# July 2025 - June 2026 FSA Strategic Priorities



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### Introduction

Finance plays an indispensable role in advancing economic development and enriching human life. The transition to a "world with positive interest rates," the emerging shift of household savings from cash and deposits to investment products, and the convenient financial services enabled by advances in digital technology indicate that an era where finance can create even greater value is now upon Japan.

Companies establish a clear plan for growth, secure funding from financial institutions and the markets, and strategically invest in facilities and personnel. Further promoting this flow of finance is essential for ensuring that the benefits of corporate and economic growth are returned to households, while supporting the Japanese economy and employment.

Currently, digital technologies such as generative AI have made remarkable progress. It is necessary to encourage financial institutions to adopt innovative technologies and create an environment where users can continue to access convenient and high-quality financial services securely.

On the other hand, Japan faces structural challenges, including a declining population and an aging society with a low birthrate. For many local business operators, labor shortages and a lack of successors are severe problems, while rising costs for raw materials and labor are putting further pressure on their operations. From the perspective of strengthening their own revenue bases and establishing sustainable business models, it is crucial for financial institutions to support business operators that improve productivity through digitalization and equipment upgrades, as well as those that preserve technical expertise and customer bases through business succession.

As a precondition for finance to function in this manner, it is essential to secure the trust of domestic and international stakeholders in the stability and fairness of financial institutions, financial markets, and the financial system that encompasses them.

While the overall stability of the financial system is maintained, many unpredictable aspects remain regarding domestic and international price trends, the corresponding monetary policy responses, and the impact of other countries' trade policies. Financial institutions must make accurate management decisions that take into account various challenges. These include changes and uncertainties in the domestic and international economic environment and monetary policy, the further advancement of digital technology, threats such as cyberattacks, and the need for anti-money laundering (AML) measures. Furthermore, scandals that raise concerns about the integrity of financial institutions and markets have occurred, necessitating responses through rigorous onsite and offsite supervision and regulatory improvements. It is the responsibility of financial authorities to ensure confidence in the stability and fairness of the financial system.

With these in mind, the Financial Service Agency (FSA) will prioritize measures under the following three pillars for the 2025 program year (from July 2025 to June 2026).

- 1. Contributing to Sustainable Growth through Enhancing Financial Functions
- 2. Ensuring Trust in a Stable, Fair and Secure Financial System
- 3. Continuously Evolving as a Financial Regulator that Serves the Public

# **1.** Contributing to Sustainable Growth through Enhancing Financial Functions

Through measures to engage financial institutions and their collaborating players, as well as measures to enhance the functioning of financial markets, the FSA will contribute to the sustainable growth of businesses and the economy, while ensuring steady asset building for the public. Regarding digital technologies such as blockchain and AI, the FSA will promote the transformation of financial services using these technologies while addressing risks related to user protection and other concerns.

# (1) Promoting Financial Institutions' Initiatives to Foster Sustainable Growth of Business Operators

Amidst a declining population and an aging society with a low birthrate in local communities, many business operators face challenges such as labor shortages and a lack of successors. Currently, rising raw material and labor costs are also putting pressure on their operations. Financial institutions are required to provide their full support for business operators, taking into account factors such as the increasing frequency and severity of natural disasters, as well as the impact of various countries' trade policies. The FSA will encourage financial institutions to implement detailed support measures for business operators.

Despite these circumstances, there are business operators who actively pursue capital investment and digitalization to enhance added value and labor productivity, as well as those who strive to preserve superior technical expertise and customer bases through business succession. The FSA will promote measures for financial institutions to support these business operators.

### (i) Regional Financial Power Enhancement Plan

As regions face population decline, an aging population with a low birthrate, and various environmental changes, they aim for sustainable development. Consequently, there are high expectations for the power of regional finance to support the local economy, often referred to as "regional financial power." Concurrently, revitalizing the local economy reinforces the foundation for survival of regional financial institutions and other players involved in regional finance.

Regional financial power refers to the ability to benefit the regional economy not only through funding promising projects (investment and financing), but also through M&A support for local business operators, attracting necessary businesses and personnel to the region, as well as supporting the digital transformation of local companies. For further details, please refer to Document 13 (page 5) from the 34th meeting of the Council of New Form of Capitalism Realization, held on May 14, 2025.
<a href="https://www.cas.go.jp/jp/seisaku/atarashii\_sihonsyugi/kaigi/dai34/shiryou13.pdf">https://www.cas.go.jp/jp/seisaku/atarashii\_sihonsyugi/kaigi/dai34/shiryou13.pdf</a>

Numerous outstanding initiatives have been implemented across various regions. The FSA will utilize all available policy measures and pursue every possible action to share these experiences and cooperate with diverse players, including regional financial institutions, to leverage the full potential of regional financial power.

- The continuous development of local businesses and economies requires connections to the outside world in all aspects—people, goods, capital, and information. Regional financial institutions with robust local networks are expected to be the main drivers of regional financial power. By encouraging them to engage and collaborate with players possessing various expertise from outside the region, their full potential can be leveraged.
- For example, if companies which offer products and services from the region throughout Japan or the world emerge, they could drive the local economy and employment. Regional financial institutions have overwhelming information on local businesses. They should establish networks not only with other regional financial institutions but also with both domestic and international organizations, including both public and private, that possess the necessary expertise for developing local and global markets and enhancing business operations. By collaborating in this way, the FSA will aim to support companies to grow from the local regions to national and global markets.
- On the other hand, providing meticulous support to small and medium-sized companies that offer essential services to local residents, create employment opportunities, and sustain local communities, along with initiatives to revitalize regions by leveraging diverse local resources, are the very reasons for the existence of all regional financial institutions. The FSA will strengthen dialogue with regional financial institutions to ensure that such support and initiatives continue to be promoted.
- Securing management personnel for small and medium-sized companies in the regions is a serious challenge. The FSA will further promote intermediation by regional financial institutions, utilizing the personnel platform (REVICareer) developed by the Regional Economy Vitalization Corporation of Japan (REVIC).
- The FSA will also strengthen our efforts in M&A and business succession support by fostering collaboration among regional financial institutions.
- Over the years, regional financial institutions have gained valuable experience in supporting their corporate clients<sup>2</sup>. The FSA will compile and publish these best practices, encouraging financial

<sup>&</sup>lt;sup>2</sup> For instance, based on the following supervisory guidelines and government policies, the FSA will follow up on the support status provided by regional financial institutions to their corporate clients.

<sup>•</sup> Publication of Public Comments Results on Proposed Partial Amendments to the "Comprehensive Guidelines for Supervision of Small and Medium-Sized and Regional Financial Institutions" (January 31, 2024) <a href="https://www.fsa.go.jp/news/r5/ginkou/20240131-3/20240131.html">https://www.fsa.go.jp/news/r5/ginkou/20240131-3/20240131.html</a>

institutions nationwide to learn from initiatives in other regions, adapt them, and put them into practice.

On the other hand, the FSA will also strive to create an environment in which regional financial institutions can thoroughly perform their roles.

- By creating an environment where financial institutions are encouraged to address common challenges together, the FSA will facilitate their efficient and effective responses while curbing costs where possible. This will lead to an environment where even small financial institutions can better focus on initiatives for the local community, such as customer support.
- For example, the FSA will explore whether multiple financial institutions can collaborate on risk management and internal auditing in areas that require advanced expertise, such as combating money laundering and cyber threats. Additionally, the FSA will promote the shared use of IT systems among multiple financial institutions.
- To establish an institutional environment that enables regional financial institutions to leverage their regional financial power consistently, the FSA will consider extending and expanding the capital participation system and fund-grant system under the Act on Special Measures for Strengthening Financial Functions. In doing so, the FSA will also pay close attention to ensuring appropriate business management and operations at target financial institutions, taking into account cases where inappropriate business operations have persisted for many years at institutions that have received capital participation.

The FSA will develop a "Regional Financial Power Enhancement Plan" that packages these measures within the year.

# (ii) Further promotion of financing based on the actual business conditions and future cash flow: Cash Flow-Based Lending

Cash flow-based lending, which involves making credit decisions with a focus on the actual business conditions and future prospects, and maintaining close communication with the borrower following loan origination to monitor performance and provide necessary support, is an approach that fosters the sustainable growth of borrowers and, ultimately, strengthens and expands the financial institutions' own business foundation. The FSA will promote such cash flow-based lending.

<sup>•</sup> Publication of "Holistic Support Measures for Business Turnaround of Corporate Borrowers" and Thorough Implementation of Business Operator Support (March 8, 2024)

https://www.fsa.go.jp/news/r5/ginkou/20240308.html

<sup>•</sup> Publication of a Policy Package to Encourage Financial Institutions (FIs) to Provide Corporate Borrowers with Support Measures in Terms of Forward-looking Management Improvement and Business Turnaround (March 17, 2025) <a href="https://www.fsa.go.jp/news/r6/ginkou/20250317/20250317.html">https://www.fsa.go.jp/news/r6/ginkou/20250317/20250317.html</a>

- To ensure the effective utilization of Enterprise Value Charge (EVC)<sup>3</sup>, set to be introduced in May 2026, the FSA will raise awareness among financial institutions, business operators, and other relevant stakeholders. Specifically, to encourage initiatives by financial institutions that can serve as model cases, the FSA will collaborate with industry stakeholders to address common challenges associated with implementing EVC<sup>4</sup>.
- The FSA will continue to encourage financial institutions to establish lending practices that do not rely on personal guarantees provided by business owners<sup>5</sup>.

# (2) Promoting Japan as a Leading Asset Management Center and Enhancing Corporate Value

Further progress in corporate governance reform and the establishment of management practices focused on enhancing corporate profitability will boost the international competitiveness of individual companies and increase the attractiveness of the Japanese market as an investment destination. Additionally, as the benefits from this increase in corporate value flow to households through vibrant capital markets and asset management companies, the investment chain—the chain of value creation through investment—that forms the foundation of Japan as a leading asset management center becomes stronger. The FSA will make the emerging shift from savings to asset formation more sustainable through these measures. To further enhance measures toward realizing Japan as a leading asset management center, the FSA will aim to establish an "Asset Management and Insurance Supervision Bureau" within the FSA.

### (i) Enhancing corporate value through corporate governance reforms

The FSA will steadily advance corporate governance reforms and support the enhancement of medium- to long-term corporate value through dialogue with investors. Additionally, the FSA will continue our collaboration with the Tokyo Stock Exchange (TSE), fostering discussions between companies and investors based on a relationship of trust, while maintaining a healthy sense of tension.

• The FSA will consider revisions to the Corporate Governance Code<sup>6,7</sup>.

<sup>&</sup>lt;sup>3</sup> A system established under the Act on the Promotion of Cash Flow-Based Lending (enforced May 2026) as an option for financing based on the actual business conditions and future cash flow.

<sup>&</sup>lt;sup>4</sup> The FSA has outlined its concept regarding practices such as allowance for doubtful accounts at financial institutions that provide loans using Enterprise Value Charge.

Publication of the results of public consultations on the draft "Basic Idea on Evaluation and Methods of Making Reserve for Loans Using Enterprise Value Charge" and the draft "Order for Enforcement of the Act on the Promotion of Cash Flow-Based Lending" etc. (July 2, 2025) <a href="https://www.fsa.go.jp/news/r7/sonota/20250702/20250702.html">https://www.fsa.go.jp/news/r7/sonota/20250702/20250702.html</a>

Regarding the Formulation of the "Management Guarantee Reform Program" (December 23, 2022) https://www.fsa.go.jp/news/r4/ginkou/20221223-3/20221223-3.html

Publication of the "Action Programme for Corporate Governance Reform 2025" (June 30, 2025) https://www.fsa.go.jp/news/r6/singi/20250630-1.html

Specifically, we will examine ways to clarify verification and accountability regarding whether management resources are being allocated appropriately, while pursuing streamlining and principle-based approaches.

 After providing investors with appropriate information, the FSA will collaborate with relevant ministries and agencies to examine institutional challenges, ensuring that shareholders' meetings are held after a sufficient period and facilitate high-quality discussions.

Information regarding companies' responses to climate change risks and investments in human capital is crucial from the perspective of investors evaluating medium- to long-term corporate value, as these factors can impact future cash flows and other factors.

- While carefully balancing the burden on companies, the FSA will require certain listed companies to disclose such sustainability information<sup>8,9</sup>.
- The FSA will continue to examine third-party assurance systems for ensuring the reliability of disclosed sustainability information, while considering domestic and international developments.

Especially, information regarding human capital is essential from the perspective of evaluating medium- to long-term corporate value.

 The FSA will consider the rules for companies to disclose their human resource strategies related to corporate strategy and their approach to compensation and remuneration based on the human resource strategies.

Furthermore, ensuring audit quality by audit firms and other stakeholders is indispensable for ensuring the fairness and transparency of capital markets.

- The Certified Public Accountants and Auditing Oversight Board (CPAAOB) will continue to monitor audit firms effectively, including by enhancing inspections of small and medium-sized audit firms, whose role in auditing listed companies is increasing.
- The FSA/CPAAOB will also collaborate globally to promote initiatives to enhance audit quality through IFIAR<sup>10</sup>, an organization comprised of independent audit regulators around the world that fosters knowledge-sharing among members and communicates to shape the global audit-related agenda for capital markets.

Considerations Regarding the Disclosure of Corporate Affairs (Financial System Council General Meeting Materials on June 25, 2025) https://www.fsa.go.jp/singi/singi\_kinyu/soukai/siryou/20250625/3.pdf

Publication of the interim report of the "Working Group on Disclosure and Assurance of Sustainability-Related Financial Information" of the Financial System Council (July 17, 2025)

https://www.fsa.go.jp/singi/singi\_kinyu/tosin/20250717.html

<sup>9</sup> For example, to enhance the disclosure of information necessary for investor decision-making and clarify the scope of corporate responsibility, we will consider introducing safe harbor rules. These rules would exempt companies from liability for false statements regarding future information disclosure under certain conditions.

International Forum of Independent Audit Regulators. The Secretariat is located in Japan.

# (ii) Strengthening the supply of growth capital and risk money to companies through the market

The FSA will enhance funding for high-risk sectors such as startups, where growth and productivity gains are expected, while also diversifying investment exits.

The FSA will expand the flow of funds from domestic and international institutional investors to domestic startups through venture capital firms and other channels.

- The FSA will support leveraging "Venture Capitals: Recommendations and Hopes (VCRHs)<sup>11</sup>," formulated and published in 2024, during dialogue between investors and venture capital operators, thereby enhancing the attractiveness of venture capital as an investment target.
- In collaboration with the TSE, the FSA will enhance support for companies before and after their listing on the TSE's Growth Market for startups and other businesses<sup>12</sup>, creating an environment that enables faster and more substantial growth. Specifically, the FSA will follow up on the TSE's initiatives, including developing guidance for listed companies to reference in achieving growth and creating connections between listed companies and institutional investors.
- The FSA will foster a shared understanding among players supporting startup funding, such as venture capital firms and asset owners<sup>13</sup>, regarding the ideal direction of the ecosystem.
- The FSA will review exemption criteria for securities registration statements to alleviate disclosure burdens for startups when raising funds<sup>14</sup>.

Considering the perspective of investment exits for venture capital firms and others, the FSA will promote both primary and secondary transactions of unlisted shares by professional investors and others with high investment judgment capabilities and risk tolerance.

- The FSA will consider necessary revisions to the Professional Investor System<sup>15</sup>, which outlines its
  definition as well as the self-regulatory rules that govern securities companies soliciting unlisted
  shares.
- To stimulate investment in unlisted shares through investment trusts and other means, the FSA will

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<sup>&</sup>quot;Venture Capitals: Recommendations and Hopes (VCRHs)" (October 17, 2024) https://www.fsa.go.jp/singi/vc/siryou/20241017/02.pdf

https://www.fsa.go.jp/en/policy/pjlamc/vc/vcrhs\_summary.pdf (available in English)

The TSE plans to revise the Continued Listing Criteria on the Growth Market from the current "market capitalization of 4 billion yen or more after 10 years from initial listing" to the "market capitalization of 10 billion yen or more after 5 years from initial listing" by 2030.
Additionally, it aims to implement support measures for companies both before and after they go public.

Public pensions, mutual aid associations, corporate pensions, insurance companies, university funds, and school corporations which engaged in asset management and other entities.

Fundraising of less than ¥100 million is currently exempt from submission.
Considerations Regarding the Disclosure of Corporate Affairs (Financial System Council General Meeting Materials on June 25, 2025)
<a href="https://www.fsa.go.jp/singi/singi\_kinyu/soukai/siryou/20250625/3.pdf">https://www.fsa.go.jp/singi/singi\_kinyu/soukai/siryou/20250625/3.pdf</a>

A system that defines the scope of "professional investors" for whom regulations on investment solicitation by securities companies and information disclosure by stock issuers are relaxed.

consider relaxing the self-regulatory rules of The Investment Trusts Association, Japan, and establishing new frameworks for structuring and selling products specifically designed to invest in non-liquid assets.

 Furthermore, the FSA will support the Financial Accounting Standards Foundation in conducting indepth, careful discussions among relevant parties regarding goodwill accounting under the Japanese accounting standards.

#### (iii)Promoting sustainable finance

The FSA will implement effective policies to promote sustainable finance, which will help achieve a sustainable economy and society from a financial standpoint, while taking into account current social trends. These policies will enhance corporate value and increase the attractiveness of companies as investment targets.

- The FSA will promote impact investment, which financially supports companies that aim to solve social issues and enhance corporate value through business innovation. The FSA will advance discussions with relevant stakeholders—including investors, financial institutions, corporations, NPOs, and local governments—while collaborating with relevant ministries and agencies to develop data and indicators that companies and investors can utilize for impact measurement and management.
- To achieve global Green Transformation (GX) and create investment opportunities, the FSA will expand transition finance<sup>16</sup> in Asia through the Asia GX Consortium.
- To enhance the transparency and soundness of carbon credit trading, the FSA will consider establishing high-level principles that trading participants and exchanges should adhere to.

### (iv) Supporting steady asset building of households

The FSA will further enhance support for the public of all ages, from young people to the elderly, to help them build assets that align with their life plans while also improving their financial literacy.

- From the perspective of promoting financial and economic education in the workplace, the FSA will
  assist in efforts to raise awareness of the instructor dispatch offered by the Japan Financial Literacy
  and Education Corporation (J-FLEC).
- The FSA will promote the enhancement of educational content at J-FLEC, including measures against fraud.

A financing method aimed at supporting companies that adopt steady greenhouse gas reduction initiatives aligned with the long-term strategies of achieving a decarbonized society.

- Considering its potential use in J-FLEC's individual consultations, the FSA will create an
  environment that helps individuals easily understand their overall circumstances, including financial
  assets and cash flow, and design and review their life plans.
- The FSA will discuss expanding financial and economic education content in the upcoming curriculum guidelines with the Ministry of Education, Culture, Sports, Science and Technology (MEXT).
- To help people of all generations build assets that are suitable for their specific life stages, the FSA will examine ways to improve NISA (a tax exemption program for retail investors), which allows small-scale investment profits to be tax-exempt. This includes diversifying the range of eligible products.
- The FSA will actively participate in discussions and deliberations with relevant ministries and agencies to simplify procedures and reduce costs associated with defined contribution pensions.

### (v) Ensuring customer-oriented business conduct

The FSA will ensure customer-oriented business conduct so that all financial institutions involved in structuring and sales of financial products and services provide high-quality products that contribute to the steady asset building of households, thereby establishing sustainable business models.

- The FSA will encourage distributors and other entities to consistently develop a coherent framework that includes retail business strategies, operational policies, resource allocation, and performance evaluation systems, all starting from their management philosophy, while facilitating the building of the framework that implements customer-oriented business conduct using the PDCA cycle.
- To establish appropriate product governance at asset management companies and similar entities, the FSA will follow up on each company's response status based on the "Principles for Customer-Oriented Business Conduct" (revised in 2024<sup>17</sup>). Additionally, the FSA will also follow up on their implementation of a framework for information sharing between originators and distributors<sup>18</sup> aimed at verifying the customer attributes of those who purchased financial products.

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Results of Public Comments on the "Principles for Customer-Oriented Business Conduct" (Revision Draft) (September 26, 2024) <a href="https://www.fsa.go.jp/news/r6/singi/20240926.html">https://www.fsa.go.jp/news/r6/singi/20240926.html</a>

A framework compiled by the Investment Trusts Association, Japan, which outlines the information that should be shared between the originators (such as an asset management company) and the distributors (such as a securities company). This includes customer attributes relevant to investment trust purchases.

# (vi) Advancing asset management services and enhancing asset owner capabilities

The FSA will promote the provision of high-quality asset management services that take into account the best interests of households and asset owners.

- The FSA will conduct cross-functional monitoring of service providers, such as asset management companies, trust banks, and life insurance companies, and compile the results for publication.
- The FSA will steadily advance the merger of the Japan Investment Advisers Association and the Investment Trusts Association, Japan, scheduled for April 2026, and support the industry's sound development toward realizing Japan as a leading asset management center.
- To foster competition among asset management companies and enhance the industry's overall asset management capabilities, the FSA will continue to encourage financial institutions and others to utilize emerging asset managers in accordance with the Emerging Managers Program (Japanese version of EMP).
- The FSA will facilitate the registration process for "Investment Management-Related Service Entrusted Business<sup>19</sup>," enabling the outsourcing of middle- and back-office operations related to investment management business, such as compliance and fund's NAV calculation.
- The FSA will closely collaborate with relevant ministries and agencies to encourage asset owners to adopt the "Asset Owner Principles," which are common principles concerning asset owners' operations, governance, and risk management.

## (vii) Strengthening information dissemination and communication with international investors

The FSA will strengthen engagement with both domestic and international investors to foster a more attractive investment environment, including by showcasing the appeal of Japanese companies and markets, as well as by promoting initiatives aimed at further strengthening this appeal.

- In October 2025, the FSA will host Japan Weeks through public-private collaboration, featuring a
  concentrated series of events aimed at strengthening communication with international investors and
  other stakeholders<sup>20</sup>.
- In the run-up to Japan Weeks, the FSA will collaborate with the relevant Ministries and Agencies to examine the achievements of initiatives aimed at promoting Japan as a leading asset management

<sup>&</sup>lt;sup>19</sup> This system was enacted in May 2025.

<sup>&</sup>lt;sup>20</sup> Special webpage for Japan Weeks 2025

https://www.fsa.go.jp/internationalfinancialcenter/lp/japanweeks2025/

center and consider additional or improved initiatives.

- During Japan Weeks, the FSA will host an event titled "Asia Day<sup>21</sup>" to invigorate mutual investment and financing activities in the Asia region, including Japan.
- Regarding the Special Zones for Financial and Asset Management Businesses<sup>22</sup>, the FSA will strengthen external communications in collaboration with the four designated regions (Hokkaido, Tokyo, Osaka, and Fukuoka) to encourage financial institutions and asset management companies to set up or expand their businesses in Japan.

# (3) Responding to the Transformation of Financial Services through Digital Technology

The sound development of financial services and transactions utilizing digital technology has the potential to resolve social issues and improve productivity. The transformation of financial services is accelerating rapidly on a global scale. This change is driven by the tokenization of various assets, including deposits, stocks and bonds, and the circulation of stablecoins, both domestically and internationally. The FSA and financial institutions are now in a position where they must embrace technological innovations and take on new challenges that accompany them. To ensure that the sound development of financial services supported by such digital technologies contributes to solving social challenges, the FSA will strengthen public-private collaboration. Specifically, regarding crypto-assets and stablecoins, the FSA will advance necessary policies to invigorate innovation in financial services and ensure their trustworthy provision, while considering global trends in regions including Europe and North America.

- In light of the fact that crypto-assets have been recognized as investment targets by domestic and foreign investors, the FSA will conduct necessary deliberation on relevant regulatory systems to protect users while also considering the perspective of promoting innovation<sup>23</sup>.
- Furthermore, the FSA will consider revising the tax system, including the introduction of separate taxation, on the premise of establishing a reporting framework to tax authorities regarding transactions.
- From the perspective of creating an environment where users can conduct crypto-asset transactions

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On October 22, 2025, co-hosting with the Japan Securities Dealers Association, the Japan Exchange Group, and the Asian Development Bank, we will hold an event called "Asia Day", designed to promote mutual investment in the Asian region. We will invite Asian financial regulators and globally active asset management firms.

In line with the "Policy Package to Achieve Special Zones for Financial and Asset Management Businesses," four regions—Hokkaido, Tokyo, Osaka, and Fukuoka—have been designated as target areas. Regulatory reforms have been implemented for these regions to attract domestic and international financial institutions and asset management companies, as well as promote the growth of local industries and businesses.

Deliberation on regulatory systems related to crypto-assets (general meeting of Financial System Council Materials on June 25, 2025) https://www.fsa.go.jp/singi/singi\_kinyu/soukai/siryou/20250625/1.pdf

safely, the FSA will appropriately monitor crypto-asset exchange operators and address those that are not registered.

- The FSA will promote the provision of high-quality financial services through careful and in-depth communication with business operators including monitoring, starting with the advancement and streamlining of payments, such as the utilization of yen-denominated stablecoins<sup>24</sup>.
- The FSA will host Japan Fintech Week in 2026, continuing the annual event that started in 2024, to showcase the attractiveness of Japan's fintech sector globally and to create business opportunities for the further development of fintech companies.
- The FSA will vigorously promote sound innovation among business operators through the FinTech Support Desk, which provides consultations on businesses involving innovation, and the FinTech Proof-of-Concept Hub, which supports proof-of-concept experiments for FinTech companies.

AI has the potential to fundamentally transform the financial industry as one of the core technologies underpinning the future of finance. The FSA will strongly support efforts to ensure the sound utilization of AI by financial institutions and others, while also taking into account the associated risks.

• In June 2025, the FSA launched the "Financial Services Agency AI Public-Private Forum<sup>25</sup>" based on the AI Discussion Paper<sup>26</sup>. Through discussions with diverse public and private stakeholders within this forum, the FSA will sort out practical challenges associated with the use of AI in financial institutions and other entities. Simultaneously, the FSA will steadily advance initiatives such as improving the provision of financial services through the use of AI and other technologies, both domestically and internationally, as well as transforming business models.

### (4) Promoting Corporate Risk Management Utilizing Non-Life Insurance

Amid significant changes in the business environment surrounding companies, the FSA will promote risk management utilizing non-life insurance.

• Companies that operate both domestically and internationally are facing an increasing risk of business interruption, primarily due to the growing frequency and severity of natural disasters, as well as the emergence of geopolitical risks. Moreover, the potential for expanded losses is growing,

In collaboration with stakeholders, including the Japanese Bankers Association, we will engage in discussions to further enhance Japan's payment systems, taking into account recent trends in digitalization and developments in international payment systems. Additionally, we will support the steady advancement of the financial industry's voluntary action plan aimed at full digitalization of the bill and check functions.

Financial Services Agency AI Public-Private Forum https://www.fsa.go.jp/singi/ai\_forum/index.html

Publication of AI Discussion Paper (March 4, 2025) https://www.fsa.go.jp/news/r6/sonota/20250304/aidp.html

driven by soaring damages from litigation and inflation. From the perspective of companies that manage such risks appropriately while promoting investments for growth, it is crucial to foster a market where non-life insurance products tailored to the specific risks of each company and project can be traded. For this purpose, the FSA will collaborate with relevant ministries and agencies to facilitate communication between companies and non-life insurance companies regarding specific needs and risk management expertise, aiming to cultivate a shared understanding among all stakeholders.

• In addition, as natural disasters are becoming more severe, the FSA will lead international discussions<sup>27</sup>, including within the G20, regarding the issue of insurance protection gaps which arise when existing insurance does not sufficiently cover risks.

### (5) Offering User-Friendly Financial Services

- The FSA will encourage financial institutions to adopt user-friendly financial services, ensuring that customers facing various challenges and needs, such as the elderly, persons with disabilities, and foreign nationals, can access safe and convenient financial services<sup>28</sup>.
- Given the recent occurrences of disasters, the FSA will encourage financial institutions to establish
  disaster response systems during regular times and implement timely and detailed support for disaster
  victims in times of emergencies.

<sup>27</sup> Discussions are planned in the future regarding the development of practical guidance and tools that assist policymakers and supervisors.

<sup>&</sup>lt;sup>28</sup> Examples include the following initiatives:

<sup>(</sup>Elderly) Assistance for customers with diminished cognitive abilities withdrawing deposits with support from relatives or other third parties; utilization of guardianship support deposits and support trusts.

<sup>(</sup>Persons with disabilities) Developing facilities that accommodate persons with disabilities, responding to services like writing and reading services on behalf of them, as well as the Telecommunication Relay Service.

<sup>(</sup>Foreign nationals) Assisting foreign residents with smooth account opening and managing customers classified as non-residents under the Foreign Exchange and Foreign Trade Act.

### **2.** Ensuring Trust in a Stable, Fair and Secure Financial System

As a financial authority, the FSA will conduct onsite and offsite supervision to ensure the proper operation of financial institutions, including their financial soundness and fraud prevention, as well as the risk management framework that supports these operations. This will ensure trust in a stable, fair, and secure financial system.

### (1) Ensuring the Stability of the Financial System and Addressing Risks

Through methods such as data analysis, interviews, and examinations, the FSA will assess the financial soundness and appropriateness of business conduct of each financial institution, as well as their governance frameworks, which should be designed to ensure these aspects. From a macroprudential perspective, the FSA will identify and analyze vulnerabilities within the overall financial system. Furthermore, as financial groups evolve and develop across sectors and borders, the FSA will continually strive to enhance the quality of onsite and offsite supervision while strengthening international cooperation.

### (i) Toward more effective onsite and offsite supervision

The risk management systems required for financial institutions are becoming more and more complex and sophisticated each year. The reason is to address not only traditional financial risks, such as credit and market risks, but also emerging threats related to money laundering and cyber threats.

Against this backdrop, the FSA must continuously gather and accumulate insights across each sector, regardless of business type, while deepening their expertise and organizing the evaluation perspectives and focal points that contribute to onsite and offsite supervision.

On the other hand, each financial institution varies in management policies, risk-taking status, business environment, the significance of various challenges it faces, and the management resources available for utilization.

To grasp risk characteristics from a cross-cutting perspective and identify priority issues tailored to the scale and characteristics of financial institutions, the FSA has determined to establish a new structure in program year 2025. In this framework, the division in charge of monitoring specialized cross-cutting themes (hereinafter referred to as the "Cross-Cutting Monitoring Division") will be directed by the Vice Commissioner, Systemic Stability and Risk, under the Director-General of the

Supervisory Bureau. This change aims to promote a more integrated and effective operation between the existing supervisory divisions and the Cross-Cutting Monitoring Division.

• Under this framework, representatives in charge of each financial institution, including the Local Finance Bureaus, will receive support based on specialized expertise from the Cross-Cutting Monitoring Division. Simultaneously, they will prioritize issues requiring attention based on each institution's risk profile and systematically implement effective onsite and offsite supervision.

# (ii) Addressing vulnerabilities in the overall financial system (macroprudential policy)

In Japan, financial institutions' business environment is undergoing significant changes, such as the transition to a "world with positive interest rates." Additionally, uncertainties regarding economic and financial conditions, both in Japan and abroad, are on the rise due to various factors, including the effects of trade policies in the United States and other countries. In light of this context, the transmission and interconnectedness of risks within the financial system may undergo major changes. A macroprudential policy approach that closely monitors these factors is becoming increasingly vital.

• The FSA will continue to enhance monitoring in coordination with the Bank of Japan. Specifically, the FSA will closely monitor common risks that affect a broad range of financial institutions, as well as emerging trends in how risks are transmitted and interconnected among these institutions and between the financial system and the real economy. The FSA will implement policy responses as necessary.

### (iii)Responding to risks such as money laundering and cyber threats

In recent years, financial institutions have faced a range of risks and challenges driven by social and technological transformations. These challenges extend beyond traditional areas, such as credit and market risks. To address the common risks and challenges faced by many financial institutions, the FSA will implement necessary measures across various industry sectors, including issuing alerts<sup>29</sup>, while collaborating with relevant industry associations and other relevant entities.

- The FSA will enhance the frameworks of financial institutions in collaboration with relevant ministries and agencies and industry associations regarding AML/CFT measures, with a view toward the FATF's fifth mutual evaluation of Japan.
- The public and private sectors will continue to collaborate on initiatives such as conducting cross-

<sup>29</sup> To facilitate more efficient responses of financial institutions, we will clearly define the positioning of our communications, including alerts, information provision, and requests, whenever possible.

industry cybersecurity exercises (Delta Wall)<sup>30</sup> to address cyber risks that have recently been on the rise, primarily due to geopolitical tensions. This effort aims to strengthen the entire financial industry, including financial infrastructure providers such as stock exchanges.

- In light of recent cyberattacks targeting third-party service providers used by financial institutions, the FSA will examine ways to strengthen risk management for these third parties, including outsourced service providers.
- Regarding climate-related financial risks, the FSA will continue discussions on initiatives and challenges related to financial institutions' risk management and supporting their customers in addressing climate-related risks, taking into account international trends.

# (iv) Implementing effective onsite and offsite supervision tailored to the actual conditions of financial groups, etc.<sup>31</sup>

- Major financial groups manage multiple financial institutions, including banks, trust banks, and securities companies, etc. Relevant divisions work closely<sup>32</sup> to conduct onsite and offsite supervision with a comprehensive view of the entire group. This includes understanding the mutual impacts between different business types within the group, as well as the overall business management (governance) of the group.
- Groups originating from sectors such as telecommunications and distribution that develop financial businesses by leveraging digital technologies are increasingly expanding their presence. The FSA will engage in discussions with these parent companies regarding the group's overall strategy and the positioning of its financial businesses, and conduct more effective supervision of financial institutions.
- Based on these considerations, the FSA will aim to establish the "Banking and Securities Supervision
   Bureau" to further enhance the sophistication of banking and securities supervision.

## (v) Ensuring appropriate management and business operations at cooperative financial institutions

• The FSA will implement effective monitoring and inspections for cooperative financial institutions through close coordination with the Local Finance Bureaus<sup>33</sup>.

Delta Wall has been held nine times to date, with its content constantly updated. The most recent was in October 2024. Regarding the "Cross-Industry Financial Sector Cybersecurity Exercise (Delta Wall IX)" (October 8, 2024) <a href="https://www.fsa.go.jp/news/r6/sonota/20241008/deltawall.html">https://www.fsa.go.jp/news/r6/sonota/20241008/deltawall.html</a>

<sup>31</sup> To support these initiatives, we enhanced coordination among relevant departments at the start of the program year, which included a review of the chain of command.

To further promote this coordination, we clarified the divisions responsible for supervising and inspecting each financial group in program year 2025.
 In program year 2025, we established a dedicated division.

<sup>&</sup>lt;sup>33</sup> In program year 2025, we established a dedicated department to organize, formulate, and comprehensively coordinate monitoring plans to achieve this purpose.

Given the confirmed cases of improper lending and serious legal violations, the FSA will identify
issues early regarding the appropriateness of business management and operations with a view to
taking appropriate action.

### (vi) Contributing to the stability of the global financial system

Financial institutions in Japan and overseas conduct cross-border business, and losses from events like bankruptcy can easily cross jurisdictional boundaries. Even in recent years, internationally active financial groups have faced management crises overseas. To respond appropriately to such situations, it is essential for supervisory authorities in each country to closely exchange information regarding financial institutions and the financial system, thereby building mutual understanding and trust.

• The FSA will reinforce supervisory cooperation with overseas authorities, primarily focusing on internationally active financial groups<sup>34</sup>.

Furthermore, as the increase in crypto-asset transactions and expansion of non-bank financial institutions (NBFIs<sup>35</sup>) such as investment funds continue, international regulatory frameworks on these topics are actively discussed. Financial regulations and supervision—including not only prudential regulations for banks and insurers, which traditionally depend on international agreements, but also AML measures related to crypto-assets and responses to NBFIs—carry the risk that even if one country adopts high regulatory standards, vulnerabilities may still arise in jurisdictions with comparatively lower standards. Additionally, differences in regulatory content and implementation can result in lack of a level playing field<sup>36</sup>.

- In light of these considerations, the FSA will actively participate in international conferences and strengthen cooperation with overseas authorities to ensure the effectiveness and consistency of regulations in Japan and globally, thereby enhancing the capability of proposing and driving our regulatory supervisory policies<sup>37</sup>.
- Furthermore, the FSA will present constructive proposals in international discussions based on our domestic debates, while leveraging insights gained from international policy dialogues to address domestic challenges.

The FSA has been implementing initiatives such as supervisory colleges, where the supervisory authorities of major financial institutions convene to discuss the business models and risks associated with those institutions. Additionally, we are collaborating with overseas authorities to conduct cross-institutional reviews of various domestic financial institutions, focusing on specific risk categories.

<sup>35</sup> Non-bank Financial Institutions

<sup>&</sup>lt;sup>36</sup> These challenges are often referred to as market fragmentation between jurisdictions or regulatory arbitrage.

We will engage in high-level meetings with Asian financial regulators (scheduled to be held as "Asia Day" in 2025), training for financial authorities in Asia and emerging economies through the Global Financial Partnership Center (GLOPAC), and the promotion of bilateral financial cooperation.

# (2) Ensuring Trust in the Fairness and Safety of Financial Institutions and Financial Markets

In recent years, a series of frauds involving the misuse of financial services, along with scandals and misconduct related to financial institutions and markets, has made it essential to restore trust in the fairness and safety of financial institutions and markets. In particular, the FSA and the Securities and Exchange Surveillance Commission (SESC) will investigate misconduct cases at financial institutions, verifying the facts and causes of each incident, while also confirming the formulation and implementation of measures to prevent recurrence. For malicious cases, the FSA/SESC will implement strict disciplinary actions in accordance with laws and regulations, and enhance our monitoring efforts and revise supervisory guidelines as needed to prevent similar incidents.

### (i) Responding to financial crimes

Crimes involving the fraudulent use of financial services, such as online and telephone fraud, investment and romance fraud, as well as unauthorized access, continue to happen frequently. The FSA will promote efforts to prevent damage from such financial crimes.

In addition to conducting cross-industry public awareness campaigns engaging both the public and private sectors to prevent misuse of accounts, the FSA will advance the measures under the "Comprehensive Measures to Protect People from Fraud 2.0<sup>38</sup>", which includes strengthening countermeasures related to internet banking, enhancing capabilities for detecting misuse of deposit and savings accounts, and establishing frameworks for information sharing on misused accounts among deposit-taking financial institutions. Additionally, alongside these measures, the FSA will vigorously promote cooperation between financial institutions and the police.

There have been incidents of unauthorized access and unauthorized transactions (transactions by third parties) in securities accounts on online trading services. These breaches occurred when customer information, including login IDs and passwords, was stolen through fake websites masquerading as legitimate securities companies.

• A draft amendment to the supervisory guidelines regarding enhanced security during login has been published for public comment <sup>39</sup>. The FSA will conduct focused monitoring of progress in implementing these responses and demand efforts to prevent further damage and recurrence.

<sup>38</sup> Comprehensive Measures for Protecting People from Fraud 2.0 (April 22, 2025) https://www.kantei.go.jp/jp/singi/hanzai/kettei/250422/honbun-1.pdf

<sup>&</sup>lt;sup>39</sup> Publication of Proposed Partial Amendments to the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." (July 15, 2025)

### (ii) Enhancement of regulation of market misconduct

Recent investigations by the SESC regarding market misconduct have found some cases for which it is difficult to fully ascertain the illegality under current laws and regulations, although there is doubt of illegality and cases in which the amount of administrative monetary penalty is too low to exert its deterrent effect even though the illegality of the case was ascertained. In light of these cases, a policy proposal by the SESC has been made to the FSA to enhance the functionality of market oversight<sup>40</sup>.

With a view to further enhancing deterrence against violations such as market misconduct, the FSA will advance discussions on reviewing the scope of insider trading regulations, the level of administrative monetary penalty, as well as measures for the SESC to conduct effective inspections<sup>41</sup>.

The SESC will continue to conduct accurate and appropriate market oversight to ensure market fairness and transparency while protecting investors.

- The SESC will conduct securities inspections based on a risk-based approach, respond promptly to
  market misconduct and violations of disclosure regulations, implement strict measures such as filing
  charges for serious and malicious cases, and proactively address cases of investor harm.
- The SESC will work to enhance its capabilities as a specialized market oversight agency, including advancing and streamlining market oversight operations through the use of digital technology.

# (iii)Toward restoring trust in and promoting the sound development of the insurance industry

To prevent the recurrence of fraudulent insurance claims and premium adjustment practices that undermine trust in the non-life insurance industry, the FSA will ensure thorough customer-oriented business conduct and realize a sound competitive environment. Furthermore, in light of information leakage incidents in the insurance industry, the FSA will carry out onsite and offsite supervision to ensure that insurance companies maintain appropriate information management systems.

• In preparation for the enforcement of the amended Insurance Business Act<sup>42</sup>, which was enacted in May 2025, the FSA is developing government ordinances and revising supervisory guidelines. The goal is to ensure proper sales practices, including the comparison and recommendation of products

<sup>40</sup> Proposals in Accordance with Article 21 of the Act for Establishment of the Financial Services Agency (June 20, 2025) https://www.fsa.go.jp/sesc/news/c\_2025/2025/20250620-1.html

<sup>41</sup> Considerations Regarding Strengthening Unfair Trade Practices Regulations, etc. (Financial System Council General Meeting Materials on June 25, 2025)

https://www.fsa.go.jp/singi/singi\_kinyu/soukai/siryou/20250625/2.pdf

Act Partially Amending the Insurance Business Act (Enacted May 30, 2025) https://www.fsa.go.jp/common/diet/217/index.html

at shared insurance agents, encompassing both life and non-life insurance agents. Additionally, these efforts aim to strengthen the obligation for large-sized shared agents to establish appropriate systems and to promote the use of insurance brokers.

- The FSA and Local Finance Bureaus will enhance the supervisory framework to ensure that insurance companies, insurance agents, and other entities conduct appropriate business operations in accordance with the amended Insurance Business Act and related laws.
- To ensure proper information management at insurance companies and other entities, the FSA will implement monitoring in accordance with the revised supervisory guidelines established in August 2025 as a response to information leakage incidents.

# **3.** Continuously Evolving as a Financial Regulator that Serves the Public

To address the current administrative challenges outlined above, the FSA will proceed with necessary organizational strengthening. Aiming to promote business development and innovation across various sectors while further advancing the sophistication of respective supervision and monitoring, the FSA will establish a two-bureau system for the current Supervisory Bureau, which is expected to see a significant increase in workload. This will involve reorganizing it into the "Asset Management and Insurance Supervision Bureau" and the "Banking and Securities Supervision Bureau."

Furthermore, to ensure the delivery of high-quality financial sector policy services over the next five, ten, and twenty years, the FSA will continue to enhance the implementation capabilities of the FSA's organization and staff members. To advance these efforts across the entire agency, the FSA has established the "Financial Services Agency 20-Year Committee" as a team directly under the Commissioner. This team leads all staff members in advancing initiatives aimed at upgrading the FSA. Additionally, in order to improve the sophistication of our financial sector policies through these initiatives, the FSA will maintain close collaboration with the Local Finance Bureaus.

# (1) A Shared Understanding of Financial Sector Policy Objectives Across the Entire Agency

To achieve the vision of an organization capable of continuous self-transformation for the benefit of the public and the national interest, it is essential to occasionally revisit our starting points and deepen our shared understanding within the agency regarding the objectives of financial sector policies<sup>43</sup>. This understanding forms the foundation of organizational reform.

- All staff members—from senior management to junior staff members—will enhance their understanding of the connection between their own work and financial sector policy objectives.
- To feel familiar with the financial sector policy objectives, all staff members will participate in discussions to formulate a symbolic and concise slogan.
- By advancing these initiatives along with those described below to promote staff development and

Young and mid-career staff members have expressed that gaining a deeper understanding of how their individual roles contribute to the financial sector policy objective of "increasing the people's welfare through sustainable growth of businesses and the economy as well as stable asset building" would enhance their job satisfaction.

improve operational efficiency, the FSA will further enhance the motivation of its staff members and thereby facilitate the recruitment of outstanding personnel.

### (2) Developing the Skills and Capacities of Staff Members

By the growth of each staff member and continuous awareness of its contribution to the public, the FSA can achieve an organization capable of continuous self-transformation to meet the objectives of financial sector policies. The FSA will support this growth alongside individual efforts.

- HR personnel will engage in direct dialogue with each staff member to discuss assignment periods
  and career paths, implementing personnel allocation based on that, and enhance specialized training
  programs based on staff members' feedback.
- The FSA will improve its ability to comprehensively understand realities through data and field surveys, along with its enhanced coordination skills with other organizations, enabling the FSA to formulate and implement policies effectively in response to environmental changes. To address challenges that cannot be resolved solely through financial sector policies, the FSA will conduct effective and efficient public relations activities while building domestic and overseas networks, including public-private partnerships and close cooperation with other ministries and agencies.
- The FSA will further strengthen collaboration with academia<sup>44</sup> to enhance research, analysis, and policy formulation capabilities in financial sector policies by incorporating external expertise through various channels, such as joint research, finance and economics study groups, and symposiums.
- Given the global interconnections of markets and economies, the FSA will develop talent capable of formulating and implementing policies both domestically and internationally, based on understanding of conditions in both contexts.
- The FSA employs a diverse range of personnel, including individuals with private-sector experience, as well as lawyers and certified public accountants, who are hired on fixed-term contracts. These professionals contribute to address emerging administrative challenges appropriately. The FSA will continue to actively recruit such personnel, maintain systems to maximize their capabilities, and steadily accumulate and pass down their specialized knowledge and contributions within the organization.

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In May 2023, the FSA concluded a basic agreement with the University of Tokyo on research collaboration. https://www.fsa.go.jp/news/r4/sonota/20230531/20230531.html

### (3) Creating a Flexible and Efficient Workplace to Enhance Productivity

The FSA has made certain progress in improving operational efficiency and creating a more flexible, efficient workplace environment. However, the FSA will continue to pursue further environmental improvements, including office reforms, by utilizing new technologies. This approach will allow every staff member to work flexibly and efficiently, maximizing their potential.

- The use of generative AI has the potential to accelerate these initiatives significantly. The Chief AI Officer (CAIO) and AI Transformation Officer<sup>45</sup>, established in the summer of 2025, will lead and implement operational reforms that utilize generative AI within the agency.
- To foster a workplace environment where staff members can engage in open, vigorous discussions, the FSA will further advance initiatives that promote bottom-up communication. From the perspective of its usability, the FSA will consider revising the Open Policy Lab<sup>46</sup>, a framework that enables staff members to make voluntary policy proposals regardless of their duties.
- The FSA will continue to promote the active use of telework, flextime, and leave systems within
  close coordination in the team, enabling each staff member to work flexibly and sustainably
  according to their life stage, such as balancing childcare and caregiving with work.

Furthermore, high-quality management is crucial for maximizing the capabilities of all staff members with diverse backgrounds.

 The FSA will enhance management capabilities both organizationally and individually by making the management policies of the senior management visible to staff members and introducing focused training for senior management.

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<sup>&</sup>lt;sup>45</sup> The CAIO position was established across all ministries and agencies to promote the adoption of generative AI while improving risk management within the government. The AI Transformation Officer position was created independently within the FSA under the CAIO.

<sup>46 &</sup>quot;Open Policy Lab Initiative" https://www.fsa.go.jp/common/about/kaikaku/openpolicylab/index.html

