

Main Topics Presented by the Financial Services Agency (FSA) at a Dialogue with the Industry Association

Held on November 14, 2023, with the Japan Securities Dealers Association (JSDA)

1. Outcomes of the G20 Finance Track

○The G20 Finance Ministers and Central Bank Governors Meeting was held in Marrakesh, Morocco from October 12 to 13, 2023. We would like to share major outcomes related to the financial sector in the Communiqué published after the meeting.

- On the regulation and supervision of crypto-assets and stablecoins, the G20 adopted the G20 Roadmap on Crypto Assets. Going forward, the G20 called for swift and coordinated implementation of the G20 Roadmap, including (1) implementation of the Financial Stability Board's (FSB's) high-level recommendations on the regulatory and supervisory framework for crypto-assets and stablecoins, which were finalized in July 2023; (2) outreach beyond G20 jurisdictions; (3) global coordination, cooperation and information sharing; and (4) addressing data gaps. It was also shown that G20 members would support the ongoing work and global implementation of the Financial Action Task Force (FATF) standards on crypto-assets.
- On sustainable finance, the G20 called for further efforts to advance the actions recommended by the G20 Sustainable Finance Roadmap, which was developed in 2021. The actions include the implementation of the Transition Finance Framework, formulated by the G20 in 2022.
- On other financial sector issues, the G20 welcomed other initiatives, such as the FSB's progress report on cross-border payments and the report on climate-related disclosure.

○Brazil will assume the G20 Presidency from December 2023. We will continue to communicate with financial institutions and contribute to global discussions.

2. Monitoring Policy for Customer-Oriented Business Conduct (FD: Fiduciary Duty)

- In monitoring for FD, as in the 2022 fiscal year, we will select priority monitoring targets based on the sales trends of risky financial instruments by each type of business and the sales amount of each company, etc., and will implement risk-based monitoring on companies that originate and sell financial instruments focusing on the product governance system and sales/management system of risky financial instruments based on the "Principles for Customer-Oriented Business Conduct" (the "Principles").
- Specifically, the FSA will check each of the companies that originates and/or sells foreign currency-denominated bonds, including single-premium foreign currency-denominated insurance and emerging market currency-denominated bonds, whose sales are currently increasing, regarding the following points:
 - Whether it is structuring and selling financial instruments after verifying the validity of risks, returns, costs, etc.;
 - Whether it has identified the expected customer base when structuring and selling financial instruments; and
 - Whether it has established an environment in which it will disclose all costs to be borne by customers and give explanation from the customer's perspective
- The FSA considers it important to share concerns and have constructive dialogue with financial institutions. We believe that these strategic priorities provide a good topic in that regard. The FSA plans to hold briefing sessions on these strategic priorities in many parts of the country. If you have any questions, concerns, or suggestions, please feel free to contact us.
- Regarding structured bonds, the FSA will examine whether measures are being taken based on the Principles, using the "Guidelines for Solicitation of Sales of Structured Bonds" as the minimum standard.
- In addition, the FSA will work to ascertain and verify the actual situation regarding Internet transactions, performance evaluation systems, and three-line management framework.

- We would like the management of relevant financial institutions to bring back the points we have raised and to conduct proactive verification and improvement of their initiatives.
- For the financial institutions targeted for priority monitoring, we ask them for cooperation as we would like to share our awareness of pursuing "the best interests of customers," through interactive discussions with them.

3. Strengthening Anti-Phishing Measures, etc.

- Recently, there have been many cases of fraudulent remittances that seem to be made by phishing attempts. At the time when the FSA and the National Police Agency issued the alert on August 8, the number of cases of fraudulent deposit transfers through internet banking, which are believed to be made by phishing attempts, in the first half of 2023 was the highest ever at 2,322 cases, and the damage amounted to approximately 3 billion yen, which is close to the highest amount ever even compared to the full-year damage amount. In addition, customers of financial institutions other than depository institutions are also suffering damage from phishing attacks.

*Threats in Cyberspace in the First Half of FY2023

(<https://www.npa.go.jp/news/release/2023/20230919001.html>)

- We would like financial institutions to take countermeasures in advance, rather than taking countermeasures after damage has occurred. Protecting customer assets is essential for financial institutions to realize customer-oriented management. The management should be encouraged to take the matter seriously and address it if their measures are found to be insufficient.

4. Cyber attacks by BlackTech, a cyber attack group based in China

- On September 27, the National Police Agency and the National center of Incident readiness and Strategy for Cybersecurity (NISC) issued a warning about cyber attacks by BlackTech, a cyber attack group based in China.
- In the warning, specific countermeasures against BlackTech's attacks are recommended. These countermeasures are effective not only for BlackTech, but also

for general cases.

5. Enforcement of the Economic Security Promotion Act

○The System for Ensuring Stable Provision of Essential Infrastructure Services (Essential Infrastructure System) under the Economic Security Promotion Act is scheduled to begin operation around spring next year. Toward this^{*1}, names of business operators who are expected to be regarded as specified essential infrastructure service providers were announced on October 4^{*2}.

*1 Effective date (Cabinet decision on October 24, Promulgation on October 27)

November 1 Provision for designation of specified essential infrastructure service providers (Article 1, Item 3 of the Supplementary Provisions of the Act)

*There is a transitional period of six months from the date when a specified essential infrastructure service provider is designated.

November 17 Provisions related to notification when a specified essential infrastructure service provider installs and entrusts maintenance, etc. of specified critical facilities (Article 1, Item 4 of the Supplementary Provisions of the Act)

*2 Business operators who meet the designation criteria as of October 4 (date of announcement) and are expected to be designated.

○We plan to notify the covered business operators of their designation and to give public notice of their names.

○In addition, in the coming days, it is planned to promulgate an ordinance of the competent ministry that specifies matters to be notified when a specified essential infrastructure service provider installs and entrusts maintenance, etc. of specified critical facilities, and to publicize Q&A in the financial field to contribute to the smooth launch of operation of the Essential Infrastructure System.

○The FSA has set up a Consultation Desk for accepting pre-filing consultations on the installment of specified critical facilities and other matters for the purpose of keeping constant communication with specified essential infrastructure service providers and

other operators concerned. In particular, we would like to ask financial institutions that plan to introduce relevant systems before or after the launch to consult with us as soon as possible.

- The FSA intends to engage in respectful dialogue with financial institutions for smooth launch of this new framework. So we would appreciate your continued cooperation.

6. Response to Semi-Annual Follow-Up Questionnaire Regarding Anti-Money Laundering Measures, etc.

- We understand that each financial institution has made efforts to improve the risk management system against money laundering, etc., with a deadline of the end of March 2024.
- With less than six months left until the deadline, we would like request you once again to properly respond to all items listed in the "matters that require response" in the Anti-Money Laundering Guidelines.
- In addition, with regard to the semi-annual follow-up questionnaire for the purpose of checking the progress of each company as of the end of September, which we recently issued, we would like to ask for your continued cooperation to submit to it by the deadline that is the end of November.
- In order to ensure that each financial institution can complete the work by the deadline, the management is encouraged to continue to steadily advance their efforts, such as ascertaining the future work volume, allocating necessary human resources, and formulating a response schedule.
- In addition, it is important for you to enhance the effectiveness and efficiency of the control system that you developed so far through continuous verification. We would like each of you to move forward with efforts while keeping an eye on the FATF 5th review.

7. Promoting Japan as a Leading Asset Management Center

- On October 4, a subcommittee for promoting Japan as a leading asset management center was established under the Council of New Form of Capitalism Realization, with Minister for Financial Services Suzuki as the subcommittee chairman. The policy plan for promoting Japan as a leading asset management center will be developed by the end of this year.
- In order to realize a “virtuous cycle of growth and distribution”, it is necessary to reform Japan’s asset management sector and asset ownership, to enhance their investment management capabilities, to improve governance, and to promote new entry of domestic and overseas firms into the asset management sector as well as competition.
- For this, specifically, the government of Japan will consider the following matters:
- (1) As a reform of the asset management sector and the asset ownership,
 - calling for major financial group to develop and publish their plans to enhance their investment management capabilities and improve governance; and
 - development of an environment for effective implementation of stewardship activities and diversifying investment opportunities
 - (2) As promotion of new entry into the asset management sector as well as competition,
 - rectification of Japan's unique business practices and barriers to entry;
 - deregulation to make it easier to outsource back-office operations;
 - development of a program to support emerging asset managers in obtaining funds for investment which is a challenge for them (Japanese EMP (emerging manager program)); and
 - promotion of Financial Start-Up Support Program business and establishment of special zones for financial and asset management businesses, etc.
- We would like to ask for your cooperation in the development of the policy plan, as we intend to deepen the discussion by listening to various opinions.

8. Comprehensive Economic Measures to Completely Break Free from Deflation:

Toward a New Stage of the Japanese Economy

○ On November 2, 2023, the Comprehensive Economic Measures to Completely Break Free from Deflation: Toward a New Stage of the Japanese Economy was formulated with a view to taking all possible measures to protect people's lives and business activities from the current price hikes and to put the Japanese economy on a higher growth path by enhancing supply capacity, such as by improving productivity.

○ In this comprehensive economic package, the government has compiled various measures based on the following five pillars: (1) to protect the people's lives from the current surging commodity prices (2) to achieve sustainable wage increases, including those in regional areas and at small and medium-sized enterprises, while also achieving income increases and regional growth; (3) to promote domestic investment that contributes to the strengthening and sophistication of growth capacity; (4) to initiate and promote social reform that helps overcome the declining population and turn change into strength, and (5) to ensure security and safety of the people through building national resilience and disaster prevention/mitigation. Measures related to the FSA will include the following:

- Promotion of appropriate support according to the actual situation of business operators, such as management improvement support and business revitalization support that goes beyond financing support;
- Promotion of initiatives to establish Japan as an asset-management nation, including reform of asset management business and asset ownership, and promotion of new entry of Japanese and overseas emerging managers and competition in the asset management business;
- Promotion of the Doubling Asset-based Income Plan, including publicizing and promoting the use of the new NISA (Nippon Individual Saving Account) and promoting efforts to establish the Organization for the Promotion of Financial and Economic Education;
- Development of an environment for startup funding and establishment of the Impact Consortium to promote impact investing;
- Promotion of the public's understanding of continuous customer management necessary for financial institutions to take measures against money laundering; and other measures.

○ All of the measures included in the economic package are important and urgent to address in the current economic and financial situation, and the FSA intends to focus on making sure that finance can support the real economy and people's lives. Based

on this understanding, we would like to ask for your understanding and cooperation in the future.

9. Signing the PRI (Principles for Responsible Investment)

- From the end of September to the beginning of October, Japan Weeks was held, in which we invited overseas financial business operators to our country and disseminated information on establishing Japan as an asset-management nation. As part of this, PRI in Person, an event inviting global investors, including signatories to PRI, to discuss the issue, was held. At that time, Prime Minister Kishida expressed his expectation that (1) the number of signatories to the PRI, which will lead efforts for responsible investment, will increase, and he stated that (2) the government will improve the necessary environment, and at least seven representative public pension funds (worth 90 trillion yen) will work toward the signing of the PRI.
- The importance of signing the PRI and implementing sustainable finance in line with it applies not only to public pensions but also to corporate pensions. We would like to ask the pension funds under your company to positively consider signing the PRI.

10. Warning about Fake Advertisements Deceiving Consumers by Pretending to be Securities Companies

- We have talked about strengthening anti-phishing measures, etc., and on a similar note, we would like to mention that recently there have been fake advertisements pretending to represent securities companies or your association that intend to deceive consumers.

These fake advertisements, etc. typically employ the following methods:

- (1) Use the names of existing companies and organizations, etc.;
- (2) Approach consumers by saying “We will provide you with information on stocks that will soar in the future,” or “we will give you books and materials on investing”;
- (3) Request consumers to access to the link or to add their LINE account, etc.; and
- (4) Solicit investment or induce payment.

In this way, we understand that cases similar to a money transfer scam have occurred.

- Under this situation, your association recently asked the FSA if we could work together to raise awareness. On November 13, we published a warning against such

fake advertisements on the FSA website, and posted a reciprocal link with your association to respond simultaneously.

*"Be careful of fake advertisements on social media pretending to be securities companies or the Japan Securities Dealers Association!"

(<https://www.fsa.go.jp/ordinary/chuui/nisekoukoku.html>)

○The FSA will continue to work with your association and related organizations to prevent fraud attempted by fake advertisements.

11. Current Situation Surrounding Securities Companies

○The results of securities companies for the first half of fiscal 2023 (April to September) announced by them were generally good owing to favorable market conditions following the first quarter.

○Through the dialogue with each company, we have heard that each of the security companies is working to secure customer-oriented business operations and ensure long-term business stability (sustainable business model), rather than aiming to seek short-term profits, as a player in promoting stable asset formation for households in the face of a severely competitive environment.

The FSA hopes that these efforts will continue.

○On the other hand, although sales of fund wraps and investment trusts have been increasing recently, customers often ask for advice from sales offices and sales representatives, especially in times of major changes in the market environment, even if sales are strictly conducted with customers' best interests in mind.

We would ask you for a sincere response to these concerns from consumers and, if there is a significant impact on customer assets, your appropriate follow-up would be very much appreciated, including prompt and thorough explanation of the situation.

○In order to ensure customer-oriented business operations and establish a sustainable business model, it is essential for the management to take the lead in listening sincerely to the voices of customers and sales professionals, and paying close attention to every aspect of the company.

- We would like to continue to have in-depth dialogues with each company on its efforts to establish customer-oriented business operations and business models.

12. Advancing the Human Resource Mediation Functions of Regional Financial Institutions

- On November 2, the Cabinet approved the Comprehensive Economic Measures to Completely Break Free from Deflation, which includes the Project to Promote Matching of Local Business Management Talents as a measure to expand the economic recovery trend to local areas and expand economic exchanges.
- REVICareer's recent results show that the number of registered employees of large companies has exceeded 2,000, and the number of matches has been steadily increasing while eight new contracts were agreed in October, bringing the total to 43.
- The FSA will continue to promote the matching of the human resources in large companies in a variety of ways, such as by transfer of jobs, part-time jobs, and secondments, mediated by regional financial institutions, and we would like to ask for your continued cooperation.

13. Preparations for the Transition from the LIBOR

- Regarding LIBOR, all settings of panel-based LIBOR have ceased to be published, with the cessation of some USD LIBOR tenors at end-June 2023. The FSA, together with the BOJ, conducted the Fifth Survey on the Use of LIBOR (at end-June 2023) and published the results on September 29, 2023.
- The survey showed that the transition arrangements of contracts referencing panel-based USD LIBOR are almost completed. With regard to contracts that did not incorporate fallback provisions as of end-June 2023, transition policies had already been decided at most financial institutions. It was also confirmed that the use of synthetic USD LIBOR is limited, including its temporary use until contracting parties reach agreement on transition plans.
- Through the past five surveys on the use of LIBOR, including this survey, it has been confirmed that the transition away from LIBOR is almost completed.

- Based on the results of this survey, considering that some financial institutions have existing contracts for which transition plans are not decided, as well as contracts referencing synthetic USD LIBOR for which the publication will be ceased at end-September 2024, the FSA and the BOJ will continue to monitor and require financial institutions to take necessary actions in light of the situation. We would like the applicable financial institutions to continue progressing necessary actions for the transition, with the timeframe in mind.

(End)