

**The main issues raised by the FSA at opinion exchange meetings with trade associations**  
**[held on February 15, 2022, with the Japan Securities Dealers Association]**

**1. Present Circumstances Surrounding Securities Companies**

- Account settlements of securities companies for the term ending in December 2021 show that many companies are enjoying relatively good business performance as a whole, reflecting favorable market conditions.
- As market fluctuations are being observed domestically and internationally, securities companies are expected to conduct follow-up of customers appropriately and meticulously in light of the market trends and the state of the assets of individual customers.
- There are cases where securities companies sell highly-risky financial instruments through IFAs or other financial institutions under outsourcing agreements.

In such cases, securities companies are required to monitor whether outsourcees are conducting solicitation and providing explanations to customers appropriately and whether they have developed a compliance system properly, etc., thereby continuously checking the status of their business operations.

- Including these points, securities companies are requested to endeavor to make a sustainable business model through providing customer-oriented financial instruments and services.

**2. Comparative Common KPIs for Companies Selling Foreign Currency Denominated Insurance**

- On January 18, the FSA published two indicators for foreign currency denominated insurance, which were defined based on similar criteria to those of the common KPIs for investment trusts, from the perspective of further contributing to customers' selection of financial business operators that provide customer-oriented, high-quality financial instruments and services and making it easier for customers to compare

instruments among different categories.

- Ahead of the publication of the indicators, the FSA requested major banks, etc. selling foreign currency denominated insurance to make trial calculations as of 2021. The FSA analyzed and compiled the results of those calculations so as to help people visualize the reality of the common KPIs. Two points concerning the details are explained below.
- First, regarding the customer ratio based on investment return, which shows to what extent selling companies provide returns to foreign currency denominated insurance holders, around 60% of customers obtain gains while around 40% sustain losses.
- Next, regarding the cost and return on investment by issue, which shows the relationship between fees and returns for each issue, there is a tendency for returns to decrease to some extent as the cost increases. This is because, in the case of foreign currency denominated insurance, earlier cancellations often result in larger deductions and returns per year tend to be larger when contract terms are longer. Additionally, the longer a contract term is, the smaller the annual agency fee rate becomes, and the cost tends to be lower. In short, the length of contract terms is considered to affect the relationship between fees and returns.
- When publishing these KPIs, be careful not to cause customers' misunderstanding regarding the point that it is not necessarily appropriate to make simple comparisons between foreign currency denominated insurance and investment trusts only based on these KPIs in light of the following facts:
  - Insurance policies have a security function, such as death security, but these KPIs do not reflect such function.
  - Regarding the cost and return on investment by issue, the rates of agency fees that insurance companies pay to agencies are defined as cost, while regarding the cost and return of investment trusts, the rates of sales fees and trust fees borne by customers are defined as cost.
- Financial business operators selling foreign currency denominated insurance are expected to publish their own common KPIs, thereby making it visible to what extent

the financial instruments they deal in generate returns and further promoting their efforts for customer-oriented business conduct.

### 3. Termination of the Transitional Measures upon Shift to the FSA Electronic Application and Notification System

- Based on the notice titled "Emergency Responses Concerning Applications and Notifications to be Filed with the FSA in Consideration of the Impact of COVID-19 Infection (information dissemination)" issued in June 2021, the FSA has continued to accept applications and notifications by e-mail up to March 31, 2022, as transitional measures accompanying the shift to the FSA Electronic Application and Notification System(the "New System") for Financial Institutions, etc. .
- As said transitional measures are to be terminated on March 31, the FSA reminded trade associations of the termination of the emergency responses (acceptance of applications and notifications by e-mail) and called attention for the need to acquire a gBizID for using the New System.

It takes around two weeks to acquire a gBizID. Accordingly, the FSA held an online session in February to explain the acquisition method of a gBizID, targeting financial institutions, etc. that had not yet obtained a gBizID, so that they would be able to get ready to start using the New System by April 1.

- We would appreciate your further cooperation in encouraging your members to use the New System for filing applications and notifications.

### 4. Efforts for Sustainable Finance

- Based on the Report of the Expert Panel on Sustainable Finance published last June, the FSA has had deliberations on each of the themes of the enhancement of corporate disclosure, demonstration of capital market functions, demonstration of functions of financial institutions, etc. Recent moves for the following two points are explained.

<< Platform for ESG bond-related information >>

- On January 31, the Sustainable Finance Platform Development Working Group of the Japan Exchange Group, Inc. (JPX) compiled and published an interim report. This report compiles discussions on possible measures by the JPX in response to the opinions of the Expert Panel that ESG bonds have practical problems due to the dissipation of related investment information and that a framework to objectively ensure the eligibility for ESG bonds is required.
- The interim report recommends that the JPX should create an information platform for publicly-offered ESG bonds as a whole by around the middle of the year to aggregate their basic information, such as the amounts issued and interest rates, and other information, such as issuers' ESG-related strategies, status of acquiring external evaluations, and details of the evaluations, and that the JPX should continuously hold the WG meetings to discuss continued improvements of the platform and expansion of the coverage, aggregation of companies' ESG-related data, ideal authentication to ensure the eligibility for ESG bonds, and other matters.
- Furthermore, with regard to the method of aggregating ESG bond-related information to be included in the platform, from the perspective of providing information to market players comprehensively on a timely basis, the interim report recommends
  - for example, to ask the lead securities company to provide information it holds to the platform upon issuance of ESG bonds.

We would appreciate your understanding and cooperation for vitalizing the Japanese ESG market as a whole.

- From now, it is important to make efforts to collect information also from the viewpoint of foreign investors, improve functions, and disseminate effective use methods, with the cooperation of related parties, so that the platform will be broadly utilized by domestic and foreign investors, financial institutions, companies and other market players and will function as the basis for Japanese ESG investments. We would also appreciate your cooperation in broadly disseminating the existence of the platform and feeding back information to the JPX.

<< Code of conduct for ESG rating and data providers >>

- With regard to organizations that conduct ESG ratings and provide data on companies and bonds and shares, etc., it is pointed out that there is the need to ensure the objectivity and transparency of their ratings, as ESG investments have been expanding rapidly and an increasing number of companies and investors have come to use those organizations.
- Therefore, in order to discuss the code of conduct expected for ESG rating and data providers, the Technical Committee for ESG Rating and Data Providers, etc. was established under the Expert Panel, and the first meeting was held on February 7.
- The Technical Committee is scheduled to
  - have deliberations to formulate the code of conduct expected for ESG rating and data providers by around the middle of the year, and
  - also discuss the roles to be played by companies and investors in relation to ESG ratings and data provision.
- You are also participating in the Expert Panel. We would like you to provide us with opinions broadly not only on how to ensure transparency or on the whole concept of ESG rating and data providers but also on possible challenges from the perspective of raising market reliability and facilitating transactions, such as the improvement of communications with investors and companies and the enhancement of knowledge of the market as a whole.

<< Conclusion >>

- Sustainable finance has been discussed diversely. For example, the Glasgow Financial Alliance for Net-Zero (GFANZ) and other initiatives by private financial institutions have been discussing finance pertaining to the transition to decarbonization. As this is a rapidly changing field, we would like to have timely discussions while keeping an eye on various moves. We ask for your continued close

collaboration.

## 5. Anti-Money Laundering and Terrorist Financing Measures

<< Ongoing-customer due diligence >>

- Regarding ongoing-customer due diligence in anti-money laundering measures, the FSA has asked financial institutions to develop appropriate systems on AML/CFT by the end of March 2024, as one of the required actions in the Guidelines for Anti-Money Laundering and Counter Financing of Terrorism (Guidelines for AML/CFT Measures).
- In the "Frequently Asked Questions (FAQs) regarding the Guidelines for AML/CFT Measures," published by the FSA in March 2021, the idea of Simplified Due Diligence (SDD) depending on risks is presented. In the meantime, financial institutions have been conducting questionnaire surveys, etc. to ascertain the actual statuses of existing customers and to review risk assessments. However, there is some complain from financial institutions on their burden of costs for printing and mailing survey sheets despite of low response rates from their customers.
- The FSA is considering the revision of the related items regarding SDD in the FAQs, as there are various kinds of public opinions sent to the FSA regarding the details of SDD in the FAQs, and there is a need to mitigate the burden of financial institutions in ongoing-customer due diligence, More specifically, the FSA is considering expanding the coverage of customers with low risks for whom regular information updates are considered to be unnecessary in the FAQs.
- The FSA disclosed the draft revision to related parties via associations on January 31 and is accepting comments and questions thereon until February 28. Please feel free to make comments and ask questions.
- Through outreach activities, etc. by the AML/CFT office, the FSA will positively introduce examples of how to ascertain the actual statuses of customers other than the one through questionnaire surveys.

<< Public relations activities concerning AML/CFT measures >>

- The FSA considers it important to disseminate information on AML/CFT measures to the public, and plans to conduct government PR activities concerning ongoing-customer due diligence with using various media after this March. Moreover, the FSA is planning to post the advertisements regarding AML/CFT on its own website.
- As close collaboration between the public and the private sectors is required, we would appreciate your continued cooperation in AML/CFT measures with us.

<< Commencement of the Beneficial Ownership of Legal Persons List >>

- Since January 31, the Beneficial Ownership of Legal Persons List System has commenced, under which 84 commercial registry offices nationwide, upon a request from a stock company, deliver a copy of a document stating information on the beneficial owners of that company.
- The commencement of this system is expected to increase the transparency of information on Japanese companies' beneficial owners and further facilitate the confirmation of such information by banks and other specified businesses. Please make the most of this new system.
- The Guidelines for AML/CFT Measures request financial institutions to ask their customers for reliable evidence when confirming their beneficial owners. Companies are expected to develop a system to make it possible to confirm their beneficial owners appropriately, including the utilization of this system.

**6. Strengthening of Cybersecurity Measures**

<< Financial Industry-wide Cybersecurity Exercise (Delta Wall VI) >>

- The FSA publicized the outcome of the Financial Industry-wide Cybersecurity Exercise (Delta Wall VI), which was conducted in October 2021, to participating financial institutions.
- As further organized and sophisticated cyberattacks with suspected involvements of

national governments are increasing, and increasingly complex and skilled ransomware attacks are being activated, it is becoming more and more important not only to prevent such attacks but also to strengthen cyber resilience to achieve early restoration of business operations and reduce influences on customers in the event of an incident.

- Financial institutions that participated in the exercise are expected to utilize the outcome of the exercise and further enhance their ability to deal with incidents, such as by reviewing procedures for business restoration and systems for responding to customers as necessary.
- The FSA will feed back problems common in the industry and best practices found through the exercise. Please also utilize such information for enhancing your ability to deal with incidents.

#### 7. Recent developments in discussions on the Non-Bank Financial Intermediation (NBFI)

- The Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) have continued to prioritize the work on Non-Bank Financial Intermediation (NBFI).

Regarding Money Market Funds (MMFs), the final report was published in October 2021, and each jurisdiction is now expected to consider measures depending on their respective circumstances. The FSA has commenced discussions with you and your members. We will work on this issue in close communication with stakeholders and would like to ask for your continued 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, the behavior of market participants and its drivers under the impact of the 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 consultation period for the report has closed on January 26, 2021. The final report will be produced based on the submitted feedback.

## 8. Activities of the ROC

As the exchange of goods and services and financial transactions are becoming more globalized and digitalized, it is increasingly important that we have the means to easily and clearly identify the legal entities participating in these transactions. Based on the agreement made by G20, many jurisdictions have been introducing the Legal Entity Identifier (LEI), which is an internationally accepted identifier that can be used to identify the legal entity conducting derivative transactions. Recent dissemination of LEI is considered by some jurisdictions as a possibility for an effective way to ensure smooth international remittances and anti-money laundering measures.

- The Regulatory Oversight Committee (ROC) inaugurated in 2013 is responsible for the international governance of LEI. Starting January of this year, Mr. Yamashita, Deputy Commissioner for International Affairs of the FSA, assumed the position as the chairperson of the Committee on Evaluation and Standards, a standing Committee responsible for evaluating the adequacy of existing standards and protocols concerning LEI under the ROC. As we realize the significance of LEI, FSA will continue focusing on the international discussions and consider the means to appropriately and effectively utilize LEI in our own jurisdiction.

## 9. IOSCO's Consultation Report, "Operational Resilience of Trading Venues and Market Intermediaries during the COVID-19 Pandemic"

- The IOSCO published a consultation report, "Operational Resilience of Trading Venues and Market Intermediaries during the COVID-19 Pandemic," in January.
- The report defines the term "operational resilience" as the ability of trading venues and intermediaries to deliver critical operations through a disruption, and summarizes

information concerning operational difficulties and risks experienced by trading venues and market intermediaries during the COVID-19 pandemic.

- The report concludes that operations of trading venues and market intermediaries have to date largely proved to be operationally resilient, and identifies lessons considered to be effective for further improving their resilience. They include: operational resilience to mean not only technological solutions but also dependent on operational processes and personnel; reviews of business continuity plans; and the governance framework that supports timely and appropriate decisions under pressure.
  
- The IOSCO continues the consultation until March 14 to seek further information and opinions. We would appreciate it if you could provide IOSCO with any experience you would like to share in this regard.