

The background of the page is white, featuring large, stylized, wavy blue lines that create a sense of movement and flow. These lines are composed of multiple overlapping bands of different shades of blue, ranging from a deep navy to a lighter sky blue. The lines curve and intersect, forming a dynamic, abstract pattern that frames the central text.

FSA Strategic Priorities

July 2024 - June 2025

The term “financial institution” used in the FSA Strategic Priorities: July 2024 - June 2025 refers to a business operator that has received a license, approval, registration, etc. from the Financial Services Agency of Japan (<https://www.fsa.go.jp/en/regulated/licensed/index.html>).



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Introduction

The Japanese economy is on a gradual recovery trend showing signs of a complete exit from deflation and a transition to strong and sustained economic growth. There are positive indications that the investment and employment environment has improved, as evidenced by increased corporate earnings and capital investment and accelerated wage growth. In order to ensure that these positive trends continue and lead to strong and sustained economic growth, it is essential to enhance economic productivity and corporate value from a long-term perspective.

To foster the above positive developments, the Financial Services Agency (FSA) of Japan works on advancing corporate governance reforms, encouraging digital transformation of financial services, and promoting sustainable finance to resolve social issues and create new markets and contribute to economic growth and productivity improvement. The FSA also advances reforms to promote Japan as a Leading Asset Management Center, with the aim of achieving a virtuous economic cycle in which the benefits of increased corporate value are rewarded to the public, leading to further investment and consumption.

The foundation for sustained economic growth is a stable and reliable financial system and a provision of high-quality financial services. Japan's financial institutions are generally well capitalized and have ample liquidity, and the financial system remains stable. However, as the transition to a “world with interest rates” progresses, they are also facing heightened uncertainties in the economy and financial markets as well as social and economic structural changes occurring domestically and internationally.

The current global financial markets encounter a range of risks, including economic slowdowns, the resurgence of inflation, financial and real estate market turbulence, and geopolitical risks. In Japan, the financial environment is experiencing a change as evidenced by a gradual rise in long-term interest rates and increased volatility in the stock market. The interconnected and ever-changing nature of these global and domestic markets and economies warrants elevated attention.

Furthermore, amid changes in individual lifestyles and business practices, the unbundling and re-bundling of financial functions are progressing. This trend has accelerated the entry of



new financial services providers into the financial industry and the expansion of financial institutions across business categories and national borders. In addition, while the deepening of digital technology and its increased use have facilitated non-face-to-face and cross-border transactions and improved user convenience, it has also increased and complicated risks, as witnessed in heightened cyber risks and more sophisticated methods of money laundering and financial crimes.

Additionally, the declining and aging population, as well as a sustained decrease in the number of businesses, coupled with the prolonged low-interest rate environment, have threatened the sustainability of financial institutions' business models. Concurrently, as socioeconomic activities recover from the COVID-19 pandemic, businesses are confronted with increasingly diverse managerial challenges, including rising prices, labor shortages, and a lack of successors. This has led to a shift in expectations for the financial institutions among businesses. To contribute to the growth and development of the economy and their customers, financial institutions are expected to accurately grasp the changes concerning their customers' businesses, deeply understand the needs of their customers, and provide value-added support and services. At the same time, they are expected to establish a sustainable business model by strengthening the revenue base.

In order to build a financial system that can flexibly adapt to such changes and challenges and ensure its stability and reliability, and fulfill its high quality financial functions, the FSA utilizes a comprehensive range of regulatory and supervisory powers to monitor changes in financial institutions and financial market participants' behavior in response to economic, social and market changes and address potential vulnerabilities in the financial system, and improve its resilience, including participating in international discussions.

This program year marks the tenth anniversary of the formulation and publication of the FSA Strategic Priorities. The FSA is committed to pursuing its stated mission to increase the people's welfare through sustainable growth of businesses and the economy as well as stable asset building by striking a balance between each of the following: (i) stabilizing the financial system and having financial institutions fully perform their financial intermediary function, (ii) ensuring user protections and enhancing user convenience, (iii) securing fairness and transparency over, and invigorating, the market.



To fulfil this mission, the FSA swiftly implements reforms in response to economic and social structural changes and increased domestic and international uncertainty, continuously reviews its policy measures and tools, in addition to steadily implementing and continuing the initiatives already underway. Through these reforms, the FSA aims to enhance the growth potential of the Japanese economy and contribute toward building a sustainable future in which every individual has a sense of well-being.

With the above in mind, the FSA will prioritize the following as the three pillars for the 2024 program year.

- (1) Contribute to sustainable economic growth through financial mechanisms:
To this end, the FSA will work to enhance the functioning of the entire investment chain and respond to changes brought about by climate change and digital technology.
- (2) Ensure the stability and reliability of the financial system and the provision of high-quality financial services:
Through in-depth inspection and supervision, the FSA will ensure appropriate business operations and soundness of financial institutions and promote the provision of high-quality financial services that support people and businesses.
- (3) Enhance the FSA's administrative capacities:
The FSA will continuously enhance data utilization, strengthen international and domestic policy communications, and build up the skills and capacities of its staff, including junior officials.



I. Contribute to Sustainable Economic Growth through Financial Mechanisms

To ensure sustainable growth of the Japanese economy, it is important to take advantage of financial and capital market mechanisms to support increases in productivity and corporate value. With this in mind, the FSA will work on addressing corporate governance reforms, digital transformation of financial services, promotion of sustainable finance, etc. And, to realize a virtuous cycle wherein the benefits of resultant increases in corporate value are returned to the people, leading to further investment and consumption, the FSA will also steadily implement the measures, outlined in the “Policy Plan for Promoting Japan as a Leading Asset Management Center.”¹

1. Steady progress toward Promoting Japan as a Leading Asset Management Center²

In order to promote Japan as a Leading Asset Management Center, we need to take further measures for all actors that make up Japan’s investment chain.³ In particular, it is desirable for asset management companies and other financial institutions to utilize their expertise to provide high quality services, even by international standards, that are appropriate for managing household financial assets, which now total some 2,200 trillion yen.

With this in mind, the FSA aims to implement the following initiatives in a package, targeting the entities that make up the investment chain, including content that was subsequently elaborated on, in accordance with the “Policy Plan for Promoting Japan as a Leading Asset Management Center” (released in December 2023), the “Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version” (released in June 2024),⁴ and the “Basic

¹ Policy Plan for Promoting Japan as a Leading Asset Management Center (December 13, 2023)
https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/bunkakai/sisanunyou_torimatome/planen.pdf

² FSA’s special website on Japan as a Leading Asset Management Center
<https://www.fsa.go.jp/en/policy/pjlamc/20231214.html>

³ Refers to a flow in which investments are made by clients/beneficiaries to investee companies, and dividends, etc. resulting from increases in the value of the investments are returned to households.

⁴ Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version (June 21, 2024)
https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/ap2024en.pdf



Policy on Economic and Fiscal Management and Reform 2024” (released in June 2024).⁵ In addition, the FSA will appropriately assess the progress of these packaged policies, the status of the investment chain, and the financial, economic, and other environments surrounding them, and will consider additional measures, whenever necessary.

(1) Support for stable asset-building by households

(i) Promoting appropriate use of the new NISA

The new NISA program was launched in January 2024, and as of the end of March, the total number of NISA accounts reached 23.23 million (up 1.98 million over the January to March period) and the total amount of NISA purchase reached 41 trillion yen (up 6 trillion yen over the same period), indicating that NISA is gradually being accepted by people as a means of stable asset building. The FSA will continue to support stable asset building among a wider range of individuals. Namely, we aim to encourage asset building according to individual life plans and life stages and appropriate use of NISA as part of such asset building, in view of the importance of long-term, accumulated, and diversified investments, while collaborating with the financial industry and the Japan Financial Literacy and Education Corporation (J-FLEC).⁶ In addition, the FSA will work to further simplify and streamline the procedures for using NISA.

(ii) Enhancing financial and economic education

In order to improve financial literacy among households and promote appropriate selection of financial products, etc., we will support J-FLEC’s efforts and provide opportunities for the public to widely receive financial and economic education. This support includes promotion and support for certified advisors who have a certain degree of neutrality from the customer’s perspective, and promotion and expansion of financial and economic education at schools and companies.

In the development of financial and economic education, we will provide education to help prevent investment fraud, and also promote and raise awareness about the importance of having a correct understanding of various risks including market fluctuations, and building

⁵ Basic Policy on Economic and Fiscal Management and Reform 2024 (June 21, 2024)
https://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/honebuto/2024/2024_basicpolicies_en.pdf

⁶ Japan Financial Literacy and Education Corporation <https://www.j-flec.go.jp/>
Established in April 2024, with full-fledged operation beginning the following August



assets over the long term, while taking into account one's own asset situation and life plans, etc.

(2) Ensuring customer-oriented business conduct at financial product distributors, etc.

In order to develop an environment in which households can purchase financial products with peace of mind, the “Act Partially Amending the Financial Instruments and Exchange Act, etc.” (enacted in November 2023) requires financial business operators to be sincere and fair in the performance of their services taking into consideration the best interests of customers, when originating, selling, and managing financial products, etc. The FSA will monitor whether financial business operators have established the systems necessary to fulfil this requirement. In particular, for NISA users with limited investment experience, we will encourage more attentive responses, including verifying their needs and risk tolerance, explaining product characteristics and precautions, and conducting follow-up after sales.

(3) Corporate governance reforms and improvement in financial and capital market functions

(i) Corporate governance reforms

In order for companies to achieve sustainable growth and increase corporate value over the medium- to long-term, it is important to encourage corporate governance reforms “into practice” based on self-motivated changes in the mind sets, in accordance with the “Action Program for Corporate Governance Reform 2024: Principles into Practice” (released in June 2024).⁷

With this in mind, we will examine the appropriateness of the disclosure of so-called cross-shareholdings (strategic shareholdings), for example through Securities Report Reviews, and consider adding matters subject to disclosure regarding strategic shareholdings.⁸ Furthermore, we will follow up on the Tokyo Stock Exchange (TSE)’s initiatives to help realize

⁷ Action Program for Corporate Governance Reform 2024: Principles into Practice (June 7, 2024)
<https://www.fsa.go.jp/en/news/2024/20240607-2.html>

⁸ Matters subject to disclosure, etc. required when the purpose of holding stocks is changed from strategic to pure investment.



management with cost of capital and stock prices in mind⁹ and work to share good examples of businesses' efforts to enhance the effectiveness of their boards of directors and investors' engagement with companies. In addition, in order to promote dialogue between businesses and investors, we will review the Japan's Stewardship Code with the aim of promoting collective/collaborative engagement and increase transparency of beneficial shareholders and examine compliance with the Code by institutional investors and proxy advisers.

In addition, to ensure that more companies disclose their annual securities reports before annual general meetings (AGMs), we will conduct surveys workloads from procedures and operations associated with disclosure and establish a council with relevant government ministries and agencies, as well as relevant organizations. This council will study what should be done to promote more companies to disclose their reports before AGMs.

(ii) Improving financial and capital market functions

In order to help improve the functions of financial and capital markets, we will follow up on initiatives by the TSE, etc., including support, etc. for the provision of information to investors by companies listed on the TSE Growth Market; studies on delisting criteria with the purpose of strengthening the market's medium- to long-term functions; implementing measures to enable smaller investments; and studies on the further improvement of TOPIX's functionality.¹⁰

In addition, we will work with market participants to study practical aspects of shifting the equity settlement period to T+1, while closely monitoring developments in overseas markets.

(4) Enhancing the reliability of capital markets

It is essential to maintain fair and transparent markets and ensure the credibility of capital markets as the foundation for a virtuous cycle throughout the investment chain. To achieve this, it is necessary to enhance market governance¹¹ by strengthening monitoring by the authorities of market participants, etc. and improving audit quality.

⁹ Action to Implement Management that is Conscious of Cost of Capital and Stock Price (March 31 2023)
<https://www.jpx.co.jp/english/news/1020/dreu250000004n19-att/dreu250000004n8s.pdf>

¹⁰Revisions of TOPIX and Other Indices (June 19, 2024)
<https://www.jpx.co.jp/english/markets/indices/governance/index-consultation/20240619-01.html>

¹¹The term "market governance" is used in various contexts, but here, market governance is broadly defined to include the function of audit firms, etc. that ensures an environment in which market discipline functions autonomously, in addition to market discipline by market participants.



(i) Strengthening market oversight

The Securities and Exchange Surveillance Commission (SESC) will perform proper and appropriate market oversight based on the "Strategy & Policy of the SESC 2023-2025" (released in January 2023)¹² in order to ensure integrity and transparency of the market while protecting investors.

Regarding market misconduct and violations of disclosure regulations, the SESC will reveal the actual state of such behavior by conducting investigations and inspections promptly in view of making recommendations for an administrative monetary penalty payment order. Against serious and malicious violations, the SESC will take rigorous enforcement actions by exercising its powers with regard to criminal investigations. As for financial instruments business operators, etc., in consideration of their expected roles at each stage of the composition, sale, management, etc. of financial instruments, the SESC will examine the development of internal control environments and sales operations from an industry-wide perspective, including the principle of suitability, and from the perspective appropriate to the characteristics of each business type. In order to eliminate unregistered business operators and those conducting a public securities offering without submitting any disclosure statements, the SESC will step up actions, including filing petitions with the courts to issue a prohibition and stay order¹³ so as to prevent damage from expanding to investors.

The SESC will also endeavor to achieve more advanced and efficient market oversight with digital technologies to enhance its capabilities as a professional market oversight agency.

(ii) Improving audit quality

Certified public accountants and audit firms play an important role in ensuring the reliability of disclosure documents that help investors to make investment decisions. They are required to meet increasingly diversified needs, including assessing medium- to long-term corporate value, by taking nonfinancial information into consideration. They are also required to tackle the improvement of audit quality. With regard to audits of listed companies, we will work with the Japanese Institute of Certified Public Accountants (JICPA) to improve overall audit quality,

¹² Strategy & Policy 2023-2025 - For Trusted, Fair and Transparent Markets in Response to the Changing Times - (January 1, 2023) https://www.fsa.go.jp/sesc/news/c_2023/2023/20230127-1.html

¹³ The "Comprehensive Measures to Protect People from Fraud" formulated in June 2024 calls for actively promoting efforts to eliminate unregistered business operators. See "II. 1. (6) (i) Responding to financial crimes" for responses to financial crimes.



and ensure the effectiveness of the registration system for the auditors of listed companies introduced under the amended Certified Public Accountants Act (enforced in April 2023).¹⁴

In accordance with the Basic Policy for Monitoring Audit Firms (released in May 2022),¹⁵ the Certified Public Accountants and Auditing Oversight Board (CPAFOB) will continue to conduct monitoring that places more emphasis on small- and medium-sized audit firms,¹⁶ especially in light of the fact that the role they play has increased as auditors of listed companies, while encouraging audit firms, etc. to improve audit quality. Internationally, Japan, as the host country of the International Forum of Independent Audit Regulators (IFIAR)¹⁷ and as the country with the IFIAR Chair, will lead discussions on how to respond on a global basis to important issues common across countries, including the increased role of small- to medium-sized audit firms, as well as emerging issues, including sustainability assurance and the use of artificial intelligence (AI) and other digital technologies, in order to take initiatives to improve audit quality internationally.

(5) Reform of asset management sector

The following efforts will be made to enhance the asset management business, which is responsible for managing household financial assets through pensions, insurance, investment trusts, etc. Through these efforts and others, we aim to support asset management companies so that they can provide high quality services in Japan and overseas.

(i) Strengthening the competitiveness of asset management companies and improve governance and systems

Major groups of financial institutions were requested to develop and publish a plan to clarify the positioning of their asset management business in their management strategy, to improve their operational capabilities, and to improve and strengthen their governance and systems.

¹⁴ As registration of audit firms for listed companies that have been providing audit services will expire at the end of September 2024, JICPA has been working to screen the registration of auditors, review audit quality control, and support small- and medium-sized audit firms in developing their systems.

¹⁵ In July 2023, the Basic Plan for Monitoring Audit Firms in Program Year 2023 (from July 2023 to June 2024) clearly called for changing the frequency of inspections of mid-tier audit firms from “once every three years, as a general rule” to “once every two years, as a general rule.” Accordingly, the policy regarding the relevant inspection frequency in the Basic Policy for Monitoring Audit Firms has been revised.

<https://www.fsa.go.jp/cpaob/shinsakensa/kihonkeikaku/20220520/20220520.html> (Available in Japanese)

¹⁶ For an overview of the audit industry and the status of monitoring, see the “2024 Monitoring Report” (July 19, 2024).
<https://www.fsa.go.jp/cpaob/shinsakensa/kouhyou/20240719/20240719-1.html> (Available in Japanese)

¹⁷ International Forum of Independent Audit Regulators (IFIAR) <https://www.ifiar.org/>



The FSA will follow up on the efforts¹⁸ of each company and ask them to continue to deepen their efforts. In addition, we will support sound development of the industry so that the asset management business will become the fourth pillar of Japan's financial industry alongside banking, insurance, and securities, by setting a department in charge of asset management in the FSA, and consolidating related industry associations.

Furthermore, in order to develop appropriate financial product governance¹⁹ at asset management companies, etc., the FSA will revise the "Principles for Customer-Oriented Business Conduct" by fall 2024 and follow up on the status of efforts by asset management companies, etc.

(ii) Correcting business practices unique to Japan and entry barriers

The FSA will review Japan's unique business practice of daily double-check calculation of NAVs of investment trusts between asset management companies and trust banks, and promote the practice of single-check calculation.²⁰

Furthermore, the FSA will prompt system vendors to work with related parties to establish compatibility regarding the Network Systems for Fund Sales, through which asset management companies exchange information on investment trusts with distributors, by the end of fiscal 2025.

In addition, aiming to support the provision of more diverse investment trust products that meet customer needs, we will consider clarification, etc. of the types of amendments to the basic terms and conditions of investment trusts deemed not to hinder investor protection, from the perspective of avoiding excessive procedures that may burden investors.

(iii) Promotion of Special Zones for Financial and Asset Management Businesses

Aiming to encourage the entry and expansion of domestic and foreign financial and asset management companies and to realize an environment in which sufficient funds are provided

¹⁸ Initiatives by the financial industry to enhance their asset management businesses (January 24, 2024, updated when necessary)
<https://www.fsa.go.jp/en/policy/pjlamc/initiativesbythefinancialindustry/20240124.html>

¹⁹ Governance to ensure that financial products are provided in the best interests of customers.

²⁰ In order to promote the practice of single-check calculation, in June 2024 industry guidelines were established to standardize the accounting process of the NAV. In addition, the FSA's revised supervisory guidelines stipulate points to consider when establishing a materiality policy for each company with respect to NAV calculation errors.



to startups, green transformation (GX) and other growth areas, the FSA released “Policy Package to Achieve Special Zones for Financial and Asset Management Businesses” in June 2024.²¹ The policy package contains regulatory reforms and other initiatives, including those utilizing the National Strategic Special Zone program, by the central government and the local governments in the special zones (Hokkaido and Sapporo, Tokyo, Osaka Prefecture and the City of Osaka, and Fukuoka and the City of Fukuoka) to improve finance, business, and living environments. The FSA is committed to implementing the initiatives in the package and supporting initiatives of the local governments in the special zones such as advancing GX through cooperation of local governments and regional financial institutions, etc.

(iv) Implementation of the Emerging Managers Program (Japanese version of EMP)²²

In order to facilitate the supply of funds to emerging asset management companies in cooperation with the public and private sectors, the FSA will implement the Emerging Managers Program, including publishing and updating examples of EMP initiatives by financial institutions, etc.,²³ providing a list of emerging asset managers (entry list),²⁴ promoting the development of an environment for cost reduction in the internal administrative divisions of investment management businesses,²⁵ and improving efficiency of and expanding Financial Start-Up Support Program and Financial Market Entry Office to encourage foreign asset management companies to enter the Japanese market.

(6) Reform of asset ownership

In a call for asset owners²⁶ to fulfil responsibilities such as achieving their investment

²¹ Policy Package to Achieve Special Zones for Financial and Asset Management Businesses (June 4, 2024) <https://www.fsa.go.jp/en/news/2024/20240604.html>

²² Implementation of the Emerging Managers Program (Japanese version of EMP) (June 21, 2024) <https://www.fsa.go.jp/en/news/2024/20240621.html>

²³ Financial institutions will be requested to actively utilize emerging asset management companies and not to exclude them simply because they have a short business history. In June 2024 financial institutions published examples of their initiatives under their EMPs. <https://www.fsa.go.jp/en/news/2024/20240607-1.html>

²⁴ Publication of EMP Entry Lists (Implementation of the Emerging Managers Program (Japanese version of EMP)) (June 2024) <https://www.fsa.go.jp/policy/pjlamc/emp/entrylist.html> (Available in Japanese)

²⁵ In order to call for introducing a voluntary registration system for middle and back-office operations, such as compliance and calculation entrusted from investment management business operators and allowing full delegation of investment management authority, the amended Financial Instruments and Exchange Act was enacted in May 2024 (to be enforced within one year).

²⁶ Asset owners are a broad range of organizations, including but not limited to public pension schemes, mutual aid associations, corporate pension schemes, insurance companies, the funds of the JST, educational corporations who manage financial assets and others. The size of asset owners and the type of funds managed vary.



purposes and targets and bringing appropriate asset management performance to beneficiaries, a set of common principles for asset owners (Asset Owner Principles)²⁷ was published by the Cabinet Secretariat in August 2024. Going forward, the Cabinet Secretariat will make and publish a unified list that shows the asset owners who accept the Principles. The FSA will disseminate the Principles to the asset owners under our jurisdiction (insurance companies). In addition, we will monitor the asset management business of financial institutions that supports asset owners (including business for corporate pension plans at defined contribution pension plan administrators, etc.) in order to enhance its sophistication.

(7) Providing growth capital to startups, etc. and diversification of asset class

In order to promote the provision of funds to startups, etc. and various investment products according to the risk-bearing capacity of investors, we will implement measures in the Policy Plan for Promoting Japan as a Leading Asset Management Center, including formulation of the “Venture Capitals: Recommendations and Hopes (VCRHs),”²⁸ deregulation related to investment-type crowdfunding, and promotion of the distribution of unlisted stocks. In addition, the FSA will consider reviewing regulations on the solicitation investors,²⁹ such as further clarification of the requirements for professional investors³⁰ and a review of the regulations on solicitation under the professional investor private placement system,³¹ while taking into consideration needs and investor protection. Furthermore, with an aim to expand venture debt, we will encourage financial institutions to introduce new screening viewpoints and to develop specialists, based on examples of overseas initiatives.

In addition, from the perspective of promoting M&A of start-ups, further consideration will be given to expanding the voluntary application of International Financial Reporting Standards (IFRS), which includes the non-amortization of goodwill. Furthermore, considering the fact that many start-ups are using Japanese accounting standards, we will examine the state of

²⁷ Asset Owner Principles (August 28, 2024)

https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/assetownerprinciplesen.pdf

²⁸ Publication of “Venture Capitals: Recommendations and Hopes (draft)” and request for opinions (July 4, 2024)

²⁹ In addition to the above, simplify information subject to disclosure for small-amount offerings and clarify disclosure regulations regarding subsequent-delivery type stock-based compensation.

³⁰ A class of investors established under the Financial Instruments and Exchange Act to appropriately protect investors and facilitate the supply of risk capital. Since they are deemed to have high levels of investment judgment ability and risk tolerance, they are exempted from some conduct regulations by financial instruments business operators, such as the principle of suitability, and can invest in securities limited to professional investors. General investors who meet specified requirements can apply to become professional investors.

³¹ Consider allowing internet browsing by persons including those other than professional investors at the time of solicitation of private placements for professional investors.



financial reporting including the non-amortization of goodwill. In this regard, we will work with the TSE, etc., to promote the adoption of using indicators considered important for business management as performance reporting of financial results statements in practical operations.

In addition, in order to provide investors with opportunities and information that will enable them to actually experience the fundamental value and effects of sustainability investment, we will have discussions on the nature of investment opportunities based on investor characteristics.

(8) Strengthening communication with stakeholders

It is important to advance the initiative for promoting Japan as a leading asset management center in line with the needs of relevant businesses and investors in Japan and abroad, and disseminate information on the attractiveness of Japan's financial and capital markets. In order to further strengthen communication with these stakeholders, the FSA will hold the Japan Weeks, as in 2023, from late September 2024 to early October 2024. During the Japan Weeks, the Asset Management Forum will be launched as a communication platform among asset management companies and other stakeholders from Japan and abroad.

2. Promoting sustainable finance

As the importance of social and environmental issues such as climate change grows, we will work on the following measures to further promote sustainable finance to encourage a transition to new industrial and social structures and to realize a sustainable society, contributing to international discussions.

(1) Improving and ensuring the reliable sustainability disclosure by companies

With regard to the disclosure of sustainability-related information in annual securities reports, the Financial System Council now studies the application of domestic standards that are functionally equivalent to the International Sustainability Standards Board (ISSB)'s sustainability-related disclosure standards to all or part of the companies listed on the TSE Prime Market, as well as the optimum ways of achieving assurance of sustainability-related



information, and will compile a list of conclusions. In addition, we will compile and publish reports on good practices regarding sustainability-related disclosure by listed companies. In international discussions, we will emphasize the importance of an internationally interoperable disclosure framework. We also work to improve the quality of ISSB standards, maintain the comparability of the standards and promote their dissemination³² of the standards by actively engaging in improving the governance of standard-setters.

With regard to sustainability-related information disclosure, we will work with relevant parties in Japan to participate in international discussions and express opinions with the aim of contributing to the development of the standards that meet the needs of investors in the area of human capital, where a new research project will be launched by the ISSB.

(2) Developing transparent data infrastructure

As frameworks for sustainability-related disclosure are being developed in Japan and overseas, there is growing interest in data infrastructure that aggregates and provides various corporate data related to sustainability in ways that make it easy for market participants to use such data. The public and private sectors will work together to study optimum ways of developing such data, taking into consideration international discussions and initiatives.

As ESG³³ Evaluation and Data Providers are key to improving the quality and transparency of data, etc., we will grasp the situation with regard to the establishment of controlling framework by ESG Evaluation and Data Providers that have endorsed the “Code of Conduct for ESG Evaluation and Data Providers” (released in December 2022) and will also consider whether or not to take further actions.

(3) Promoting financial institutions' support for companies in decarbonization efforts, etc.

To help achieve carbon neutrality by 2050, financial institutions are expected to fulfil the role of providing effective financing and support to client companies for an economy-wide transition to decarbonization.

³² Since March 2023, the FSA has served as Chair of the IFRS Foundation Monitoring Board, which monitors governance of the IFRS Foundation, the ISSB-governing body.

³³ Environment, social, and governance



To support decarbonization efforts by SMEs that lack resources and know-how, we will work with relevant government ministries and agencies to help promote subsidized projects, among other initiatives. Also, in order to enhance the transparency and soundness of carbon credit trading and promote investor protection, we will continue discussions on trading infrastructure and market practices for carbon credits.

In addition, in order to promote further international development and adoption of transition finance, which is a financing method aimed at supporting corporate decarbonization efforts, we will lead discussions at international forums by working on initiatives with regard to the Asia Zero Emission Community (AZEC) ³⁴ in collaboration with relevant ministries and agencies, and share transition finance case studies and aggregate and disseminate practical issues at the Asia GX Consortium, ³⁵ whose members include financial institutions active in Asia, the Asia Development Bank, the Glasgow Financial Alliance for Net Zero (GFANZ), ³⁶ and ASEAN financial authorities.

(4) Facilitating the implementation and expansion of impact investment

In order to support companies that are working on technological development and business innovation that contribute to solving diverse social and environmental issues, it is desirable that impact investment, which intends to realize social or environmental impact at the same time to secure financial return, is promoted further and expanded more widely. In order to establish financing methods and markets to create such impact and promote businesses to realize it, the “Impact Consortium,” ³⁷ where a wide range of public and private stakeholders could join in, will discuss indicators and data that can be used for impact investment, corporate strategies where impact evaluation lead to the enhancement of corporate value, promotion of regional public-private partnerships, and perspectives on business evaluation that consider impact, while ensuring the diversity and autonomy of market participants.

³⁴ A platform that pursues decarbonization tailored to each country’s circumstances in Asia, utilizing Japan’s technologies, institutions and know-how related to decarbonization, and in cooperation with Asian countries.

³⁵ A framework for discussion on transition finance based on cases in Asia for forming specific methodologies and real cases of transition finance. The kick-off meeting was held in March 2024. Outcomes of discussions in this consortium will be released in the fall of 2024 or later.

³⁶ An alliance of financial institutions, established for the purpose of supporting the transition to net zero. It uses industry-specific initiatives, including banking, insurance, asset owners, and asset managers.

³⁷ Launched in November 2023 as a forum for dialogue and communication among industry, government, academia, and financial institutions, participated in by a wide range of members, including investors, financial institutions, businesses, non-profits, and local governments (secretariat: Financial Services Agency, Ministry of Economy, Trade and Industry). Its subcommittees on “data/indicators,” “market research/formation,” “community/practice,” and “promotion of public-private partnerships” discuss matters for which joint discussion involving both public and private entities are especially fruitful.



3. Responding to the transformation of financial services using digital technology

Financial services and transactions using AI, blockchain, and other digital technologies are spreading rapidly and are having a significant impact on the entire social and economic activity spectrum. Under such circumstances, we will work on the following measures to increase convenience for individuals and businesses and improve the productivity of society as a whole by promoting the provision of characteristic financial services by financial institutions, while ensuring user protection and the safety of the financial system.

(1) Responding to new developments involving generative AI, Fintech, etc.

In the financial sector, generative AI and other AI technologies are expected to improve productivity through improved operational efficiency, creation of new financial services, etc., but potential risks have been pointed out from the perspective of protecting users and ensuring stability and reliability of the financial system. In view of this, we will prepare a discussion paper with the aim of encouraging active use of AI by financial institutions in sound, effective ways. The FSA itself will also consider the sound use of AI, including the utilization of AI to analyze risks and monitor financial institutions. Furthermore, we contribute to international discussions on addressing risks, while fully taking into consideration the advantages of using AI and other digital technologies.

In view of the expansion of users and usage patterns for remittances, payment, credit services, etc., as well as the emergence of new financial services, we will study what the appropriate regulatory framework should be, including institutional aspects, while taking user protection, etc. into consideration. In addition, we will support entry by new domestic and foreign FinTech firms and advanced initiatives by FinTech companies, etc. through the FinTech Support Desk and the FinTech PoC Hub, and will work on active dissemination of information to support the digital transformation (DX) of financial institutions through collaboration with FinTech companies, among other methods.

Furthermore, in order to showcase Japan's fintech to the world and create business opportunities for FinTech companies to further develop, we will expand Japan Fintech Week, which attracted a total of 13,000 participants from Japan and abroad when it was first held in 2024, and hold Japan Fintech Week 2025 and FIN/SUM 2025, with the period from March 3



to March 7, 2025 set as the core week.

(2) Sound development of crypto-asset trading, etc. and Web3.0

With the number of accounts at crypto-asset exchange service providers exceeding 10 million, it has been pointed out that in order to ensure sound development of the crypto asset trading market, it is essential that crypto assets be widely understood and trusted by the public as contributing to the convenience of life and Japan's economic growth, in addition to ensuring that crypto-asset exchange service providers appropriately execute their services and ensure user protection. Based on these viewpoints, we will review the state of regulatory systems related to crypto assets, taking into consideration factors such as developments in crypto-asset trading in Japan and abroad.

Also, in light of the May 2024 incident of the unauthorized outflow of user assets at a crypto-asset exchange service provider, we will encourage these providers to upgrade security in their crypto asset management, including working with self-regulatory organizations, from the perspective of user protection. Furthermore, leveraging our experience in developing the world's first regulatory system on crypto assets, we contribute to implementing international standards on crypto assets and to formulating policy measures related to crypto assets, including discussions at the Financial Action Task Force (FATF) on strengthening measures against money laundering, and work to further strengthen cooperation with overseas authorities.³⁸

In addition, aiming to achieve smooth issuance and distribution of stablecoins, we will work on initiatives to conduct swift registration screening on stablecoin intermediaries. Furthermore, we will work to promote efficient and appropriate handling of applications and consultations regarding efforts for the emerging Web 3.0 business, while ensuring user protection.

(3) Promoting enhancement of payment and transaction infrastructure

In light of increasingly diverse payment services and a significant increase in the transaction volume of new payment services, we will monitor payment service providers from the

³⁸ FSA officials co-chairs the FATF's Policy Development Group which sets international standards for AML/CFT/CPF as well as the Virtual Assets Contact Group which reports to the Policy Development Group, under the FATF.



viewpoint of user protection, making sure services are operated in a stable manner, work to identify new developments in these payment services, and encourage the providers to provide highly convenient services for various users, including consumers and businesses.

With regard to payment systems, we will support efforts to respond to the Zengin System failure that occurred in October 2023, as well as initiatives towards the next system upgrade (e.g., use of open technologies to system's infrastructure) and the introduction of an API³⁹ gateway. Also, we will follow up on the participation status of funds transfer service providers in the Zengin System and peer-to-peer payment infrastructure. Furthermore, we will examine ways to further advance payment systems, while taking into account overseas payment system initiatives and international discussions on enhancing cross-border payments.

We will promote, as a public-private initiative, efforts for data-linkage in the invoices and payments field, such as the development and dissemination of accounting software, etc. corresponding to DI-ZEDI⁴⁰ and financial GIF (Government Interoperability Framework), from the perspective of promoting DX and improving the productivity of financial institutions' partner companies. In particular, the FSA will support the dissemination of DI-ZEDI, as it is expected to significantly contribute to SMEs' DX. Furthermore, toward the full digitalization of the bills and check functions, the FSA will support steady progress in the implementation of a voluntary action plan⁴¹ announced by the financial industry.

Globally, efforts are accelerating to develop a common platform for automatically trading various tokenized assets, in addition to payments. Japanese financial institutions need to accelerate their efforts for securing and training human resources, acquiring and accumulating technology, and organizing discussion points in business and legal issues to keep up with these global trends. We will encourage and support their initiatives in this regard.

³⁹ Application Programming Interface

⁴⁰ Financial EDI (electronic data interchange) information standards corresponding to the domestic standard specifications for digital invoices that were formulated by the Japanese Banks' Payment Clearing Network (Zengin-Net)

⁴¹ The voluntary action plan was formulated by the Panel on "Full Digitalization" of the Functions of Bills and Checks (secretariat: Japanese Bankers Association) in July 2021 (revised in July 2024). In this plan, the final goal is to completely eliminate the exchange of bills and checks at electronic clearing houses by the end of FY2026.



II. Ensure the Stability and Reliability of the Financial System and the Provision of High-quality Financial Services

In order to respond to uncertainties surrounding domestic and international economic and financial markets and structural changes in the economy and society, as well as to support Japan's sustainable growth, it is important to maintain stability and confidence in the financial system and high-quality financial functions over the medium- to long-term, not just over the short term. Based on this perspective, we will conduct in-depth monitoring to maintain financial soundness and operational appropriateness of individual financial institutions, and will take measures to address emerging cross-industry risks such as those related to cybersecurity, money laundering and financial crimes. In addition, we will promote dialogue toward providing high quality financial functions by financial institutions that accurately meet the needs of customers and establishing sustainability for their business models.

1. Responding to cross-sectoral issues

(1) Strengthening business bases and ensuring soundness

In order for financial institutions to continuously provide high-quality financial functions, it is important to maintain the soundness of their finances and appropriateness of their services. To achieve this end, the FSA will review the business strategies, business infrastructure and financial bases of the financial institutions, as well as their preparedness for managing credit, market, liquidity risks, including the response process under financial and economic stress, governance, and internal audits, and the FSA will encourage financial institutions to implement necessary improvements.

In doing so, in light of the global interconnections of markets and economies, the FSA will keep a close watch over the trends in financial and economic situations, including domestic and foreign monetary policy, interest rate developments and real estate market conditions, and analyze the impact of these trends on the stability of the financial system.

As regulations on financial groups are gradually eased, major financial institutions and



corporate groups that provide online financial services are increasingly expanding cross-sectoral and cross-border business. In response to the trend, the importance of group governance, including the management of individual and corporate customer information, and global governance has increased. In order to appropriately adapt to such issues and changes in the environment surrounding financial groups, etc., enable their sound business expansion, and continue to ensure stability and confidence in the financial system, the FSA will strengthen its supervisory framework for group management through further cooperation among related divisions.

When holding dialogue with financial institutions, the FSA will strive to ensure the mental security of financial institutions' officers and employees. In addition, in response to inquiries from financial institutions and persons planning new entry into financial business about interpretations of laws and regulations, the FSA will strive to give clear replies at the earliest timing.

In Japan, the phased implementation of the finalized Basel III framework started from March 2023. The FSA has engaged with stakeholders and steadily makes progress toward March 2025 when the framework is to be applied to all relevant financial institutions.

Following last year's banking turmoil in the United States and Europe, the FSA will continue to actively contribute to discussions being held at the Financial Stability Board (FSB), etc.

(2) Promoting support for businesses according to the challenges they face

Regional businesses face diverse challenges, including declining demand resulting from a shrinking and aging population and declining birthrate, as well as aging managers and a lack of successors. Furthermore, businesses need to address increasingly diverse management issues, including rising prices and labor shortages as socioeconomic activities recover from the impact of the COVID-19 pandemic. For financial institutions, it is important to accurately identify the issues faced by these businesses and provide not only cash flow support but also high value-added support, as well as to strengthen their own revenue bases.⁴²

⁴² Issues facing regional banks in helping clients overcome challenges are studied in "Situation and Challenges for Regional Banks to Provide Better Services for Their Corporate Clients" (June 28, 2024)
<https://www.fsa.go.jp/news/r5/ginkou/20240628-1/20240628.html>



With this in mind, we will follow up on the status of financial institutions' initiatives to support businesses while taking into account the results of the intensive interviews⁴³ held in PY2023 and the revised supervisory guidelines that were introduced in April 2024 following the results, and encourage further efforts, including the development of human resources for business revitalization and strengthening cooperation with support organizations.

With the importance of M&A increasing as a means of smooth business succession as well as corporate growth and productivity improvement, we will encourage financial institutions to actively engage in M&A support and develop an organizational structure for this endeavor, as a way of strengthening consulting functions for client companies.⁴⁴ In addition, we will further promote the use of the human resources platform (REVICareer) developed by the Regional Economy Vitalization Corporation of Japan (REVIC).

(3) Establishing lending business practices that encourage the sustainable growth of business operators

In order to support sustainable growth of business operators and to strengthen financial institutions' own profit bases,⁴⁵ it is desirable for financial institutions to further consider their lending business practices in a way that have more focus on the business potential of the borrowers, such as the actual status of their business and the future cash flows generated by their business (hereinafter referred to as “cash flow-based lending”), rather than relying on collateral and guarantees or falling into excessive interest rate competition.

(i) Establishing lending practices that do not depend on personal guarantees provided by business owners

A personal guarantee provided by a business owner is an obstructive factor for a startup establishing a business, strong business expansion, smooth business succession and early

⁴³ Conducted by the FSA and the Local Finance Bureaus to encourage regional financial institutions to thoroughly provide business support by checking the status of their initiatives for business support and grasping difficulties and challenges in providing such support. See Chapter 3 of “Progress Report on the Efficiency of Financial Intermediation” (June 28, 2024) for the results of these interviews.
<https://www.fsa.go.jp/news/r5/ginkou/20240628/20240628.html>

⁴⁴ The “Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version” (June 21, 2024) states: “As part of the efforts to strengthen management support for SMEs, we will encourage regional financial institutions to become more active in M&A intermediation and support..”

⁴⁵ Venture debt is a form of financing based on business potential, including future cash flow. In order to promote venture debt, it is important for financial institutions to introduce screening viewpoints and to develop specialists.



business revitalization, etc. The FSA will promote steady implementation of measures, etc. for the “Reform Program Regarding Personal Guarantees Provided by Business Owners” (published in December 2022) with the aim of eliminating the easy dependence of financial institutions on personal guarantees provided by business owners and encouraging sustainable growth of businesses and enhancement of corporate value in the medium- to long-term.⁴⁶

In addition, the FSA will encourage financial institutions to explain to client companies how they can increase the likelihood of the release of personal guarantees provided by business owners if they learn about a change in a client company’s principal shareholders, etc.⁴⁷

(ii) Promoting cash flow-based lending practices

As one of the policy measures to encourage financial institutions to engage in cash flow-based lending, the “Act on the Promotion of Cash Flow-Based Lending,” which includes the establishment of the new collateral system, “Enterprise Value Charge,” was enacted in June 2024. Going forward, it will be important, in addition to ensuring smooth implementation of this legislation, for financial institutions to take the opportunity of enactment of this act and the use of cash flow-based lending to strengthen their own profit bases, considering the use of Enterprise Value Charge as a new option. Aiming to promote cash flow-based lending, in July 2024 the FSA launched a “Project Team for the Promotion of Cash Flow-Based Lending” (hereinafter referred to as the “PT”) with members participating from relevant divisions of the agency.

Going forward, the PT will take the lead in developing government ordinances related to the Act on the Promotion of Cash Flow-Based Lending, and in publicizing and disseminating the purpose of the system for Enterprise Value Charge. In addition, the PT will arrange discussions involving relevant industry groups about practical issues, including the actual lending case which the Enterprise Value Charges may be used, credit screening process and interterm monitoring according to the lending cases, and the approach of provisioning for the loans that utilizes Enterprise Value Charges; and work toward developing a suitable

⁴⁶ “Formulation of the ‘Reform Program regarding Personal Guarantees Provided by Business Owners’” (December 23, 2022) <https://www.fsa.go.jp/news/r4/ginkou/20221223-3/20221223-3.html> (Available in Japanese)

⁴⁷ The “Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version” (June 21, 2024) states that: “In view of the fact that both buyers and sellers in M&A do not wish to keep personal guarantees, consider a framework for reviewing management guarantees for when the main banks, etc. broker and support business restructuring and M&A.”



environment, aiming for implementation of the legislation by the spring of 2026.⁴⁸

(4) Responding to the 2024 Noto Peninsula Earthquake, etc.

In view of the occurrence in recent years of natural disasters, including earthquakes and torrential rains, the FSA will urge financial institutions to ensure their readiness to respond to disasters even in normal times and, when a disaster actually hits, to provide swift, accurate and detailed support for victims in close cooperation with the Local Finance Bureaus, etc., according to the actual situation in the affected area.

To help victims of the 2024 Noto Peninsula Earthquake in rebuilding their lives, we will inform victims who have debt, including mortgages, about the “Guidelines for Debt Consolidation for Victims of Natural Disasters” and offer operational support. Also, to support the reconstruction of businesses owned by disaster victims and help the recovery of affected areas, we will urge financial institutions in these areas to provide thorough and detailed support to the affected business operators in cooperation with related institutions, while utilizing the newly established Noto Peninsula Earthquake Reconstruction Support Fund.⁴⁹

(5) Disseminating customer-oriented financial services

(i) Customer-oriented business conduct

As indicated in I. 1. (2), the FSA will implement monitoring to ensure customer-oriented business conducts by sales companies, etc. to develop an environment in which households can purchase financial products with peace of mind. Specifically, the FSA will monitor sales companies, etc. to see if they have appropriate financial product governance, sales and management systems, and employee compensation and performance evaluation systems with the involvement of their top management. In addition, the FSA will engage in dialogue with financial institutions regarding their published policies under the “Principles for Customer-Oriented Business Conduct”.

Moreover, the FSA will confirm financial institutions’ status related to purchase solicitation

⁴⁸ The Act on the Promotion of Cash Flow-Based Lending is stipulated to take effect on a date specified by a Cabinet Order within two years and six months from the date of its promulgation (i.e. June 15, 2024) (Article 1 of the Supplementary Provisions).

⁴⁹ Establishment of the “Noto Peninsula Earthquake Reconstruction Support Fund” and opening of the “Noto Industrial Reconstruction Consultation Center” (to address the double debt problem faced by business operators affected by the 2024 Noto Peninsula Earthquake) (March 29, 2024) <https://www.fsa.go.jp/ordinary/earthquake202401/fund.html> (Available in Japanese)



and customer management, etc. for foreign currency-denominated single-premium insurance and structured bonds, considering industry regulations, etc. The FSA will also identify other risk-involving financial instruments that require special attention due to sales performance and complaints, and verify the validity of the sales and management systems of such financial instruments.

(ii) Offering user-friendly financial services

To respond to rapid economic and social changes in Japan, including the aging population, the FSA will encourage financial institutions and trade associations to implement user-friendly business conduct.

Regarding responses to the various issues and needs of elderly customers, the FSA will engage in dialogue with financial institutions and trade associations on the basis of the Results of the Survey on Introduction of Guardianship Support Deposits and Guardianship Support Trusts, in order to support their further efforts to improve customer convenience and prevent problems concerning the handling of transactions for elderly customers with reduced cognitive abilities that are conducted by a proxy, including family members and lifelong support providers for the elderly, etc.⁵⁰

To enable disabled people to use safe and convenient financial services, in light of the purpose of the amended Act for Eliminating Discrimination against Persons with Disabilities, the FSA will promote financial institutions' and trade associations' further efforts to remove social barriers, including developing facilities friendly to people with disabilities and holding seminars for frontline employees about how to write and read on behalf of disabled people and utilize telephone relay services.

Given that the number of foreign nationals staying in Japan is expected to increase, the FSA will provide foreign nationals with useful information and precautions in order to ensure their smooth use of financial services, such as opening an account. In addition, the FSA will also further promote efforts by financial institutions and trade associations to make their services more appropriate and convenient, such as enhanced arrangements for facilitating and streamlining procedures including cooperation with local governments and measures regarding customers who are judged to be non-residents under the Foreign Exchange and

⁵⁰ Guidelines for Lifelong Support Providers for the Elderly, etc. (June 11, 2024)
https://www.cao.go.jp/kodoku_koritsu/torikumi/suishinhonbu/dai2_shiryou.html (Reference 2-2) (Available in Japanese)



Foreign Trade Act.

(iii) Handling multiple debts

To prevent individuals from facing multiple debt problems, the FSA will cooperate with relevant organizations to issue warnings about multiple debts and encourage financial institutions to implement prevention efforts, including carefully handling young customers in view of the lower age of adulthood. In this respect, the FSA will keep a close watch on changes in borrowing behavior of people in need of funds as social and economic activities return to normal from the impact of the COVID-19 pandemic.

(6) Responding to emerging risks

(i) Responding to financial crimes

Damage has been growing due to crimes involving misuse of financial services, including investment fraud and romance fraud via SNS, in addition to phishing and specialized fraud. In order to prevent damage from such financial crimes and maintain the public's trust in financial services, the FSA will steadily work with relevant government ministries and agencies to develop an environment that helps prevent people from becoming victims of financial crimes, including implementing the measures under the “Comprehensive Measures for Protecting People from Fraud” (provisional English title, published in June 2024).⁵¹

Specifically, the FSA will strengthen and improve its consultation system, alert investors, etc. in cooperation with social networking service providers, etc. and raise awareness through J-FLEC, etc., as well as clarify that advertisements in which unregistered business operators under the Financial Instruments and Exchange Act provide free investment information can be illegal in some cases.⁵²

In addition, the FSA will work with police authorities and financial institutions to strengthen measures against misuse of deposit and savings accounts including corporate accounts, and consider establishment of a system for quick information sharing.

Moreover, the FSA will strengthen its alerts for unauthorized lenders, such as loans between individuals using social media, etc., and deal with them strictly in cooperation with the police

⁵¹ <https://www.kantei.go.jp/jp/singi/hanzai/kettei/240618/honbun.pdf> (Available in Japanese)

⁵² See I. 1. (4) (i) “Strengthening market oversight” for initiatives to eliminate unregistered operators



authorities.

(ii) Enhancing measures for Anti-Money Laundering, Countering Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF)

Enhancing AML/CFT/CPF measures is an important task that can affect the international credibility of Japan. In view of the results of the FATF's fourth-round mutual evaluation of Japan and international requirements, the FSA asked financial institutions to complete the establishment of the basic framework required under the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" (released in November 2021) by the end of March 2024. For the time being, the FSA will encourage them to ensure completion through inspection and supervision, and consider, if necessary, taking administrative measures against financial institutions that are deemed to be particularly fall behind.

In addition, the FSA will encourage financial institutions that have completed the establishment of the basic framework to verify, maintain and enhance its effectiveness, while ensuring that the framework they have established is operated properly.⁵³ As part of this, the FSA will consider publishing a compilation of advanced practices regarding verification of effectiveness, etc. and engage in dialogue with financial institutions that have completed the establishment of their basic frameworks.

Also, to enhance AML/CFT/CPF measures in the entire financial industry, the FSA will build a monitoring framework for funds transfer transaction analysis service providers entrusted by financial institutions.

(iii) Enhancing cybersecurity

Cybersecurity-related risks have significantly increased in recent years with the development of technology and rising geopolitical risk. For example, financial institutions have suffered damage by attacks that actors maliciously exploit vulnerabilities in the supply chain, including those in outsources of financial institutions. In addition, sophisticated cyberattacks have emerged. Those attacks are believed to have been committed by state-sponsored or state-supported actors.⁵⁴

⁵³ The FATF's fifth-round evaluation (on-site examination on Japan planned in 2028) will focus on validation of effectiveness.

⁵⁴ There have been cases in which large amounts of customer information were leaked due to unauthorized access to an outsourcee or an outsourcee of a financial institution's primary outsourcee.



In light of these changes in the environment, the government is stepping up its cybersecurity efforts. Along these efforts, the FSA will further promote “self-help” efforts by financial institutions, “mutual help” efforts by the financial industry, and “public assistance” by the authorities to improve cyber resilience of the entire financial industry, including financial market infrastructures and financial instruments exchanges. In addition, we will participate in international discussions and deepen cooperation with overseas authorities.

Our efforts covers the following specific examples: we will encourage financial institutions to strengthen their cybersecurity posture through the use of the “Guidelines on Cybersecurity for the Financial Sector”,⁵⁵ which were newly formulated in consideration of the importance of cyber risks to the financial stability; we provide the self-assessment tool for financial institutions to assess the maturity of their cybersecurity posture;⁵⁶ we hold the financial industry-wide cybersecurity exercise on an annual basis, and; we encourage financial institutions to conduct threat-led penetration testing.^{57, 58}

(iv) Economic security responses

The regulations for ensuring the stable provision of essential infrastructure services under the Economic Security Promotion Act have been in applied since May 2024. It aims to prevent critical IT systems of key infrastructure providers from being exploited for acts of sabotage or attacks from the outside. The regulations cover outsourcing of the maintenance and management of such systems. The FSA will appropriately apply these regulations to the financial sector having dialogues with infrastructure providers and other stakeholders.

(v) Strengthening IT governance

In light of a recent surge in IT risks, the FSA will examine the effectiveness of project

⁵⁵ Publication of the draft amendments to the “Comprehensive Guidelines for the Supervision of Major Banks, etc.” and other relevant and applicable Guidelines, alongside the draft “Guidelines on Cybersecurity for the Financial Sector” for public consultation (June 28, 2024) <https://www.fsa.go.jp/news/r5/sonota/20240628-2/20240628.html> (Available in Japanese)

⁵⁶ Since 2022, the FSA has been undertaking initiatives of asking regional financial institutions to conduct self-assessments using a checklist for assessing the maturity of cybersecurity posture (Cybersecurity Self-Assessment, developed jointly with the Bank of Japan and the Center for Financial Industry Information Systems) and encouraging them to voluntarily strengthen their posture. In 2023, the target scope was expanded to include insurers and securities companies, and the results were published in “Aggregate Results of Cyber Security Self-Assessment at Financial Institutions (FY2023)” (<https://www.fsa.go.jp/news/r5/cyber/20240423.html>) (Available in Japanese) .

⁵⁷ Refers to a more practical test that checks whether intrusion or tampering is possible, whether detection is possible, and the swiftness and appropriateness of the response, by analyzing the risks faced by the target entity specifically and individually and then reproducing the tactics and methods employed by the attacker to launch a simulated attack.

⁵⁸ In addition, as a response to new risks, the FSA holds meetings of the Study Group on the Deposit-taking Institutions' Response to Post-Quantum Cryptography (<https://www.fsa.go.jp/singi/pqc/index.html>) to deepen discussions with relevant parties about recommendations, issues, and points to keep in mind when considering the transition to post-quantum cryptography (PQC) in the financial sector.



management of IT systems and IT risk management posture at financial institutions before projects that integrate or upgrade their IT system complete. The objective is to mitigate the risk of major failures of IT systems and operational disruption as much as possible particularly for challenging/high-risk integration/update projects on critical IT systems at financial institutions.

In addition, given the frequent occurrence of IT failures attributable to outsourcees that affect financial institutions' services and customers, we will urge financial institutions to appropriately manage third-party related IT risks.

Furthermore, in view of the increasing importance of strengthening IT governance and improving operational resilience,⁵⁹ we will identify challenges and good examples of this aspect at financial institutions.

(vi) Addressing climate-related financial risks

The FSA has newly set up the “Office for Climate-related Financial Risk Monitoring Hub” to review the positioning of climate-related financial risks in the business strategies and risk management frameworks of financial institutions, as well as their efforts to help customers deal with climate-related risks. Based on that, the FSA will have discussions on how climate-related financial risks should be managed, taking into account international trends and the growing importance of transition finance, with a view to reviewing the content and positioning of the “Supervisory Guidance on Climate-related Risk Management and Client Engagement” (published in July 2022).

Furthermore, the FSA will conduct, jointly with the Bank of Japan (BOJ), the second exercise of scenario analysis based on common scenarios for climate-related risks in cooperation with three major banks and a dozen of non-life insurance companies to continuously improve the methodology and framework of scenario analysis.

⁵⁹ Refers to recovering and restoring potential from a halt in operations due to system failures, etc. It includes not only the prevention of failures, etc. but also the early recovery of operations and mitigation of impact on customers in the event of a halt in operations.



2. Addressing issues specific to business types

(1) Major banks, etc.

Major banks have a significant presence in Japanese financial system and are expected to stably provide high-quality, cutting-edge financial services. They are required to develop a more comprehensive internal control framework, including responses to the items in II. 1. above.

Regarding credit risks, the FSA will conduct monitoring with a focus on the status of organization-wide efforts to establish lending discipline. Specifically, the FSA will check the lending discipline, screening process and intra-period management by credit-related divisions as well as trends in domestic and foreign real estate finance, lending practices in areas where loan needs are strong. The FSA will encourage major banks to take necessary actions. In addition, when the FSA reviews the effectiveness of banks' process to identify and assess potential credit risks, the FSA will check the status of risk ratings and write-offs/provisions for individual borrowers whenever necessary.

Regarding market and liquidity risks, the FSA will review their investment and funding strategies, with a focus on risk management arrangements regarding securities investment and foreign currency liquidity, including overall asset-liability management, and encourage them to sophisticate those arrangements. The FSA will also monitor mainly liquidity risk management arrangements developed by specialized internet banks. As major banks, etc. expand cross-border and cross-sectoral business, the FSA will hold dialogue about business strategies, the utilization of IT technology / systems and internal audits in accordance with the scale and complexity of their services and operations, and group and global governance including the management structure of overseas bases, such as whether headquarters can grasp the situations in timely and appropriate manner,

Furthermore, the FSA will conduct, jointly with the BOJ, a stress testing exercise based on common scenarios, and in doing so, will encourage banks to improve their stress testing methodologies. In addition, the FSA will conduct monitoring whether effective compliance and internal control systems, including arrangements for detecting and preventing unfair transactions, etc. and information management, have been established. The FSA will examine the purposes of their cross-shareholdings and keep track of the progress in their plans for



reducing cross-shareholdings.

The FSA will encourage the Japan Post group to steadily implement measures to ensure customer-oriented business conduct in consideration of the provision of new services and products. The FSA will also hold dialogue with the group on initiatives to secure group-wide earnings infrastructure in the medium- to long-term from the perspective of providing stable universal services through the post office network.

(2) Regional financial institutions

Regional financial institutions are not only important social infrastructure for their respective regions but also the key player of the regional economy, supporting the recovery and growth of the regional economy by enhancing the value of local businesses.⁶⁰ As a difficult environment remains for regional economies, affected by a shrinking and aging population and declining birthrate, the management teams of regional financial institutions need to check the sustainability of their own business models and to formulate and execute forward-looking management strategies. With this in mind, the FSA has been urging regional financial institutions to perform financial intermediary functions without interruption, as needed by their local communities, even in the difficult business environment, and build sustainable business models by strengthening their revenue bases.

While there is no uniformity in the sustainable business models of individual financial institutions, enactment of the Act on the Promotion of Cash Flow-Based Lending provides a good opportunity for us to further advance the existing initiatives and engage financial institutions in dialogue on measures to maintain sustainability of their business models while at the same time fulfilling their function as financial intermediaries by providing cash flow-based lending and helping clients solve their management issues as described in II. 1. (2) and (3), and address this as a cross-divisional issue mainly through the PT.

In addition, we will conduct monitoring on the management status of securities, market risk, liquidity risk, and credit risk management systems, including the actual status of counterparties, taking into account the management policies, risk-taking status, business environment, degrees of issues faced, and management resources of regional financial

⁶⁰ This is the reason why it is important to pay attention to user convenience when consolidating or abolishing branches and ATM networks.



institutions, utilizing inspections. In doing so, we will continue to closely monitor developments in the economic and financial markets in Japan and overseas and their impact, and check, whenever necessary, the response policies of each regional financial institution with regard to major market fluctuations, etc.

We will prompt the central organizations of cooperative financial institutions, as a nodal point among cooperative financial institutions, other support organizations, etc., to provide support for cooperative financial institutions' initiatives to help resolve regional challenges and strengthen their management foundations.

(3) Securities companies

Securities companies are required to make proactive contributions toward securing market fairness and transparency as a market gatekeeper. They are also required to support fundraising by companies with growth potential as a capital market intermediary and also play a major role in implementing the Policy Plan for Promoting Japan as a Leading Asset Management Center as the main promoter of stable asset building for households.

From this perspective, the FSA will monitor securities companies' framework for the development, sale, and solicitation of financial instruments, in order to check whether they are complying with laws, regulations, and rules of self-regulatory organizations. The FSA will also encourage securities companies to make continued efforts to deepen their customer-oriented business conduct initiatives described in II. 1. (5) (i). In addition, the FSA will conduct monitoring of whether securities companies have developed effective compliance and internal control frameworks, including capabilities for detecting and preventing market misconduct and for appropriate client information management.

In view of changes in the competitive environment, such as the shift to online transactions, reduction of transaction cost, and diversification of products and services, the FSA will hold dialogues with securities companies' top management on the sustainability of their business models and encourage the development of risk management frameworks suited to their business.

Regarding major securities companies, the FSA will engage them in dialogues with respect to their business models, as they are strategically expanding their business domestically and



globally, including taking measures to secure stable earnings in overseas business. At the same time, it is important to ensure that group and global governance and risk management frameworks align with their business strategies. Thus, the FSA will work with overseas authorities to encourage these companies to further strengthen their governance and risk management frameworks. In addition, the FSA will engage securities companies in dialogues on efforts to upgrade internal audits and on the ideal structure of IT systems.

(4) Insurance companies

(i) Toward restoring confidence and ensuring sound development of the insurance market

In response to the report by the “Expert Panel on Structural Issues and Competition in the Non-Life Insurance Sector” (released in June 2024),⁶¹ the FSA will conduct necessary research and analysis of the following: improvement in the effectiveness of the guidance given by non-life insurance companies to large-scale agents, for example, by introducing a third-party evaluation system, etc.; elimination of inappropriate benefits by insurance companies for the purpose of inducing insurance agents and customers to prioritize their products; ensuring appropriate claim payment management systems by insurance companies; and improvement in practical skills and promotion of the independence of in-house agents. We will then proceed with revision of the supervisory guidelines and formulation and revision of the industry guidelines, etc.

Furthermore, the Financial System Council will consider specific measures, including the need to revise regulatory systems, regarding issues including strengthening of control system at large insurance agencies, promotion of the use of insurance brokers, and the deficit status of corporate fire insurance.

The FSA will follow up on the business improvement plans of major non-life insurance companies to ensure their steady implementation and effective improvement. For life insurance companies, we aim to further enhance agent supervision.

⁶¹ Publication of a summary of discussions report on the meetings held by the “Expert Panel on Structural Issues and Competition in the Non-Life Insurance Sector” (June 25, 2024)
<https://www.fsa.go.jp/news/r5/singi/20240625.html> (Available in Japanese)



(ii) Strengthening business bases and ensuring soundness, etc.

Insurance companies must provide high-quality insurance services that accurately meet customer needs and develop a sustainable business model through initiatives to strengthen their customer base and supplement their earnings, while anticipating medium- to long-term changes in the business environment, including the declining birthrate and aging population, increasingly frequent and severe natural disasters, and a shrinking auto insurance market. As insurance companies continue to expand business overseas and set up subsidiaries, it is important to enhance their internal audits and group and global governance. The FSA will work with overseas authorities to encourage them to maintain steady progress in these efforts.

We will work to ensure smooth and steady implementation of an economic value-based solvency regulatory framework.⁶² In addition, we will monitor the financial and operational soundness and asset management status of insurance companies, taking into account economic and financial market developments.

With regard to responses to natural disasters, premium rates are on an uptrend due to an increase in insurance claim payments resulting from the increased frequency and severity of natural disasters in recent years. Given this situation, the FSA will encourage nonlife insurance companies to enhance their enterprise risk management (ERM), take measures to support disaster prevention and mitigation, and address climate-related risks, so that they can fulfil their function as a preparedness infrastructure against natural disasters more appropriately.

Working with the Local Finance Bureaus, the FSA will continue to encourage small-amount short-term insurers to develop a system to ensure their financial soundness and the appropriateness of their operations.

⁶² The International Association of Insurance Supervisors (IAIS), where the FSA serves as the Chair of its Executive Committee, is working to finalize the global Insurance Capital Standard for internationally active insurance groups.



III. Enhance the FSA's Administrative Capacities

In order to ensure that the mission of financial sector administration is steadily carried out, it is important to constantly evolve and deepen financial sector administration and to build an organization that can flexibly address financial sector administration-related challenges that shift in response to changes in the economic, social, and market environments. With this in mind, the FSA will work to upgrade financial sector administration by, for example, enhancing the sophistication of data utilization and strengthening policy communications, domestically and internationally, and promote initiatives to improve organizational capabilities, such as by building up the skills and capacities of primarily junior staff members and creating a flexible and efficient workplace to enhance productivity.

1. Enhancement of financial sector administration

(1) Understanding realities in a multifaceted manner by data utilization

In order to accurately understand the vulnerabilities and resilience of individual financial institutions' business conditions and the entire financial system, as well as market trends, the FSA will analyze diverse data on financial institutions, companies, and financial markets, including granular data and information provided by users of financial services,⁶³ make them visible and turn them into a tool to be utilized for monitoring, etc.

Regarding the Common Data Platform,⁶⁴ the FSA will work to improve data accuracy and examine the possibility of substituting existing templates, aiming to begin regular data collection from March 2025.

The FSA will also further strengthen collaboration with academia through joint research⁶⁵ to

⁶³ Information provided to the Counselling Office for Financial Services Users (<https://www.fsa.go.jp/receipt/soudansitu/index.html>) (Available in Japanese), Office for Collecting Information on Financial Monitoring (https://www.fsa.go.jp/receipt/k_jyohou/index.html) (Available in Japanese), etc.

⁶⁴ A new data collection and management framework in collaboration with the Bank of Japan (<https://www.fsa.go.jp/en/news/2024/20240701/20240701.html>). See "FSA Analytical Notes - FSA Collection of Data Analysis Cases -" (<https://www.fsa.go.jp/en/about/fsaanalyticalnotes/index.html>) for analysis cases utilizing data collected through the Common Data Platform.

⁶⁵ For a brief introduction of research fellows of the Financial Research Center, see (<https://www.fsa.go.jp/frtc/english/gaiyou/gaiyou.html>), and for discussion papers prepared by research fellows, see (<https://www.fsa.go.jp/frtc/english/seika/discussion2024.html>).



utilize findings from cutting-edge research on financial supervision.

(2) Promoting cooperation and collaboration with the Local Finance Bureaus

Regarding cooperation and collaboration between the FSA and the Local Finance Bureaus, which are indispensable for realizing financial administration policies, the FSA will further deliberate streamlining and efficiency improvement and will enhance the content of communications. In particular, the FSA will deepen relevant cooperation and collaboration in conducting monitoring to promote integrated and effective administration, and will endeavor to enhance the quality of the supervisory authority as a whole through frank opinion exchange between the FSA and the Local Finance Bureaus. In addition, the FSA will work closely with the Local Finance Bureaus regarding the content of monitoring, personnel support, etc., to ensure efficient and effective monitoring. Moreover, the FSA will also seek cooperation and collaboration with Local Finance Bureaus in the field of market oversight.

(3) Strengthening policy communications, domestically and internationally

Through active participation in discussions at international conferences and speeches by its senior officials, the FSA will share Japan's awareness about issues both domestically and internationally, and strengthen the ability to communicate its policies, including measures to achieve a leading asset management center. In particular, in areas where FSA staff serve as chairperson, etc.,⁶⁶ we will lead discussions and fulfil our expected role.

The FSA will continue to enhance financial cooperation with Asian financial authorities, in order to promote policy dialogues and to implement its policies internationally, by hosting the Asia High-Level Financial Regulators' Forum, the GLOPAC programs and the other bilateral meetings.

⁶⁶ For example, in addition to the Chair of IFIAR (appointed in April 2023; see I. 1. (4) (ii) "Improving audit quality"), there are several other committees in which FSA staff serve as Chair or Vice Chair, including the Chair of the IAIS Executive Committee (appointed in November 2023) and the Vice Chair of the Board of the International Organization of Securities Commissions (IOSCO) (reappointed in May 2024).



2. Enhancing organizational capabilities as the financial authority, including the talent development of junior staff members

(1) Building up the skills and capacities of staff members

The FSA will promote direct dialogue between human resources personnel and each of junior and other staff member on career development and personnel assignments.

In addition, the FSA will continue its training programs according to the fields that form the axes of career paths,⁶⁷ and will consider the expansion of the content and the improvement of operation methods for training programs for the talent development of the junior staff members as a basis for enhancing their expertise.

Additionally, in order to strengthen data collection and analysis capabilities and enhance data utilization, the FSA will steadily upgrade the relevant arrangements and skills of its staff members by providing training and offering support by experts through data analysis projects.

(2) Placing priority on self-motivated initiatives

The FSA will develop a working environment where staff members can engage in free and vigorous discussions through the Open Policy Lab (a framework fostering voluntary policy proposals by staff members irrespective of their job specifications),⁶⁸ public solicitation of policy proposals on financial sector policy from junior staff members, and a framework to support staff members' independent and voluntary research.

The FSA will organize lunchtime lectures⁶⁹ and study meetings⁷⁰ throughout the year on a wide range of issues, not limited to the financial field, inviting leading experts in a broad range of fields in academia and business, as well as foreign authorities. These lectures and meetings provide opportunities for staff members to gain valuable knowledge and information that contributes to policy planning. Furthermore, the FSA will accept applications for specific

⁶⁷ For example, the FSA supports the Local Finance Bureaus through the dispatch of inspectors and a trainee system for fostering staff members in charge of monitoring for the FSA, the Local Finance Bureaus, etc., and provides training programs combining personal development (correspondence training, e-learning, etc.), in-house training (training using videos created internally, etc.), and OJT. In addition, the SESC provides training in digital forensics, etc., study sessions for junior staff members, and short-term OJT.

⁶⁸ See "Open Policy Lab Initiative" (<https://www.fsa.go.jp/common/about/kaikaku/openpolicylab/index.html>).

⁶⁹ For lunchtime lectures, see <https://www.fsa.go.jp/frtc/kenkyu/luncheon.html> (Available in Japanese)

⁷⁰ For study meetings, see <https://www.fsa.go.jp/frtc/kenkyu/studymeeting.html> (Available in Japanese)



posts from its staff members so that they can autonomously choose their career paths.

(3) Creating a flexible and efficient workplace to enhance productivity

The FSA will work to create an environment in which everyone can work flexibly and efficiently and put their abilities to maximum use. Specifically, the agency will support its staff member's efforts to balance work and childcare and family care or otherwise working styles in accordance with their life stage. Top management and directors will take the initiative in reviewing day-to-day operations, including thorough streamlining and efficiency improvement, further DX, outsourcing, etc.⁷¹ Additionally, the FSA will develop its information system, such as by updating the network system, for safe and efficient business operations.

High-quality management capabilities are required to maximize the capacity of all FSA staff members with diverse backgrounds.⁷² In this respect, the FSA will continue to visualize top management and directors' management policies to their subordinates and provide training based on a 360-degree evaluation, and conduct employee satisfaction surveys. In addition, the agency will enhance the management capabilities by providing management officials with management clues.

The FSA will also promote internal and external dialogue on how to develop a workplace and organizational culture where junior and other FSA staff members feel more satisfied with their jobs and more motivated to, and continue to reform itself, while finding new challenges and solutions therefor.⁷³ The FSA will develop an organizational culture in which junior and other staff members can smoothly become used to their work and fully exercise their abilities within the organization by, for example, promoting efforts in the whole workplace of the FSA or each department so that junior and other staff members can casually ask questions arisen from their day-to-day work and receive answers from other staff members in helpful ways.

⁷¹ "FSA's Principles for Promoting Active Participation of Female Staff Members and All Staff Members' Work-Life Balance" (July 26, 2024)

https://www.fsa.go.jp/common/about/sonota/woman_wlb.html (Available in Japanese)

⁷² The "Principles for Promoting Female Government Officials' Participation and Work-Life Balance" (decision of the Council on Promotion of Female Workers' Participation and Work-Life Balance on October 17, 2014; partially revised on January 16, 2024) states as follows: "The viewpoint of diversity management, that is, to respect individuals' personality and diversity and provide them with opportunities to fully exercise their abilities and experience, thereby generating innovation and creating value, is also indispensable in workplaces where staff members engage in public duties to ascertain diversifying people's needs and accurately respond to them with policy measures."

⁷³ For example, the FSA holds town meetings, which provide a forum for dialogue between top management and staff members in the FSA. In addition, the agency holds an internal welcome reception event for employees after maternity or childcare leave, which is modelled after initiatives at other companies, etc.

