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Contents

Conferences(P1-)

[P1](#) Joint session of the 53rd general meeting of the Financial System Council and the 41st meeting of Sectional Committee on Financial System

Policy Commentary Corner (P6-)

[P3](#) The JFSA Strategic Priorities July 2024 - June 2025

NAGAMINE Midori, Deputy Director
KAWASAKI Kanako, Section Chief
YASUTOMI Koki, Staff member
Strategy Development Division,
Strategy Development and Management Bureau

[P6](#) Monitoring Priorities for Securities Businesses
July 2024 - June 2025

AOYAMA Ryo, Deputy Director
KUBOTA Kumi, Section Chief
Securities Business Monitoring Division, Executive Bureau, Securities and
Exchange Surveillance Commission

Notice (P9-)

[P10](#) Japan Weeks 2024
(Core Week: September 30 to October 4, 2024)

JFSA's Major Activities in June ([P11](#))

Joint session of the 53rd general meeting of the Financial System Council and the 41st meeting of Sectional Committee on Financial System

The Joint Session of the 53rd general meeting of the Financial System Council and the 41st meeting of Sectional Committee on Financial System was held on August 26 this year*1.

At the Joint Session, the Parliamentary Vice-Minister Kanda delivered a speech, followed by two new consultations and a report by the Working Group on Capital Market Regulations.

1. Consultations

The Financial System Council was consulted as follows. In the future, a working group will be established under the Financial System Council to discuss specific issues.

(1) Consideration of the payment services system, etc.

Since 2020, in the field of remittance and payment services, in response to economic and social changes such as digitalization, we have taken measures such as establishing a flexible structure in the regulation of funds transfer services, strengthening the regulation of cryptotasset exchange services, and creating electronic payment instruments services.

In the fields of remittance and payment services for which we have taken measures in this way, and credit services, the expansion of users and usage patterns, as well as the emergence of new financial services such as advance payment services that have appeared in recent years can be observed at present.

In light of the above, since it becomes necessary to consider the ideal regulatory framework that contribute to the sound development of business while taking user protection, etc. into account, the following consultation was held:

Matter to be consulted

Based on the expansion of users and usage patterns for remittance, payment, and credit services, and the emergence of new financial services, consideration should be given to appropriate regulatory framework while taking user protection, etc. into account.

(2) Consideration of measures to ensure credibility and sound development in the insurance market

In response to the occurrence of fraudulent insurance claims and cartels on insurance premiums in the non-life insurance industry in recent years, we held meetings of the Expert Panel on Structural Issues and Competition in the Non-Life Insurance Sector from March to June, mainly to consider ideal systems and monitoring, and a report summarizing discussions at these meetings was published on June 25 this year*2.

In light of the content of this report, since it becomes necessary to consider the ideal regulation including insurance agents and insurance brokers, the following consultation was held:

Matter to be consulted

In light of the recent cases of fraudulent insurance claims and cartels on insurance premiums in the non-life insurance industry, consideration should be given to measures necessary to ensure credibility and promote the sound development of the market by realizing customer-oriented business conduct and a sound competitive environment.



Photo: The Parliamentary Vice-Minister Kanda reading out the consultation document

*1 Please refer to <https://www.fsa.go.jp/en/newsletter/weekly2024/601.html#e01> for the agenda and handouts.

*2 Please refer to <https://www.fsa.go.jp/en/newsletter/weekly2024/593.html#e12> for the report of the Expert Panel on Structural Issues and Competition in the Non-Life Insurance Sector.

2. Report

A report was made on the “Report of the Working Group on Capital Market Regulations - Toward the Development of Financial Product Governance”, which was published in July this year*3. The summary of this report is as follows. Based on the content of the report, the Financial Services Agency (FSA) will continue to develop financial systems.

(1) Development of the principles for financial product governance

In order to achieve stable asset formation for households and realize a virtuous cycle of growth and distribution, it is important for product governance to function effectively that financial products are provided in the best interests of customers as a whole of structuring and sales financial institutions. For this reason, a proposal was made to add the “supplementary principles” for financial product governance to the “Principles for Customer-Oriented Business Conduct”, which include the following:

(Supplementary principles for financial product governance)

- Clarification of the philosophy on financial product governance under management leadership
- Development of internal control systems and quality control mechanism to ensure the effectiveness of financial product governance and each process of structuring, providing and managing financial products
- Verification of the quality of financial products when they are structured, identification of target customers, and information sharing between structuring and sales financial institutions
- Verification of the performance of financial products after they have been provided, and improvement of investment and product provision through information linkage between structuring and sales financial institutions
- Provision to customers of easy-to-understand information on investment control systems and governance
(Additional notes to the “Principles for Customer-Oriented Business Conduct” as required measures for distributors)
- Following “Principle of Suitability” on their own responsibility, taking into account target customers provided by manufacturer
- Sharing information with structurer on customers’ attributes and response that

actually purchased the financial products

(2) Other issues related to financial and capital markets

(i) Shortening of the stock settlement period

As implementation and consideration of the shortening of the stock settlement period to the trade date and one business day following that date (T+1) progresses internationally, a recommendation that market participants should start practical consideration of the methods and issues for adopting T+1 in order to ensure that the securities settlement system in Japan did not fall behind international standards was made.

(ii) Investment-type crowdfunding

Recommendations regarding regulations on investment-type crowdfunding:

- As the need for a scheme to unify shareholders into a fund increases, in order to reduce the burden on that scheme, clarify the possibility of registration of an investment management business with the personnel structure and business operation system suited to the actual situation through FSA’s guidelines, etc. and take necessary measures to ensure regulatory consistency with equity investment-type crowdfunding which has a similar scheme; and
- While solicitation to customers with means other than electromagnetic means is prohibited, permit solicitation to corporate professional investors with telephone calls or visits, etc.,

and other recommendations were made.



(Photo: General meeting of the Financial System Council)

*3 Please refer to <https://www.fsa.go.jp/en/newsletter/weekly2024/594.html#e07> for the Report of the Working Group on Capital Market Regulations.

The FSA Strategic Priorities July 2024 - June 2025

NAGAMINE Midori, Deputy Director

KAWASAKI Kanako, Section Chief

YASUTOMI Koki, Staff member

Strategy Development Division, Strategy Development and Management Bureau

Publication of the FSA Strategic Priorities

On August 30 this year, the Financial Services Agency released the FSA Strategic Priorities July 2024-June 2025*1. This is to clarify the objectives of financial administration and describe what policy the FSA will take for financial administration during this program year to achieve them. With to this policy, the FSA aims to further enhance the transparency of financial administration, promote shared awareness among authorities, financial service users, financial institutions, and market participants, and for the policy to lead to the realization of better financial administration through constructive dialogue.

The Financial Services Agency welcomes comments on the FSA Strategic Priorities as needed. We will use this information for future reference, so please send your comments to the reception desk on our website (<https://www.fsa.go.jp/opinion/>).

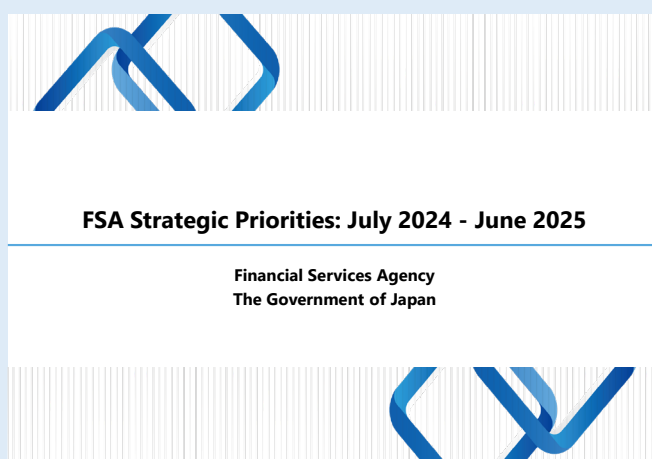
Initiatives in the Program Year 2024

The program year 2024 marks 10 years since the establishment and publication of the FSA Strategic Priorities. We will continue to pursue our mission to increase the welfare of the people through sustainable corporate and economic growth of businesses and stable asset building, by striking a balance among: (i) stabilizing the financial system and having financial institutions fully perform their financial intermediary function, (ii) ensuring user protection and enhancing user convenience; and (iii) securing market fairness and transparency over, and invigorating, the market. In order to fulfill this mission, in addition to steadily implementing and continuing the initiatives to date, the FSA will look ahead to structural changes in the economy and society and heightened uncertainties in financial,

economic and other conditions at home and abroad, and continuously review the policies and tools and swiftly implement reforms of financial administration.

Based on these thoughts, we will focus on the following three pillars in the program year 2024:

- I. **Contribute to sustainable economic growth through financial mechanisms**
- II. **Ensure the stability and reliability of the financial system and the provision of high-quality financial services**
- III. **Enhance the FSA's administrative capacities**



FSA Strategic Priorities: July 2024 - June 2025

Financial Services Agency
The Government of Japan

*1 Published on August 30, 2024 (Available in Japanese. The English version will be available in December 2024.)

<https://www.fsa.go.jp/news/r6/20240830/20240830.html>

I. Contribute to sustainable economic growth through financial mechanisms

Japan's economy has been recovering at a generally moderate pace, and shows signs of a complete exit from deflation and a transition to strong and sustainable economic growth, as well as improvements in the investment and employment environment. In light of this, the FSA aims to promote sustainable growth in Japan's economy through the enhancement of productivity and corporate value by utilizing the mechanisms of financial and capital markets, and to realize a virtuous cycle in which the benefits reward the households, which then lead to further investment and consumption.

The FSA will steadily implement the measures set forth in the Policy Plan for Promoting Japan as a Leading Asset Management Center, for each entity constituting the investment chain*2. For households, the FSA will promote the appropriate use of the new NISA and enhance financial and economic education in cooperation with other organizations, including the Japan Financial Literacy and Education Corporation (J-FLEC), taking into account the importance of long-term, accumulative and diversified investment in order to support the stable asset formation of a wider range of people. For companies, and financial and capital markets, the FSA will promote corporate governance reforms and further ensure market reliability. The FSA will also strengthen the functions of asset management businesses and asset owners responsible for managing household financial assets, and work to promote the provision of growth capital to startups. At the same time, the FSA will strengthen public relations and communications both in Japan and overseas, including the holding of the Japan Weeks.

In addition, the FSA will work on measures that contributes to improving the productivity of a society. Specifically, the FSA will promote sustainable finance through improving and enhancing disclosure of sustainability-related information by companies and promoting financial institutions' support for companies in decarbonization efforts. In addition, in order to respond to the transformation of financial services using digital technology, the FSA will review regulations on remittance, payment, and credit services, and work on issues including the development of discussion papers for sound and effective use of AI at financial institutions.

II. Ensure the stability and reliability of the financial system and the provision of high-quality financial services

The foundations for such sustainable economic growth are stable and reliable financial systems, and high-quality financial functions. As current financial markets move toward "a world with interest rates", the FSA will respond to uncertainties surrounding domestic and international economic and financial markets, and structural changes in the economy and society. The FSA will ensure the appropriate business operation and soundness of financial institutions through in-depth inspection, supervision and other activities, and demonstrate high-quality financial functions that support the lives of individuals and the growth of businesses.

The FSA will continue to monitor financial institutions' preparedness for managing risks, including the response process under economic and financial stress, while closely monitoring developments in financial and economic conditions. The FSA will also strengthen the supervisory framework for enterprise group management in order to respond to the expansion of business across sectors and borders by financial institutions. In addition, the FSA will support the sustainable growth of business operators by means such as promoting support for M&A activities by financial institutions and developing an environment for the utilization of the newly-legalized Enterprise Value Charge. The FSA will also engage in dialogue to balance the provision of high-value-added support and services that meet customer needs with the sustainability of financial institutions' business model.

Furthermore, the FSA will encourage countermeasures against financial crimes and money laundering, response to economic security, and strengthening of cybersecurity and IT governance, etc. The FSA will also review the status of responses to climate-related financial risk by financial institutions, taking into account international trends and the growing importance of transition finance. The FSA will also take measures to restore the reliability and promote the sound development of the insurance market, and conduct monitoring to ensure customer-oriented business conduct so that households can purchase financial products with peace of mind.

*2 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.

III. Enhance the FSA’s administrative capacities

In order to realize the missions of financial administration, it is important to improve the FSA’s administrative capabilities so that it can respond flexibly to the challenges of financial administration varying in response to changes in the economy, society and market environment. From this perspective, the FSA will work to enhance the financial administration by utilizing data to understand the actual situation in a

multifaceted manner and further cooperating and collaborating with the Local Finance Bureaus. The FSA will also promote initiatives to improve its organizational capabilities by building up the skills and capabilities of junior and other officials and creating a flexible and efficient work environment to enhance productivity.

Summary

In view of global and domestic social and economic structural changes, as well as heightened uncertainties in the economy and financial markets, the FSA is committed to advancing reforms and continuously reviewing its policy measures and tools.

I. 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.

II. 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(FIs) and promote the provision of high-quality financial services that support people and businesses.

III. 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.

Monitoring Priorities for Securities Businesses (July 2024 - June 2025)

AOYAMA Ryo, Deputy Director
KUBOTA Kumi, Section Chief

Securities Business Monitoring Division, Executive Bureau, Securities and Exchange Surveillance Commission

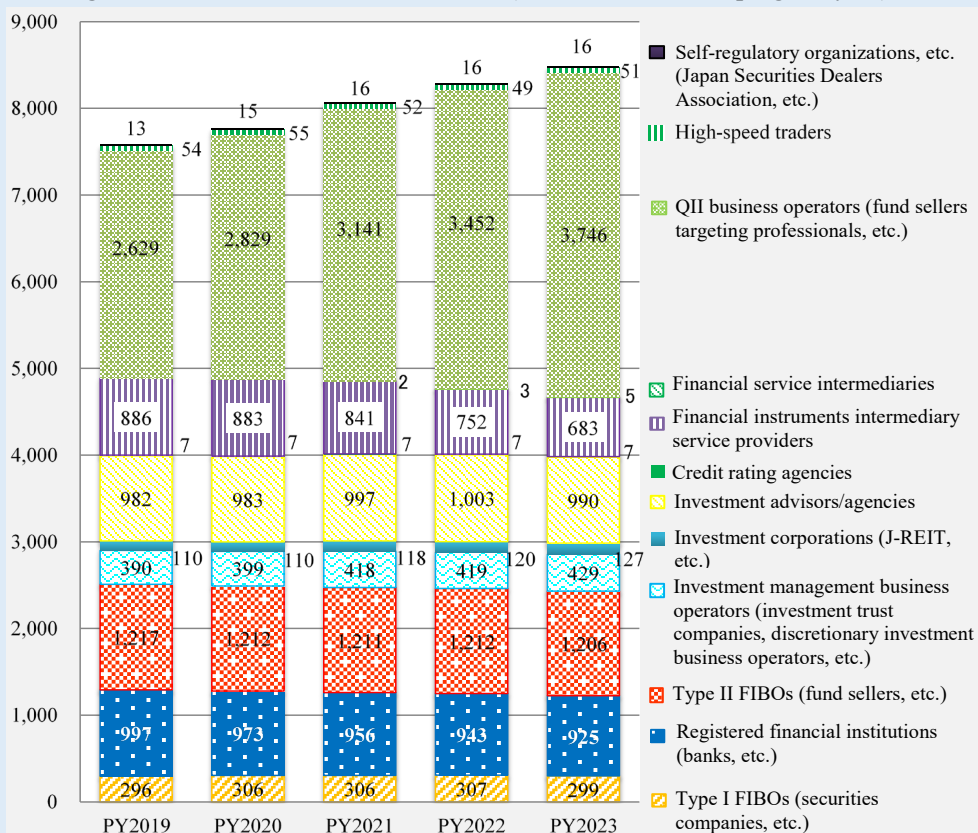
The below provides an overview of the “Monitoring Priorities for Securities Businesses (July 2024-June 2025)” released by the Securities and Exchange Surveillance Commission (SESC) on August 1, 2024.

In order to conduct securities business monitoring effectively and efficiently for over 8,000 financial instruments business operators (FIBOs) such as securities companies and investment management business operators, the SESC appropriately ascertains the effectiveness of governance, characteristics of businesses, such as services and products and transaction types, t

he appropriateness of risk management, and financial conditions, etc., and selects FIBOs for inspection in accordance with the characteristics of their risks.

In conducting its securities business monitoring, the SESC will cooperate with the Financial Services Agency (JFSA)’s relevant divisions, and consider the environment surrounding FIBOs, changes to regulatory frameworks, findings through the securities business monitoring over the past business year, and the JFSA’s policies such as “The JFSA Strategic Priorities” .

[Changes in the numbers of monitored FIBOs (as of the end of each program year)]



* Securities business monitoring covers both "inspections (on-site monitoring)" and "wide range of monitoring activities other than inspections for widely gathering information on FIBOs (off-site monitoring)."

1. Industry-wide monitoring priorities

The following five industry-wide monitoring priorities are cited.

(i) Internal control environments with a focus on appropriateness of investment solicitation in accordance with the principle of suitability, and sales operations based on customer-oriented business conduct (such as whether the FIBOs' sales of complex or highly-risky products are appropriate, whether they do not solicit unreasonable short-term rollovers, and whether the sales, solicitation, and customer information management in their bank-securities collaborative business are appropriate.)

(ii) Business model changes along with progress in digitalization, etc., and the development of internal control environments in response to such changes.

(iii) Sufficiency of cybersecurity measures (including against unauthorized access in online trading), and system risk management (including management of system development and operation and management of trustees) in response to progress in digitalization.

(iv) Firm establishment of internal control environments for AML/CFT

(v) Implementation of measures to improve or prevent the recurrence of matters pointed out in internal audits or SRO examinations

In addition to the above, the SESC will flexibly examine other items in response to specific initiatives that reflect the changing environment surrounding FIBOs.

2. Monitoring priorities by FIBOs' size and business type

The following are some examples of monitoring priorities by size and business type.

➤ Major securities business groups: Governance

and risk management environments that support global business operations, and internal control environments including for detecting and preventing market misconduct, etc.

➤ Foreign securities firms: Internal control environments in response to the overseas outsourcing of back-office operations and control environments for system risk management

➤ Online securities firms: Control environments for managing outsources in response to the expansion of face-to-face sales utilizing Financial Instruments Intermediary Service Providers, business operation environments in light of business models changes such as provision of new products and services, and internal control environments including effective trade management suited to the increase of new accounts opened and trading volume associated with the new NISA

➤ Semi-major/regional securities firms, etc.: Business model sustainability, the principle of suitability. Internal control environments at those firms whose major shareholders or business management systems have changed, from the viewpoint of their business models or governance

➤ Foreign currency margin transactions business operators: internal control environments regarding the advertising and sales/solicitation regulations, settlement risk management including stress testing.

➤ Investment management business operators: Actual investment practices, control environments for managing investment (including those outsourced) and for managing conflicts of interest (including whether the validity of transactions can be checked ex post facto).

- Investment advisors/agencies: Solicitation and advertisement through false explanation, breach of fiduciary duty. Internal control environments at those firms whose major shareholders or business management systems have changed, from the viewpoint of their business models or governance
- Type II FIBOs, and business operators, etc. engaging in specially permitted businesses for qualified institutional investors: Funds claiming high returns, the existence of investment projects. Internal control environments at those firms whose major shareholders or business management systems have changed, from the viewpoint of their business models or governance
- Registered financial institutions: Internal control environments regarding appropriateness of investment solicitation and the principle of suitability
- Financial instruments intermediary service providers: Appropriateness of investment solicitation, and sufficiency of management by their entrusting FIBOs
- Unregistered business operators: Exercising investigative authority proactively to file a petition with the court for a prohibition and stay order against illegal conduct, and enhancing information dissemination, including the public disclosure of the business operators, their representatives and illegal conduct, etc.

【Number of inspections completed (Unit: cases)】

Category \ Year	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Number of inspections completed	56	76	53	32	48	63
FIBOs	49	66	44	28	39	49
Type I FIBOs	31	46	35	22	24	27
Type II FIBOs	7	4	2	0	3	5
Investment advisors/agencies	7	11	3	2	5	13
Investment management business operators	4	5	4	4	7	4
Registered financial institutions	2	3	0	2	1	9
QII business operators	2	2	0	0	2	0
Financial instruments intermediary service provider	3	1	4	0	2	4
Credit rating agencies	0	0	2	0	0	0
Self-regulatory organizations, etc.	0	2	0	2	0	0
Investment corporations	0	1	1	0	4	0
Others	0	1	2	0	0	1

■ Approach to monitoring securities businesses

The SESC will identify and assess risks at FIBOs in collaboration with relevant JFSA divisions, and take a risk-based approach to select FIBOs for inspection. Its inspections will focus mainly on the following cases.

- (i) an FIBO has breached a relevant law and/or regulation or has concerning business operations, which necessitates prompt in-depth verification;
- (ii) an FIBO's actual business operations cannot be fully comprehended through monitoring-based information analyses alone (including where the FIBO has never been inspected or not been inspected for a long time, where its business operation environments or business models have been changed due to acquisition.);
- (iii) there is a need to ascertain an FIBO's actual status regarding risks of financial instruments it deals in and the appropriateness of segregation of customer assets.

In its inspections, the SESC will seek to conduct verification and point out problems in a practically meaningful manner, to analyze the whole picture of the problems to identify their root causes, and to help develop effective measures to prevent recurrence, rather than merely pointing out problems and making recommendation for administrative disciplinary actions. Furthermore, when the SESC identifies the need to improve business operations before any potential issues materialize, it will share the awareness with the inspected FIBOs to encourage actions such as building effective internal control environments.

■ Cooperation with relevant organizations and dissemination of inspection results

The SESC will work closely with the Local Finance Bureaus (LFBs) from the planning stage of monitoring and inspection, and exercise its coordination function to support their initiatives. As necessary, the SESC will conduct joint inspection with, and arrange inspection support between, the LFBs.

The SESC will continue to work closely with SROs, and seek to further expand and deepen the collaboration. Through timely and bi-directional information sharing on inspection and supervision findings and awareness, the SESC will conduct its securities business monitoring effectively and efficiently.

As necessary, the SESC will encourage voluntary improvement efforts by inspected FIBOs by providing feedback on identified problems and root causes in collaboration with relevant JFSA divisions, and by sharing inspection results also with their audit-related staff and outside directors.

The SESC will also endeavor to provide information about its perspectives in a specific and straightforward manner, including through the "Overview of Securities Business Monitoring and Case Studies." To be more useful, since the July 2022 – June 2023 edition, the document has shown the names of business operators against which the SESC made recommendations based on inspection results.

Japan Weeks 2024

(Core Week: September 30 to October 4, 2024)



The Government of Japan is advancing its initiatives to promote Japan as a leading asset management and financial center.

As part of these initiatives, the first Japan Weeks events were held last fall. During the period of Japan Weeks, 25 events were held with more than 10,000 participants from Japan and overseas, including foreign investors and asset management companies.

In order to continuously strengthen communication with overseas investors and others, the second Japan Weeks will be held also this year. On August 30, prior to the Japan Weeks, the Meeting on Promoting Japan as a Leading Asset Management Center and Enhancing the Attractiveness of the Japanese Financial Market was held at the Prime Minister's Office, and Prime Minister Kishida, Minister for Financial Services Suzuki, Parliamentary Vice-Minister of the Cabinet Office Kanda and other senior officials met with the leaders of the world's leading asset management companies (photos).

This year, more than 40 events will be held during the period with the core week from September 30 to October 4, including previous and subsequent weeks, a significant increase over last year. The First Asset Management Forum Japan will also be held on October 3 during the period as a communication platform among asset management companies in Japan and abroad.

For details of the events, please visit the special website. Please pay attention!

[Special website for Japan Weeks 2024]

https://www.fsa.go.jp/internationalfinancialcenter/lp/japanweeks2024/index_en.html



JFSA's Major Activities in August (August 1 to August 31, 2024)

- [Updated : Japan Corporate Governance Forum \(August 30\)](#)
- [Japan Fintech Week 2025 and Newsletter \(August 27\)](#)
- [Updated the “Cold Calling” list \(as of July 31, 2024\) \(August 26\)](#)
- [Joint session of the 53rd general meeting of Financial System Council and the 41st meeting of Sectional Committee on Financial System \(August 26\)](#)

JFSA's official English X(formerly Twitter) account
https://x.com/JFSA_en



We are promoting
information dissemination
using X (formerly Twitter)!

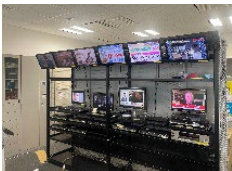
Editorial Postscript

The JFSA Strategic Priorities July 2024-June 2025 was published on Friday, August 30, as published every year. For an overall explanation, please refer to the “[Policy Commentary Corner](#)” (see page 3). The Public Relations Office has included the basic stance of “engaging in effective and efficient policy publicity and media response as an organization.” (See page 26 of the main text of the JFSA Strategic Priorities.)

The Public Relations Office has two main functions. As is the case with the Access FSA, it has a “policy publicity function” to publicize policy itself, and a “press response function” to explain mainly negative issues to the media. I believe that the Public Relations Office is required to maintain these functions constantly throughout the organization and perform them in a consistent manner. I would like to pursue the basics carefully and steadily.

The second half of September is here, and a sense of autumn has finally arrived. It is also a time to tackle policy issues in earnest, with the structure established after the personnel changes in July and the start of a new working group of the Financial System Council. The Public Relations Office will also work to steadily implement the measures set forth in the JFSA Strategic Priorities and demonstrate the results.

(Inside (1) of the Public Relations Office)



(Inside (2) of the Public Relations Office)



(Press conference room of the Financial Services Agency)



(View from the press conference room)



HONDA Koichi, Director of the Public Relations Office, FSA
Edited and issued by the Public Relations Office, FSA

(*The opinions expressed in this report are the personal views of the author and do not necessarily reflect the organization with which the author is affiliated.)