and the provision of services by the use of digital technologies is spreading. While securities companies are changing their sales activities and business operations accordingly, they are strongly requested to take all possible measures to ensure compliance and not to undermine investor protection.
- There have been multiple incidents involving network securities companies, such as unauthorized access, large-scale leaks of personal information, and unauthorized withdrawals. Taking these cases seriously, the Japan Securities Dealers Association has been taking the initiative in formulating the guidelines and taking countermeasures. We ask all securities companies, not limited to network securities companies, to constantly review their systems to ensure the safe management of customer information and strengthen cybersecurity.
- For companies that are expanding overseas business, the importance of global governance and global risk management is increasing. In cases last business year where multiple large financial institutions incurred large losses through transactions with an overseas customer, it was found that top management had not understood risks and had failed to put in place sufficient risk management systems or have proper involvement. When conducting business overseas, companies should

endeavor to manage risks steadily as group-wide efforts. The FSA will continue monitoring in collaboration with foreign authorities.

- Including the above, the FSA will continue deepened dialogues with securities companies this business year as well, in light of individual companies' business sizes, characteristics, and concrete initiatives, etc., so that they can play roles as gatekeepers in the market, contribute to people's asset building, and fully exercise their financial intermediary function.

3. Promotion of the use of English in the FSA's supervision and other financial administration

- With regard to the initiative to achieve an international financial hub, the Growth Strategy decided at the Cabinet meeting on June 18 states that the government will "make efforts to ... reform Japan's financial and capital markets to make them more attractive on par with foreign markets" and "develop an environment ... to ensure financial administrative services in English for newly entering foreign banks and securities companies."
- In order to make Japan's capital market more attractive internationally, the FSA considers it important to broadly share awareness of the issues and views and closely cooperate with the Japan Securities Dealers Association when concretely deliberating the details of the relevant measures. We would like to exchange opinions with you and further promote concrete efforts for achieving an international financial hub.

4. Dissemination and promotion of side jobs and multiple jobs based on the "Basic Policy on Economic and Fiscal Management and Reform 2021," etc.

- The recently published "Basic Policy on Economic and Fiscal Management and Reform 2021" and other documents state that the government will continue efforts for disseminating and promoting side jobs and multiple jobs for realizing diversified working styles, such as through disseminating the "Guidelines for Promoting Side Jobs and Multiple Jobs" and broadly introducing specific examples.

- Providing options for side jobs and multiple jobs to employees who wish to adopt a new working style or work in diverse ways not only creates opportunities for those employees to have valuable experience but is also expected to be significantly beneficial to financial institutions from the perspective of fostering human resources, supporting customers and contributing to local communities. We consider it important for financial institutions to develop an environment so that employees can engage in side jobs or multiple jobs without worries depending on their wishes.
- On June 23, the FSA delivered a document to the Japan Securities Dealers Association to ask for cooperation to disseminate this initiative among its member financial institutions. Additionally, as another related initiative, we introduced a message concerning side jobs from State Minister Akazawa in our monthly report, Access FSA, issued on July 1.
- Please read the delivered document and the monthly report, and proceed with efforts for developing an environment to enable employees to engage in side jobs and multiple jobs, including the development of work regulations, in preparation for cases where there are requests from employees.

5. Anti-money laundering and terrorist financing measures

- The 4th round Mutual Evaluation Report of Japan will be published by the FATF August, 2021. Japan needs to deal with FATF's 5 year-follow-up process in cooperation with public and private sectors. The FSA sincerely requests for your efforts for sophisticating your AML/CFT measures.

6. Customer-oriented business conduct

- The FSA compiled the current problems ascertained through the monitoring, etc. of major investment trust distributors, the results of financial institutions' customer surveys, and what the FSA has done so far for promoting customer-oriented business conduct, and published the "Results of Monitoring Customer-Oriented Business Conduct of Investment Trust Distributors" on June 30.

- The latest report compiled the status of the sale of risk-involving financial instruments, customers' awareness and behavior, and distributors' systems, and then cited the following as future challenges: (i) individual financial businesses' strategies for realizing their initiatives for achieving the Principles for Customer-Oriented Business Conduct; (ii) improvement of the process of making proposals to customers to promote long-term diversified investments; and (iii) the FSA's efforts for the visualization of financial institutions' initiatives for customer-oriented business conduct and for better information provision, etc.
- In light of those ascertained problems, the FSA will continue dialogues with and monitoring of financial businesses to encourage them to make further efforts for customer-oriented business conduct.

7. Response for the permanent cessation of LIBOR

- It has been decided that the publication of LIBOR is to be ceased as of the end of December 2021, except for some tenors for US dollars. There remains only six months until the end of December, and less than three months until the end of September, the deadline for significant reductions in existing contracts as required by the transition plan, which was published by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks.
- In order for an orderly transition away from Japanese yen LIBOR rates, it is important to steadily reduce contracts referencing JPY LIBOR through a transition to alternative reference rates or the introduction of fallback clauses.
- The FSA will cooperate with the Bank of Japan and monitor the financial institutions' progress of transition away from LIBOR and their engagement with their customers.

8. Sustainable finance

- While efforts for carbon neutrality are being made globally, it is important that financial institutions and financial and capital markets exercise their functions effectively so that domestic and overseas funds would be utilized for companies'

appropriate initiatives for decarbonization, etc. From such perspective, the FSA established the Expert Panel on Sustainable Finance in December 2020, and the Panel published its report this June.

- The report contains Chapters titled "Enhance Corporate Disclosure," "Demonstrate Capital Market Functions," and "Financial Institutions' Support for Borrowers and Risk Management," and presents various recommendations, such as the enhancement of the quality and quantity of climate-related disclosure and the development of a platform for practical information of ESG-related bonds. The Growth Strategy and Basic Policy on Economic and Fiscal Management and Reform, which were established this June, also incorporates the national government's commitment to developing a green international financial center.
- Securities companies, which have contact both with issuers and investors through the underwriting and sale of securities, are expected to check to what extent individual companies and investment products contribute to solving environmental and social problems, including decarbonization, and provide information appropriately to customers. Such conduct is significant also from the perspective of ensuring the sound fulfilment of market functions.
- The FSA will deliberate the further materialization of policy measures based on the Panel's report, etc. We request your continued cooperation.

9. Enhancement of asset management

- In order to contribute to building household assets, it is indispensable to enhance the entire investment chain, including not only asset managers but also distributors as well as other investment chain actors.
 - ⇒ The FSA published the "Progress Report on Enhancing the Asset Management Business 2021" on June 25th, following the previous year. The report mentioned the key challenges and some suggestions in enhancing the entire investment chain, and clarifies the direction of dialogues with asset managers going forward.
- The report introduces the following:

- Several initiatives by asset managers to refurbish the asset management business from the perspective of customers' interests,
 - Visualization of investment performance and costs for publicly offered investment trusts, privately placed investment trusts and fund wraps, and
 - Challenges in information disclosure concerning ESG investment trusts as pointed by the Expert Panel on Sustainable Finance.
- Parent companies of financial groups are expected to secure independence of their affiliated asset managers and exert leadership in achieving collaboration and integration of some functions within the financial groups, thereby better utilizing asset management know-how and enhancing operational efficiency to strengthen their groups' asset management capabilities.

10. Unification of taxation on income earned from financial instruments

- With regard to the unification of taxation on income earned from financial instruments, including that from derivatives transactions, the Tax Reform Outline for FY2021 compiled by the ruling parties contains the statement that the national government will commence deliberations at an early point, including effective concrete measures to prevent tax evasion, while obtaining the understanding of related parties.
- In response, the FSA established the Study Group on the Unification of Taxation on Income Earned from Financial Instruments consisting of experts this May. The Study Group compiled and published the results of its discussions on July 7.
- The Study Group discussed the scope of aggregation of profits and losses and measures to prevent tax evasion, and the majority of member experts presented their opinions to suggest the necessity for deliberating whether specified accounts may be used for derivatives transactions and tax withholding. We expect that further deliberations will be led by the Japan Securities Dealers Association.
- We will discuss concrete details of a request while obtaining the understanding of related parties, aiming to submit the request by the end of August as usual.

11. G20 recent actions

- The G20 Finance Ministers and Central Bank Governors Meeting was held on July 9 and 10 in Venice, Italy. After a long time apart, the meeting was held face-to-face. The following three points are explained here from the meeting's major agendas: Climate change; the COVID-19 pandemic's lessons; and the LIBOR transition.
- The FSB submitted three reports on climate change, and the Communiqué of G20 Finance Ministers and Central Bank Governors issued following the meeting welcomed these reports and expressed their expectations for further discussions.
- The following issues are addressed in the three FSB reports:
 - The first report highlights climate-related financial disclosures, which aims to promote globally consistent and comparable climate-related disclosures using the TCFD framework;
 - The second report points out identifying data for assessing climate-related financial risks, such as data on financial institutions' climate-related risk exposure, and addressing data gaps; and
 - The third report demonstrates a roadmap that outlines the FSB's and standard-setting bodies' initiatives in the following four areas: disclosures, data, vulnerabilities analysis, and regulatory and supervisory practices and tools, in the coming years in relation to climate-related financial risks.
- In addition, the G20 Sustainable Finance Working Group (SFWG) is also working on a roadmap that will cover both fund mobilization and risk management and will be presented at the G20 meeting in October.
- As another issue, the FSB presented an interim report to the G20 on financial stability lessons learned from the COVID-19 pandemic. The report emphasizes the need for further consideration to the role of capital and liquidity buffers, as well as non-bank financial intermediation (NBFIs). The final report will be delivered by the FSB in October.
- Last but not least, the G20 members reiterated the importance of an orderly transition away from LIBOR rates toward alternatives by the end of the year. The FSB has

released a progress report on the LIBOR transition, urging market participants to speed up their response measures to the orderly transition. We ask that you continue to work in accordance with the transition plan, which was formulated by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, as well as the timelines and guidance set out by home authorities or national working groups in the relevant currencies.

12. Recent developments in discussions on the Non-Bank Financial Intermediation

- As mentioned at the meeting in June, the FSB published a consultation report on policy options to improve the resilience of Money Market Funds (MMFs) on June 30. The document contains descriptions on following matters: forms, functions and roles of MMFs; their vulnerabilities revealed in the past market turmoil experiences including that in March 2020; policy proposals to enhance the resilience of MMFs and assessments thereof; complementary measures on risk monitoring and short-term funding markets; and matters to be taken into consideration in selecting policy options. We would like to ask you to please examine the content and provide them with your opinions, together with the background facts and ideas supporting your opinions.
- In addition to the work on MMFs, discussions are also underway on a wide range of topics, including a project to analyze fund liquidity under the impact of the COVID-19 pandemic, a project to analyze the margin practices, and a project to conduct data-driven analysis on the liquidity and market structure of the corporate bond secondary market under the impact of the COVID-19 pandemic. A report on each project is planned to be compiled in the latter half of this year. The FSA intends to continue to provide updates on the recent development of the discussions through the regular dialogue with the industry or other opportunities. In addition, the JFSA will continuously participate in international discussions proactively while exchanging opinions with trade associations.

13. Publication of IOSCO report on sustainable finance

- The International Organization of Securities Commissions (IOSCO), an international body consisting of securities market authorities, established the Sustainable Finance Task Force in June 2020 with the aim of strengthening efforts for advancing sustainable finance. This Task Force consists of three Workstreams (under themes of sustainability-related disclosures for issuers, sustainability-related disclosures for asset managers, and ESG ratings and data providers). The FSA's Chief Sustainable Finance Officer Satoshi Ikeda serves as a co-leader of Workstream 3 (on ESG ratings and data providers).
- Based on the discussions by the Task Force, a report by Workstream 1, "Report on Sustainability-related Issuer Disclosures," was published on June 28, 2021. On June 30, a consultation report by Workstream 2 (on sustainability-related disclosures for asset managers) was also published. In addition, consultation report by Workstream 3 (on ESG ratings and data providers) is planned to be published soon. Please access IOSCO's website to read these reports.

(Note) Workstream 3's consultation report by was published on July 26, 2021.

- In particular, the Report on Sustainability-related Issuer Disclosures published by Workstream 1 prioritizes collaboration with the IFRS Foundation, which aims to establish a new standard setting body (ISSB) by this November, to improve the global consistency, comparability, and reliability regarding issuers' sustainability reporting, and presents IOSCO's vision concerning the development of sustainability reporting standards by the IFRS Foundation.
- The FSA considers it important for Japan to proactively participate in such international discussions on sustainability reporting standards, and would like to continuously collaborate with you for that purpose.

14. IOSCO's recent market-related topics

- IOSCO is discussing developments in retail investments via social media and SPACs.
- It is agreed that IOSCO members will continue to exchange information on these matters.
- We consider the FSA would need to actively participate in discussions in

international fora and to keep an eye on international developments in these topics. We would like to ask for your cooperation to closely exchange views and information.