

**The main issues raised by the FSA at opinion exchange meetings with trade associations**  
**[held on September 14, 2021, with the Japan Securities Dealers Association]**

**1. Financial measures in response to the heavy rains, etc.**

- We express our condolences and sympathies to victims of the heavy rains, etc.
- The Disaster Relief Act is applied to affected prefectures in relation to the latest disaster, and relevant Local Finance Bureaus respectively issued a notice requesting financial measures to financial institutions, etc. under their jurisdiction.
- Financial institutions in disaster-affected areas are requested to ascertain disaster victims' opinions and needs and offer support meticulously from their standpoints based on a full understanding of regional circumstances, in light of the issued requests.

**2. Monitoring of securities business for this business year**

- On August 31, we published the JFSA Priorities for July 2021 - June 2022. One of the major priorities for this business year is to overcome the challenges of COVID-19 and bring about a robust economic recovery. Securities companies are expected to support fund procurement of companies with growth potential and asset building of individuals, and to contribute to building the post-COVID economy and society as core players in a capital market.
- Amid relatively favorable market conditions these days, securities companies' operating profit and loss and balance of deposited assets have been generally steady. However, it is also true that the business environment for individual companies is becoming further severer due to the aging of customers and reduction of various fees.
- In order to build a sustainable business model under such circumstances, it is important to develop a system for customer-oriented business conduct, establish an appropriate compliance system, and fulfil governance functions.
- In particular, monitoring in the last business year revealed the following cases:

- cases wherein multiple securities companies doing business overseas incurred large losses through transactions with an overseas customer due to their top management's failure to ascertain the existence of risks; and
  - increasing cases of illegal access targeting securities companies' online transaction services, in some of which customers' securities were sold, converted into cash, and transferred into bank accounts that were opened illegally.
- In light of these facts, the FSA will conduct monitoring this business year as well, focusing on the following:
- monitoring in collaboration with foreign authorities regarding current statuses of securities companies' development of risk management systems and measures to be taken upon a crisis, including their preparedness for global market fluctuation risks and possible declines in net asset value;
  - monitoring of current statuses of securities companies' development of appropriate systems and operation and maintenance of system risk management systems, including emergency measures; and
  - monitoring regarding whether securities companies are continuing customer-oriented business conduct amid further diversification of financial instruments and services.
- The FSA will continue monitoring, centered on deepened dialogues also from these perspectives, so that individual securities companies can exercise their financial intermediary function in the investment chain to the extent possible, respectively depending on their business modes and characteristics.

### **3. Responses to computer system failures**

- Recently, a cloud service provider's system failure caused delays in some securities companies' distribution of market price information and also caused difficulties in logging into accounts.
- When outsourcing business processes, including the use of a cloud service as mentioned above, it is important for companies to fully ascertain the accompanying

risks and effectively manage the entirety of their business operations, including outsourced processes, thereby securing operational resilience.

- In order to ensure continued provision of services to the extent possible even in the event of a computer system failure at an outsourcee, securities companies are requested to develop appropriate system risk management systems, such as for ensuring prompt restoration of services and making responses from the standpoint of customers upon suspension of services, while giving due consideration to the development of backup systems.
- Additionally, when any computer system failure hindering transactions, payments, account activities, or otherwise affecting customer convenience occurs, it is necessary to thoroughly analyze causes and consider remedial measures later, but the first report, even an incomplete one before the entirety of the incident is made clear, should be made to the FSA promptly. It is also necessary to ensure proper responses to customers to inform them of the occurrence of the failure and available alternative means, etc.

#### 4. Review of conventional procedures requiring papers, seals and face-to-face procedures.

- For reviewing conventional procedures requiring papers, seals, and face-to-face procedures, the FSA improved the environment by amending relevant laws and regulations and Comprehensive Guidelines for Supervision by the end of June this year.
- In order to facilitate the financial industries' efforts for reviewing their conventional practices based on papers, seals, and face-to-face procedures, the FSA asked relevant trade associations to conduct questionnaire surveys to check the progress of their efforts, and in response, you need to send questionnaire sheets to your member companies. The FSA plans to hold a panel inviting trade associations to have them make reports on the results of the questionnaire surveys within this year.
- The FSA would like to make the panel an opportunity for participants to share best

practices and challenges, and it hopes that discussions at the panel will trigger individual industries to steadily promote further efforts.

## 5. Anti-money laundering and terrorist financing measures

### ◀ Publication of the FATF's Mutual Evaluation Report of Japan ▶

- The 4<sup>th</sup> round Mutual Evaluation Report of Japan was published on August 30 by the Financial Action Task Force (FATF).
- In this report, the FATF evaluates that Japan's AML/CFT measures have made certain achievements based on its efforts after the previous mutual evaluation. At the same time, strengthening of supervision of financial institutions is pointed out as a matter of priority in order to further enhance Japan's AML/CFT measures.
- In response to the publication of this report, the government of Japan formulated and published an action plan for the coming three years. As public-private collaboration is required, we would like to ask for your cooperation in sophisticating Japan's system to combat money laundering and terrorist financing.

### ◀ Anti-money laundering inspections ▶

- As stated in the Basic Policy on Economic and Fiscal Management and Reform, which was published this June, the FSA has been strengthening measures for anti-money laundering, counter-terrorist financing, and counter-proliferation financing, including the enhancement of its system for inspection and supervision of financial sectors. More specifically, the FSA is endeavoring to:
  - enhance its inspection and supervision system by securing staff for inspections; and
  - conduct inspections and supervision on a risk basis, prioritizing business sectors with higher risks of money laundering.
- In consideration of the status of the COVID-19 infection, the FSA has conducted inspections and monitoring remotely. From now on, as stated in the Basic Policy on Economic and Fiscal Management and Reform, the FSA will intensively conduct inspections focusing on inspection items concerning anti-money laundering measures,

based on the results of the FATF's mutual evaluation.

- Closely collaborating with Local Finance Bureaus, the FSA will conduct anti-money laundering inspections mainly for depositary financial institutions individually, not in the form of a simultaneous inspection, while considering the interval from the previous inspection and the burden on financial institutions.

◀ Ongoing customer due diligence and public relations activities ▶

- Regarding ongoing customer due diligence, the FSA has asked financial institutions to develop appropriate frameworks by the end of March 2024, as one of required actions for financial institutions in the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism. The FATF also states in its Mutual Evaluation Report of Japan that financial institutions should meet its ongoing customer due diligence requirements.
- The FSA will also conduct PR activities to disseminate information regarding customer due diligence procedures in relation to AML/CFT measures among the general public, through government publications and in collaboration with industry associations.

#### 6. Response for the permanent cessation of LIBOR

- In response for the permanent cessation of LIBOR, we recognize that financial institutions are making efforts for significant reductions in existing contracts referencing JPY LIBOR in line with the "Roadmap to Prepare for the Discontinuation of Japanese Yen LIBOR" published by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks.
- The FSA, together with the Bank of Japan, would like to monitor the financial institutions' progress of transition away from LIBOR as of the end of September, which is the deadline for the significant reductions. We will conduct a brief survey of major financial institutions and ask for your cooperation.

- We do not have much time left until the permanent cessation of LIBOR, and it can be said that the transition is in its final phase. We would like you to continue to steadily implement the transition.

#### 7. Publication of the list of financial institutions that have adopted the Principles for Customer-oriented Business Conduct

- On September 3, the FSA published a list of financial institutions that have adopted the Principles for Customer-oriented Business Conduct on its website. Out of financial institutions that have adopted the Principles and have submitted a report to show their willingness to be included in the list (by June 30), the current list covers only those whose policies for efforts for each item cited in the Principles are found to be clear.
- The list was prepared based on the report by the Working Group on Financial Markets under the Financial System Council, which was published in August 2020. On April 12, 2021, the FSA issued an announcement to newly accept reports from financial institutions. The current list shows the confirmation results regarding the reports that were submitted by the first deadline of June 30 in response to the FSA's announcement.
- In the confirmation process, it was found that some financial institutions do not necessarily understand that efforts for making their initiatives visible are for the benefit of customers. We would like to emphasize here again that making efforts for visualization is not merely paperwork or desk work but is likely to trigger all workers, from the top to front-line sales personnel, to examine their own attitude towards customers. It should be noted that financial institutions included in the list also need to report the results of the implementation of their policies next year, so continued efforts are required.
- On the other hand, for nearly half of the financial institutions that submitted a report, their policies for efforts were not found to be clearly linked to each item cited in the Principles. The FSA presented directions for correction to such financial

institutions and told them that they may submit a report again by the next deadline (September 30). Financial institutions, including those wishing to be newly included in the list, are expected to submit a report, while placing their concrete measures according to their individual customer bases as the basis of their policies, and also referring to examples of other financial institutions included in the current list.

- The FSA will conduct monitoring of implementation statuses and have dialogues with financial institutions, and it plans to compile and publish best practices.

## 8. Efforts for strengthening IT governance and cybersecurity

### ◀ Strengthening of cybersecurity management systems ▶

- There have been cases of sophisticated cyberattacks for which the involvement of foreign governments is suspected and cases of activated ransomware attacks, and they have caused damage to some critical infrastructures in and outside Japan. It is important to consider cyberattacks as one of the top risks to be prioritized in business operation and strengthen countermeasures.
- The FSA will continuously encourage financial institutions to put in place preventive measures against cyberattacks and enhance their capabilities and readiness to deal with incidents causing any damage. Specific means are as follows:
  - for highly risky financial institutions, intensively verify the effectiveness of their cybersecurity measures thorough inspections, etc.; and
  - conduct a expanded cybersecurity exercise (Delta Wall VI) in October in order to enhance financial institutions' capabilities to minimize damage and promptly resume operations even when being hit by a cyberattack.

### ◀ Strengthening of IT risk management ▶

- While IT system failures frequently occur and exert influence on a number of users, it is important to prevent the occurrence of failures and to also enhance capabilities to minimize damage and promptly resume operations in the event of a IT

system failure.

- From such a perspective, when conducting monitoring for IT system failures, the FSA focuses on encouraging financial institutions' voluntary efforts for improvements, and intensively inspects and verifies the effectiveness of cybersecurity measures of highly risky financial institutions, thereby promoting strengthening of financial institutions' IT risk management.

◀ Strengthening of IT governance ▶

- Financial institutions are expected to exercise IT governance to provide advanced services and enhance their own operational efficiency through better utilization of data.
- The FSA will continue offering support positively to financial institutions to facilitate their efforts for strengthening IT governance as follows:
  - have deepened dialogues concerning IT governance; and
  - for financial institutions that are considering enhancing their enterprise systems by using new technologies, offer support for their deliberations on IT governance, risk management, and other issues from an early stage through the Enterprise System and Frontrunner Support-Hub.

9. Publication of "The JFSA Strategic Priorities July 2021 - June 2022"

- On August 31, we published "The JFSA Strategic Priorities July 2021 - June 2022."
  - d This report, which is published at the beginning of every business year, clarifies our annual policy direction. We would like to achieve better financial administration through facilitating awareness sharing and constructive dialogues broadly among related parties.
- "The JFSA Strategic Priorities July 2021 - June 2022" focuses on the following three areas:
  - firstly, to monitor the implementation status of financial institutions' measures to

ensure that they properly provide cash flow support and business revitalization support to businesses that are seriously affected by the COVID-19;

- secondly, from the perspective of promoting a shift to vibrant economic and social structures, to consider the policy frameworks which support the digitalization of remittance transfers and securities products , to endeavor to expand Japan's role as an international financial center, and to take measures for promoting sustainable finance; and
  - thirdly, to enhance its capability as a financial authority by enhancing monitoring capability through sophisticated data analysis, and by fostering professional human resources to contribute to the economy and society in and outside Japan as the agency supporting financial services.
- The FSA will focus on these priority issues and continue efforts to increase the welfare of the people through sustainable growth of businesses and the economy as well as stable asset formation.

#### 10. Requests for tax reforms

- On August 31, the FSA requested tax reforms concerning [i] the development of an environment to facilitate investment and the promotion of further digitalization, [ii] responses in consideration of the impact of the COVID-19 infection, and [iii] insurance-related issues.
- In relation to the development of an environment to facilitate investment, the FSA has requested unification of taxation on income earned from financial instruments to expand the scope of aggregation of profits and losses to also include derivatives transactions and savings. In particular, in consideration of challenges in execution, for expanding the scope by stages, the FSA has requested the following: [i] to first admit aggregation of profits and losses from derivatives transactions on securities markets and those from listed shares, etc.; [ii] to uniformly apply taxation based on fair market valuations to derivatives transactions on securities markets as measures to prevent tax evasion; and [iii] to admit aggregation of profits and losses from

derivatives transactions on securities markets in specified accounts from the perspective of enhancing convenience for diverse investors. We would like to achieve these requests within this fiscal year.

- Additionally, in relation to the development of an environment to facilitate investment and the promotion of further digitalization, the FSA has also requested a review of inheritance tax on listed shares, etc., utilization of individual number cards upon opening NISA accounts, and promotion of further digitalization of taxation procedures.
- We think that the FSA and the Japan Securities Dealers Association share the details of these requests. We ask for your continued cooperation in related deliberations toward the year end.

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

- Regarding the public consultation on policy options to improve the resilience of money market funds (MMFs), which have been conducted by the FSB as mentioned previously, the submission of opinions was closed on August 16. We appreciate that you have had a detailed deliberation within a short period of time and provided the FSB with your opinions although it was during the summer vacation season. At present, the FSB is conducting a discussion toward finalizing its report, which is expected to be presented at the G20 meeting in October if it goes well.
- In addition to the work on MMFs, discussions are also under way on a wide range of topics, including a project to analyze fund liquidity risk management under the impact of the COVID-19 pandemic and a project to analyze the corporate bond market liquidity and behavior and the backgrounds of market participants under the impact of the COVID-19 pandemic. A report on each of those projects is planned to be prepared by the end of this year.
- With regard to the project to analyze margining practices under the impact of the COVID-19 pandemic, for which you have helped us conduct a survey or otherwise offered cooperation, consultative discussions on the analysis results are scheduled for

this autumn. At present, the details to be published are unknown, but as consultative discussions will affect the future direction leading to the final recommendations, please examine the details when they are published, and provide us with your opinions and background facts and ideas as grounds for your opinions.