

**The main issues raised by the FSA at opinion exchange meetings with  
trade associations**  
**[held on January 18, 2022, with the Japan Securities Dealers Association]**

**1. Checking of Business Continuity Plans in Response to the Spread of Covid-19**

- COVID-19 has started to spread again recently, and financial institutions need to make further efforts to lessen infection risks and prevent infection.
- Financial institutions are expected to check and review their business continuity plans (BCPs) and continue required services, while making the utmost efforts to prevent the spread of the infection through such means as fully utilizing remote functions and promoting employees' telework, and ensuring social distancing among customers and employees.

**2. Responses to the Transition from LIBOR**

- The publication of LIBOR was ceased at the end of December 2021, except for certain USD LIBOR settings. We understand that work for the transition away from LIBOR has been completed for most of the contracts, but be sure to also take appropriate actions which will be necessary after the cessation of LIBOR, such as appropriate management of some existing contracts referencing LIBOR, and the switch to alternative reference rates due to the triggering of the fallback provisions.
- When using synthetic yen LIBOR for legacy contracts that cannot feasibly be transitioned away from JPY LIBOR, financial institutions will be required to take appropriate actions for their customers and transition to alternative reference rates, while keeping in mind that the synthetic yen LIBOR is a time-limited measure until the end of 2022. The FSA will monitor financial institutions on their use of synthetic yen LIBOR and their engagements with their customers when using synthetic yen LIBOR as necessary.
- With regard to certain USD LIBOR settings, for which the publication will be ceased at the end of June 2023, the U.S. authorities encourage financial institutions to cease

entering into new contracts from January 2022 in principle with some exceptions and they will be required to plan and take appropriate actions based on the guidelines issued by the U.S. authorities.

### 3. Publication of “Principles for Model Risk Management”

- The FSA published “Principles for Model Risk Management” (“the PMRM”) in November 2021. The PMRM requires financial institutions with systemic importance, namely G-SIBs (Global Systemically Important Banks) headquartered in Japan and D-SIBs (Domestic Systemically Important Banks) designated by the FSA, to have a model risk management framework in place.
- Model risk refers to the potential for adverse consequences resulting from inappropriate or misused models. The need for comprehensive model risk management was recognized after the global financial crisis, prompting large financial institutions to establish a model risk management framework.
- More recently, the Covid-19 pandemic and the subsequent economic and market dislocation have reminded us of the fact that observed patterns in the past would not necessarily hold in the future, highlighting the growing need of comprehensive and proactive model risk management.
- It was against this background that the FSA, following engagement with the financial institutions and due consideration, published the PMRM with the aim of promoting further development of the model risk management practices in the industry.
- The FSA will continue to discuss with financial institutions for further strengthening of model risk management in align with the PMRM.

### 4. Supervision and Other Financial Administration in English

- In order to further strengthen Japan's function as the International Financial Center and facilitate entries into Japanese markets by overseas securities companies, etc.

with advanced expertise, and based on the Growth Strategy decided at the Cabinet meeting in June 2021, the FSA is deliberating to expand the coverage and admit the preparation and submission of documents for registration application, etc. in English for applicants satisfying certain conditions for the type I financial instruments business, in addition to those for the investment management business.

- The FSA prepared draft amendments of Cabinet Office Orders to legally enable this and provide for specific requirements for applicants and the scope of documents for which the preparation and submission in English are to be admitted, and also prepared a draft of the relevant public notice of the FSA, and started to seek public comments.
- The FSA would like to proceed with these efforts for achieving financial administration in English in collaboration with you. We appreciate your cooperation when newly entering foreign businesses become your members and officials of those businesses file applications for registration as sales representatives.

#### 5. Registration with REVICareer

- The FSA commenced a program to promote matchmaking between regional companies and retirees from large companies in FY2020 to create a flow of personnel from large companies to regional second-tier companies and SMEs, thereby assisting regional companies with their efforts to secure management personnel.
- The system of registering information on large companies' human resources developed at the Regional Economy Vitalization Corporation of Japan (REVIC) (commonly called "REVICareer") started operation in full on October 1, 2021. Under this system, large companies register their employees who wish to work for regional companies with REVICareer, and regional financial institutions that know regional companies' needs for personnel see the list of large companies' human resources and make matches between them. In January 2022, a new function was newly added to the system and it became possible for regional financial institutions to upload job information of their customer SMEs for inspection by large companies.

- Large companies with stated capital over 1 billion yen and having over 2,000 employees can use REVICareer. We hope that those companies make registration with REVICareer, see regional companies' specific needs for personnel, and disseminate the information internally or use the information as reference for human resources registration.

## 6. Results of the FSA's Requests for FY2022 Tax Reforms

- For FY2022 tax reform, the FSA made requests regarding the following:
  - Development of an environment to facilitate investments and promotion of further digitalization;
  - Responses in consideration of the impact of COVID-19; and
  - Insurance-related issues.
- The Tax Reform Outline compiled by the ruling parties, which was publicized on December 10, 2021, states as follows regarding the unification of taxation on income earned from financial instruments (expansion of the scope of aggregation of profits and losses): "While comprehensively considering ideal taxation on income earned from financial instruments, the national government will conduct deliberations at an early point based on the outcome of the past deliberations regarding measures to prevent intentional tax evasions." Concrete measures therefor were shelved this time, but the following material requests relating to the FSA were decided to be dealt with:
  - Utilization of individual number cards upon opening NISA accounts, and further digitalization of taxation procedures;
  - Extension of the measure to eliminate stamp tax on special loans to be provided in relation to the COVID-19 pandemic; and
  - Measures required for the adjustments regarding international taxation (clarification of the fact that it is not required for foreign investors, etc. to report in Japan any income from market derivatives transactions, etc.).
- Regarding taxation on income earned from financial instruments, the Tax Reform Outline states that "the national government will conduct deliberations

comprehensively in light of taxation systems in other countries and possible influences on markets, while giving due consideration not to cause any damage to an environment where general investors can make investments easily." Based on this statement, we would like to continue discussions.

## 7. Financial Policies Monitoring

- The FSA has collected opinions on its financial policies from financial institutions and the general public through various means. However, some financial institutions have pointed out the difficulty for them to present their frank opinions directly to officials of the FSA.
- Accordingly, the FSA established the "Contact for Financial Policies Monitor" in January 2016 as a mechanism to report frank opinions on financial policies presented by financial institutions and their employees directly to external experts, who are third parties in a neutral position, and have such opinions reflected in financial policies.
- Under this mechanism, information with which an individual or organization of affiliation can be identified is all masked before being conveyed from financial policies monitors to the FSA, thereby strictly ensuring the anonymity of persons who presented opinions or suggestions.
- Since the establishment of the Contact for Financial Policies Monitor, 220 opinions have been accepted and shared among executive officials of the FSA. There have been some cases as follows where opinions led to the revision of the system:
  - A case of having led to the amendment of the laws and regulations regarding banks, such as enabling flexible treatment of business years for branches of foreign banks and eliminating the standard on the amount of money for requiring reporting of the occurrence of misconduct involving loss of cash, etc.; and
  - A case of clarifying the interpretation of the Trust Business Act, etc. in relation to the investments by trust banks.
- We hope for continued utilization of the Financial Policies Monitor System by

financial institutions as one of the channels to convey their opinions and suggestions concerning financial policies to the FSA. Please disseminate the information among your member financial institutions and their employees.

## 8. Major International Developments in 2022

### << Sustainable finance >>

In 2022, climate finance remains one of the priorities of the G20 under the Indonesian Presidency. Japan has been advocating the importance of transition finance, and the G20 Sustainable Finance Working Group (SFWG) plans to develop high-level principles for transition finance toward 2023. To achieve decarbonization, approaches regarding private finance to support steady transitions of hard-to-abate sectors will be actively discussed internationally.

- As the private sector initiatives, efforts have been spreading to align perspectives on transition finance practices internationally. For example, the Glasgow Financial Alliance for Net Zero (GFANZ), in which Japanese financial institutions also participate, plans to present best practices from the perspective of globally active financial institutions. It will become more and more important to closely exchange information on practical ideas, including detailed concepts of the methods to evaluate loans defined as transition finance.
- Additionally, discussions on sustainable finance beyond climate finance is also expected to advance. Germany, which holds the G7 Presidency this year, is very much interested in other sustainable issues, and the global framework on biodiversity will be discussed at the COP15 meeting to be held in Kunming, China, at the end of April. Furthermore, the enhancement of Diversity and Inclusion in the financial sector, including gender equality, has increasingly been discussed.
- Such discussions for establishing international perspectives are likely to be accelerated continuously, while integrating specific practical perspectives. The FSA would like to participate in international discussions actively and closely exchange

opinions and information with financial institutions.

#### << Non-Bank Financial Intermediation (NBFI) >>

- The Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) will continue to prioritize the work on Non-Bank Financial Intermediation (NBFI) in 2022. The analyses that have been conducted since 2020 are expected to be completed mostly in 2022, and the focus will shift to the discussions on policies based on the results of the analyses.
- Regarding Money Market Funds (MMFs), the final report proposing policy options to improve the resilience of MMFs was published in October 2021 and was approved at the G20 Leaders' Summit, as mentioned at the previous meeting. Since we also need to take measures following this final report, we will work on this issue in close communication with the market players and would like to ask for your cooperation.
- In addition to the work on MMFs, discussions are also underway with a wide range of topics on NBFI. With regard to the project to analyze fund liquidity risk management under the impact of COVID-19 pandemic and the project to analyze the corporate bond market liquidity, behavior of market participants and its drivers under the impact of COVID-19 pandemic, reports are planned to be prepared within this year .
- Additionally, with regard to the project to analyze margining practices under the impact of COVID-19 pandemic, the consultative report for the results of the analysis was published on October 26, 2021. As the consultation period has been extended to January 26, 2022, please take more time to examine the contents of the report, and kindly provide us with your opinions together with the background facts and thoughts.

#### 9. Publication of IOSCO's Investment Funds Statistics Report

- On January 4, IOSCO published the annual report titled "Investment Funds Statistics

Report."

- IOSCO prepared this report by analyzing data on global trends in the investment funds industry in 2020 collected from IOSCO members. The report shows analysis results about leverage and liquidity for three types of funds: hedge funds, open-ended funds, and closed-ended funds.
- This is the first report published by IOSCO and is based on data from January 1 to December 31, 2020. IOSCO is planning to collect and analyze data every year as an annual exercise to sophisticate and enhance the content. Although we did not submit data this time due to restriction on timely data availability, we will join this exercise in the future.
- Please read the report available on the FSA website and the IOSCO website.