

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

**1. Materials submitted to the G20 Finance Ministers and Central Bank Governors
Meeting in October**

- On October 12 and 13, 2022, the G20 Finance Ministers and Central Bank Governors Meeting was held in Washington, D.C. in the USA and the chair's summary was published after the meeting. Additionally, on November 15 and 16, the last Leaders' Summit under the presidency of Indonesia was held, and India is to succeed to the presidency in December.

In 2022, G20 member countries discussed diverse issues in the financial sector (such as sustainable finance, non-bank financial intermediation, enhancement of cross-border payments, climate-related financial risks, crypto-assets, financial inclusion, and money laundering). Out of the materials submitted to the G20, reports on sustainable finance and crypto-assets are introduced below.

<Sustainable finance>

- Regarding sustainable finance,
 - 2022 G20 Sustainable Finance Report prepared by the G20 Sustainable Finance Working Group, and
 - Progress Report on Climate-Related Disclosures submitted by the FSBwere submitted.

"2022 G20 Sustainable Finance Report"

In order to achieve net-zero by 2050, transition finance for the steady transition of sectors where emissions reductions are hard to achieve has come to be increasingly recognized as being of great importance, and has been discussed at many international conferences.

At the G20 meeting in 2022 in particular, a framework for transition finance was established and methodologies for identifying transition activities and investments

and principles on information provision to investors were prescribed.

Triggered by the COP 26 in 2021, the number of financial institutions that have committed to achieving net-zero has increased rapidly. On the other hand, problems remain, such as difficulties in obtaining reliable data on estimated emissions from SMEs, etc. and in fulfilling accountability about managed phase-out of sectors with high emissions. The G20 meeting in 2022 established high-level recommendations targeting the authorities, international networks and financial institutions in order to strengthen the reliability of financial institutions' commitments based on these points. It is expected that G20 member countries will share their best practices and follow up initiatives to ensure reliability of the commitments and to trace the progress thereof in the implementation stage.

"Progress Report on Climate-Related Disclosures"

The FSB's report on climate-related disclosures presents

- ✓ the status of establishing an international framework and the progress of initiatives by individual countries, and
- ✓ issues that individual countries face when implementing the climate-related disclosure reporting standard established by the International Sustainability Standards Board (ISSB).

In relation to the establishment of an international framework, the International Auditing and Assurance Standards Board (IAASB) is working to develop a new sustainability-related assurance framework and the International Ethics Standards Board for Accountants (IESBA) is working to revise sustainability-related ethics and independence standards.

<Crypto-assets>

- Regarding crypto-assets, the FSB submitted three reports and the chair's summary, which was published after the meeting, welcomes these discussions.
- Specifically, the three reports submitted by the FSB are as follows:
 - The first is a consultative document of nine high-level regulatory and supervisory

recommendations concerning crypto-assets, which will be comprehensively applicable to all crypto-asset-related activities, issuers, and service providers that may pose risks to the stability of the financial system.

- The second is a report concerning the review of the high-level recommendations for the regulation, supervision and oversight of "global stablecoin" (GSC) arrangements, which were published in October 2020. In light of the confusion, etc. of the crypto-asset market in the first half of 2022, the report intends to surely ensure the right to claim redemption.
 - The third is a report concerning the positioning of these draft recommendations and policies for the FSB's future activities. The FSB plans to finalize its recommendations concerning crypto-assets and GSC by the summer of 2023 and conduct review of the implementation statuses of individual jurisdictions by the end of 2025.
- In response to international discussions on crypto-assets, the United States and European countries have been developing regulatory frameworks in earnest, and discussions regarding how to implement the FSB's recommendations globally will be further deepened.

2. Results of the IOSCO Annual Meeting

- From October 17 to 19, 2022, the International Organization of Securities Commissions (IOSCO) held its annual meeting, in the face-to-face style for the first time in three years, in Marrakesh, Morocco. The results are outlined below.
- At the Board meeting, members discussed such issues as sustainable finance, NBFIs, and the creation of a cooperative relationship with the International Valuation Standards Council (IVSC) for establishing international standards for valuation of financial instruments. Mr. ARIIZUMI, Vice Commissioner for International Affairs of the FSA, was appointed as Vice-Chairperson of the IOSCO Board for the term from 2022 to 2024.
- The Asia-Pacific Regional Committee (APRC) finalized the Multilateral

Memorandum of Understanding for Supervisory Cooperation, which is an information-sharing mechanism for supervisory cooperation among securities regulators, and many authorities, including the FSA, signed it. In contrast to IOSCO MMoU, which is a conventional framework for information exchange based on law enforcement, the APRC Supervisory MMoU enables the signatories to widely exchange supervisory information. Therefore, it is expected to further facilitate the acquisition of information concerning cross-border traders in particular.

- This is the first IOSCO framework in this field and the FSA has particularly been leading the discussion under its leadership as APRC Chair. Mr. ARIIZUMI, Vice Commissioner for International Affairs of the FSA, was newly appointed as Chair of the APRC in July 2022, and the FSA will continuously lead relevant discussions.
- These committees are playing the roles of having discussions and making adjustments concerning how to deal with global supervisory problems, and the appointment of Mr. ARIIZUMI as Vice Chair of the IOSCO Board and Chair of the APRC is of great importance from the perspective of reflecting Japan's circumstances and ideas in international discussions. We would like to continue closely collaborating with you.

3. Disclosure of development cost of structured bonds

- For people's stable asset building, it is indispensable to secure financial institutions' customer-oriented business conduct at each stage of development, sale and management, etc. of financial instruments.
- At the stages of development and sale of structured bonds, it is often the case that a financial institution that develops and wholesales structured bonds and a financial institution that sells them to individuals are different. In such cases, customers substantially bear the cost for development and wholesale, in addition to sales commissions. Nevertheless, information disclosed to customers is often only about sales commissions. From a customer-oriented perspective, it is preferable that all cost, including that at the stage of development, is disclosed, and we have presented such awareness on various occasions.

- As we have often received opinions that financial institutions that develop structured bonds are relatively reluctant to disclose cost, we are now surveying the current status of cooperation offered by financial institutions, including foreign-affiliated ones, that develop structured bonds in disclosing information on development cost to financial institutions that sell them. We consider it preferable that the latter ask the former for cooperation for disclosure and that the former positively respond to such requests, and expect that an initiative by the financial industry as a whole will make customers' substantial cost burden more transparent.
- We have already announced the conducting of monitoring of financial institutions dealing with structured bonds regarding the following two points: (i) whether the management deliberates on continuation of transactions of structured bonds based on the understanding of their characteristics (the fact that they are complicated instruments and are too difficult for some customers, and may not produce returns commensurate with their risks and costs); and (ii) when continuing transactions, whether financial institutions deliberate on customers to be targeted and what explanations they should provide to sell structured bonds that meet customers' true needs.
- At present, there are many financial institutions that are dealing with structured bonds without disclosing the development cost thereof, but they should consider again whether such sales attitude conforms to their own policies concerning customer-oriented business conduct in relation to the point mentioned in (ii) above.

4. Meticulous customer services for ongoing customer due diligence

- We understand that individual financial institutions have been updating customer information for ongoing customer due diligence.
- Although we have heard of failures to obtain customers' understanding of ongoing customer due diligence, the FSA's Counseling Office for Financial Services Users has received only several complaints so far.

- We ask for your continued cooperation to ensure that your staff members handling customers' inquiries fully understand anti-money laundering measures, etc. through a risk-based approach and make proper responses.
- For updating customer information for ongoing customer due diligence, it is not necessary to conduct surveys for all customers at the same time on the same content. Some financial institutions conduct surveys depending on individual customers' risks or otherwise endeavor to raise response rates.
- The FSA has been carrying out PR activities on ongoing customer due diligence, such as by using government publicity. We revised the FAQ on the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism in March 2022, wherein the concept of information update is clarified. Please take a look at it.

5. Alert for transactions of crypto-assets

- In a report published on October 7, 2022, the Panel of Experts of the UN Security Council Sanctions Committee on North Korea points out that
 - a cyberattack group called Lazarus, which is allegedly an organization under the North Korean authority,
 - has been conducting cyberattacks targeting companies and service providers dealing with crypto-assets and has been illegally acquiring crypto-assets.
- Additionally, it has been strongly suspected for years that Japanese crypto-asset service providers are also targeted by cyberattacks carried out by Lazarus.
- In light of such circumstances, on October 14, 2022, the FSA issued a notice targeting individuals and businesses dealing with crypto-assets, jointly with the relevant authorities (the National Police Agency and NISC), in order to call attention to the following:
 - to be aware of the fact that organized cyberattacks targeting crypto-assets have been conducted;
 - to take appropriate security measures; and
 - to provide information immediately to the government when any suspicious

activity is detected.

- If you consider commencing business utilizing crypto-assets or a blockchain, you should pay close attention to these points.

6. Financial institutions' promotion of innovation

- In order to secure sustainable business models, it is effective for financial institutions to absorb achievements of the financial businesses, or FinTech companies in particular, across the world under clear business strategies.
- We understand that financial institutions have been positively promoting innovation through dispatching their staff to Silicon Valley or other places worldwide from such perspective.
- On the other hand, levels of utilizing dispatched staff members vary by financial institution, and the following points are concerns:
 - the possibility that the dispatch of staff, which is originally a means for achieving an objective, may have come to be recognized as the final objective;
 - the possibility that the outcome of dispatching staff members may be merely limited to cost reduction due to such reasons as that the period of dispatch is rather short (2 to 3 years); and
 - the possibility that the headquarters may seek outcomes of cooperative businesses with startups for a short period of 2 to 3 years after providing loans and may have failed to create long-term relationships.
- However, there have been good examples of solving these problems as follows:
 - The headquarters' intention was made clear before dispatching staff members, and close collaboration between dispatched staff members and officers of the headquarters enables prompt decision making concerning cooperation with FinTech companies, and as a result, dispatched staff members can continuously feel highly satisfied with their work.
 - Dispatched staff members are stationed over five years and endeavor to seek

connections with local networks.

- Dispatched staff members have provided sufficient explanations to the investment screening section of the headquarters and have successfully raised the section's tolerance level, and as a result, long-term investments are being permitted.
- A long-term perspective is required for initiatives for achieving innovation. It is quite natural to have a deficit in the short run or to experience an unexpected outcome during the process of a challenge. The management should take on the challenge with such awareness.
- The FSA would like to hold meetups to facilitate cooperative businesses between overseas FinTech companies and Japanese financial institutions or otherwise support the challenges of Japanese financial institutions. We hope that you will refer to the good examples introduced above and continue or further strengthen your measures to incorporate innovative activities in the financial sector worldwide into your businesses under clear business strategies.

7. Comprehensive Economic Measures to Overcome Rising Prices and Realize Economic Revival

- On October 28, 2022, the government established the "Comprehensive Economic Measures to Overcome Rising Prices and Realize Economic Revival" from the perspective of strongly supporting people's livelihood and business activities and achieving sustainable economic growth amid a severe environment where prices of energy and food, etc. are increasing due to the weaker yen.
- In the Comprehensive Economic Measures, the government compiled policy measures for four pillars: (i) measures against price hikes and for wage increases, (ii) restoration and reinforcement of local areas' ability to earn money, while making use of the weaker yen, (iii) acceleration of achieving a new form of capitalism, and (iv) ensuring of people's safety and security. The FSA set up the following measures:
 - thorough support for companies facing difficulties due to the impact of COVID-19

and price hikes for their financing and business reconstruction;

- consideration of fundamental expansion and perpetuation of NISA to achieve the shift of personal financial assets from savings to investment, and development of a system for promoting customer-oriented business conduct and a system for promoting financial education;
 - development of market environments through enhancing disclosure of non-financial information, including disclosure of information on human capital, reviewing quarterly information disclosure, and promoting corporate governance reform; and
 - promotion of sophistication of anti-money laundering measures using AI.
- We consider that financial institutions' understanding and cooperation are extremely important for steadily carrying out required measures so that the finance can robustly underpin the real economy. We appreciate your continued cooperation.

8. Sub-committee for Doubling Asset-based Incomes

- In order to deliberate on a Doubling Asset-based Incomes Plan, which is to be finalized at the end of 2022, the Sub-committee for Doubling Asset-based Incomes was established under the Council of New Form of Capitalism Realization on October 17, and the Sub-committee commenced deliberations. The FSA explained the following three points regarding the means for promoting people's stable asset building.
- (i) The first is to fundamentally expand NISA. The FSA already submitted tax reform requests at the end of August. Specifically, we requested the following from the perspective of making the program more simple, easy to understand and convenient for people:
- perpetuation of the program, elimination of time limits on tax exemption, and expansion of annual investment limits and tax exemption limits;
 - introduction of a growth investment quota (tentative name) that takes over ordinary NISA functions while being based on the *Tsumitate* NISA; and

- opening of *Tsumitate* NISA accounts to minors.
- (ii) The second is to consider an appropriate system that requests financial services providers and corporate pension providers, etc. to operate in the best interests of customers, and a framework to encourage the provision of advisory services that are neutral and reliable to customers.
- (iii) The third is to consider establishing a system for providing opportunities for financial education from a neutral standpoint as a nationwide initiative with the aim of strengthening activities for enhancing people's financial literacy.
- At present, these are still under deliberation, but we will provide an explanation again when the future direction is determined. Financial institutions' understanding and cooperation are necessary for achieving people's stable asset building. In particular, regarding financial education mentioned in (iii) above, strengthened public-private collaboration is extremely important for strategically and effectively utilizing the resources of individual entities and for securing neutrality. We appreciate your kind cooperation, which is indispensable for operating a system to be newly established.

9. Responses to the introduction of the Invoice System

- Less than a year remains until the introduction of the qualified invoice system for consumption tax purposes (Invoice System) (on October 1, 2023). It is only qualified invoice issuers that can issue qualified invoices, and in order to become a qualified invoice issuer, it is necessary to file a registration application and be registered. The deadline for becoming a qualified invoice issuer starting from October 1, 2023, is the end of March 2023, in principle*.

*In this regard, since the preparation status of business operators varies and considering the recent addition of support measures, it was decided that it is not necessary to explain "difficult circumstances" in the application form, to make it easier to apply for registration after April 2023.

- For a smooth introduction of the Invoice System, the FSA has disseminated relevant information, such as by publishing notices on requests for dispatching lecturers and asking trade associations to inform their members of the commencement of accepting

registration applications.

- We understand that a certain number of financial instruments intermediary service providers (IFAs, etc.), who are outsourcees of financial instruments business operators, are subject to taxation. Individual securities companies are requested to provide information on the Invoice System to their affiliated financial instruments intermediary service providers (IFAs, etc.) or otherwise offer cooperation for a smooth introduction of the system.

10. Market manipulations and violation of the firewall regulations separating banks and securities companies by a large securities company

- In October 2022, regarding market manipulations and violation of the firewall regulations separating banks and securities companies that were committed by a large securities company, the FSA made administrative dispositions against the relevant securities company and its parent company based on the recommendations, etc. of the Securities and Exchange Surveillance Commission.
- We recognize the relevant market manipulations as a serious problem that may undermine trust in the fairness of the Japanese securities market. Securities companies should reconfirm their roles as gatekeepers in the market and are required to develop effective internal control systems, including one for the detection and prevention of illegal transactions, etc., with proper involvement of the management.
- The relevant violation of the firewall regulations separating banks and securities companies was committed by a securities company and a bank belonging to the same financial group, in which they failed to manage customer information in line with customers' intentions when promoting a business in collaboration between them. Additionally, there was also a case in which another large securities company became subject to a disposition by the Japan Securities Dealers Association for having leaked undisclosed customer information under a situation where its customer information management system was found to be insufficient. It is the basic principle for financial institutions to manage customer information properly in line with customers'

intentions under laws and regulations, and it is a pity that the management of customer information was thus inappropriate at large securities companies. Securities companies should take this opportunity to individually check their own customer information management systems.

11. Review of self-regulatory rules for structured bonds

- As presented in the JFSA Priorities for July 2022-June 2023, the FSA will conduct monitoring in PY2022 as to whether financial institutions have created systems for developing, selling and managing financial instruments that will surely contribute to customers' asset building. In particular, regarding structured bonds with complicated characteristics, the focus is placed on (i) whether financial institutions are deliberating on whether or not to develop and sell financial instruments from the perspective of ensuring that they truly seek customers' best interest, and (ii) whether financial institutions are deliberating on how to make customers' cost burden transparent and what explanations they should provide to meet customers' true needs.
- The FSA considers it important for individual financial institutions to sufficiently verify themselves and review their business operations as necessary based on deliberations with the involvement of the management on whether the development and sale of financial instruments they deal with, not limited to structured bonds, are in line with their own policies concerning customer-oriented business conduct and their own management philosophy.
- There was newspaper coverage stating that some financial institutions will temporarily suspend transactions of structured bonds, and financial institutions' trend of reviewing their self-regulatory rules for structured bonds is attracting attention broadly. First of all, financial institutions are requested to sufficiently conduct self-verification. When reviewing self-regulatory rules, financial institutions are expected to have deepened discussions based on the status of their self-verification and from a customer-oriented viewpoint.

12. Promotion of dissemination and utilization of Individual Number Card

- We appreciate your cooperation in promoting dissemination and utilization of Individual Number Card.

The government is strongly promoting initiatives for the dissemination and utilization with the aim of achieving the goal of having almost all people acquire Individual Number Card by the end of this fiscal year.

- According to the survey by the Digital Agency published in October 2022 (the 5th survey), the acquisition rate by business type was 68.3% for the financial instruments business and commodity derivatives business, while the overall acquisition rate was 64.3%. However, further efforts for raising the acquisition rate are indispensable.

In order to achieve the government's goal, the FSA will check the acquisition rates and initiatives of individual financial institutions in detail.

(Reference) Acquisition rate by business type in the 5th survey (August 26 to September 2, 2022)

Overall acquisition rate: 64.3%

Secondary financial business, etc.: 73.8% (7th place)

Financial instruments business and commodity derivatives business: 68.3% (16th place)

Insurance business (including insurance brokerage agency services and insurance service business): 67.3% (20th place)

Banking business: 67.3% (21st place)

Money lenders and credit card and other non-depository credit institutions: 62.4% (64th place)

Cooperative financial business: 60.9% (73rd place)

- Some financial institutions are making special efforts as follows:
 - use of municipal governments' services to accept applications at designated places out of municipal offices;
 - organized support for acquisition, such as compiling applications; and
 - internal dissemination of information on advantages of acquiring individual number cards and dissemination of information on acquisition among recruits.Please make further efforts while referring to these examples.