

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

Held on July 15, 2025 (with the Japan Securities Dealers Association (JSDA))

1. Review of the supervisory structure for financial institutions

- In line with the personnel changes in July 2025, the FSA will review and further integrate its supervisory and inspection systems for financial institutions. The outline of the review is shared below.
- Specifically, first, the supervision of major banks and securities companies has been assigned to one deputy director-general, and cooperation among relevant departments, such as the Banking Business Division I and the Securities Business Division, has been deepened to conduct group-wide supervision of large financial groups operating in multiple business categories from a broad perspective.
- In addition, monitoring of specialized cross-cutting themes such as conduct and cybersecurity, which was handled by the Strategy Development and Management Bureau until Program Year 2024, will be directed by the Vice Commissioner, Systemic Stability and Risk under the Director-General of the Supervision Bureau, thereby creating a structure that enables the existing sector-specific supervision divisions and thematic monitoring units to operate more integrally and effectively.
- The FSA will conduct more effective onsite and offsite supervision under this new structure. This review will not significantly change the way the FSA contacts securities companies.

2. Response to incidents of unauthorized access and transactions in Internet transactions

- On July 7, 2025, the FSA announced on its website the status of incidents of unauthorized access to securities accounts and unauthorized tradings as of the end of June. Although the number of such incidents has decreased compared to April and May, the FSA will continue to maintain a sense of urgency and work closely with the

Japan Securities Dealers Association to alert investors and strengthen security measures at securities companies.

- On July 15, 2025, public comments will be opened on the revised draft guidelines of the Japan Securities Dealers Association and the revised draft supervisory guidelines of the FSA. In principle, we would like to request that multifactor authentication resistant to phishing be made mandatory by the end of June 2026. Therefore, we would like to ask each securities company to take measures toward the introduction as soon as possible.
- In Program Year 2025, the FSA intends to monitor the progress of measures to prevent damage from unauthorized access and transactions in light of the revised supervisory guidelines.
- We would like to ask each securities company to continue to recognize that security measures are the responsibility of the management and to make every possible effort to prevent the spread and recurrence of customer damage.

3. Publication of *Monitoring of Foreign Bank Branches and Foreign Securities*

Companies

- On June 30, 2025, *Monitoring of Foreign Bank Branches and Foreign Securities Companies* was published.
- As the business of foreign bank branches and foreign securities companies is becoming more active, the FSA has endeavored to deepen its understanding of the business models of each of its bases in Japan and to confirm whether governance, legal compliance, and risk management systems are developed and operated in line with the business models, with a view to supporting their appropriate and sound business development.
- This report summarizes information obtained through monitoring in recent years, including analysis of various figures, with a focus on the Japanese bases of foreign financial groups whose home countries are the United States and Europe, which have large bases, and the situation of foreign bank branches whose home countries are Asia and other countries.
- We encourage Japanese financial institutions to take a look at the report, as it may

provide useful information.

4. Publication of *Progress Report 2025 for Advancing Asset Management Services*

- The FSA conducted cross-sectoral monitoring of various financial institutions providing asset management services and published the results of the monitoring in *Progress Report 2025 for Advancing Asset Management Services* on June 27, 2025.
- Based on the *Action Plan 2024* published in 2024, this report covers the business conditions of major asset management companies and their efforts to enhance product governance, as well as the status and challenges of services provided by financial institutions for defined contribution pension plans (corporate DC and iDeCo) and defined benefit corporate pension plans (DB).
- Regarding corporate DC and iDeCo, the following points are relevant to the Japan Securities Dealers Association:
 - (1) While prices are on an upward trend, the proportion of those who invest only in principal protection products varies widely among the types of operational management institutions. The FSA expects the operational management institutions to enhance effective investment education and conduct appropriate product selection and replacement so that participants can make appropriate product choices based on their individual circumstances and the economic and financial environment.
 - (2) Half of the operational management institutions of corporate DC are in the red, and even those in the black are in deficit balance if they do not receive trust fees from participants, etc., because they cannot cover all the costs of outsourced operations with commission fees from enterprises. The FSA expects the operational management institutions to consider fee levels to avoid raising doubts about the selection and presentation of investment products that take into account the best interests of participants.
- In order to enhance the sophistication of their asset management services, we request financial institutions to conduct in-depth analysis and observation with reference to this report, and consider making improvements as necessary. The FSA will continue to follow up on the progress, etc. through dialogue and other means.

5. Financial measures in response to disasters caused by the earthquake in the sea near the Tokara Islands

- Following the application of the Disaster Relief Act to Kagoshima Prefecture after the disaster caused by the earthquake, the Kyusyu Local Finance Bureau issued a request for financial measures to related financial institutions and other organizations under joint signature with the Bank of Japan.
- We ask again for financial institutions to take into consideration our requests and fully recognize the voices and needs of victims of the disaster for providing detailed support tailored from their viewpoint.

6. Report on the FSA AI Public-Private Forum

- On June 18, 2025, the first meeting of the FSA AI Public-Private Forum was held, inviting a variety of stakeholders, including financial institutions, AI model developers, and IT vendors, to share examples on AI initiatives and explore practical issues.
- The FSA hopes to use the opinions and issues shared by the participants to determine themes for future forums. We hope that they will continue to participate actively in the forum. We would also like to hear their opinions on the issues presented by the secretariat and how to proceed with the forum in the future.

- (Reference) Agenda of the first FSA AI Public-Private Forum

https://www.fsa.go.jp/singi/ai_forum/siryou/20250618.html

7. Cabinet decision on Basic Policy on Economic and Fiscal Management and Reform, Action Plan for a New Form of Capitalism, Local Revitalization 2.0 Basic Concept, etc.

- On June 13, 2025, the Cabinet decided on the *Basic Policy on Economic and Fiscal Management and Reform 2025*, the *2025 Grand Design and Action Plan for a New Form of Capitalism*, and the *Local Revitalization 2.0 Basic Concept*, among others.
- As for the FSA, the following measures are included:
 - Promoting initiatives aimed at realizing an asset management nation, such as further

consideration of enhancing the NISA system, enhancing financial and economic education, corporate governance reform, and advancing the asset management industry;

- Activating the distribution of unlisted stocks to support startups and supporting the formation of impact investment markets; and
 - Formulating and promoting the Regional Financial Strengthening Plan to encourage regional financial institutions to exercise their financial intermediary functions beyond lending, and to strengthen the management foundations of regional financial institutions.
- All measures included in the Government Policies are important, and the FSA will focus its efforts on contributing to sustainable economic growth through finance.

8. Initiatives for Sustainable Finance

- With regard to impact investment, which is an investment method that aims to realize the impact of responding to social issues while securing a certain level of return on investment, we established four subcommittees by theme in the Impact Consortium, which includes a wide range of stakeholders from the public and private sectors, and have held discussions since the summer of 2024, in order to build momentum and expand the scope of such investment.
- In June 2025, the subcommittees compiled the results of their discussions on (1) the development of data and indicators that can be used for impact investment, (2) impact investment methods for listed companies, (3) the significance of impact investment in local communities and specific examples, and (4) the promotion of collaboration between impact startups and local governments.
- We hope that each securities company that can lead impact investment will read the report and actively participate in impact investment, including by participating in the Impact Consortium.
- In addition, for the sound development of the carbon credit trading market, with a view to enhancing the transparency and soundness of transactions and promoting investor protection, the FSA has held the Study Group on the Financial Infrastructure for Carbon Credit Transactions since June 2024 to discuss initial issues at the dawn

of the market.

- In June 2025, the Study Group compiled and published a report on issues deemed important for improving the transparency and soundness of transactions. We hope that this report will be utilized to further deepen the efforts of each securities company.

9. Publications from the Monitoring Department

- From June to July 2025, the Monitoring Department published the following reports:
 - *Analytical Report on IT Resilience in the Financial Sector*;
 - *Measures and Challenges on AML/CFT and Financial Crime Prevention (June 2025))*;
 - *Results of Monitoring of Customer-Oriented Business Conduct by Companies Selling and Structuring Risk-Involving Financial Instruments*; and
 - *Report on Results of Dialogue on Fostering a Sound Corporate Culture and Conduct Risk Management System*.

(1) *Analytical Report on IT Resilience in the Financial Sector*

- On June 30, 2025, the FSA published the *Analytical Report on IT Resilience in the Financial Sector*. Against the backdrop of heightened geopolitical and cyber risks in recent years, the financial industry is required to further strengthen its IT resilience. In response, we have reformulated the *Analytical Report on System Failures at Financial Institutions*, which had been published until 2024, to incorporate the perspectives of cybersecurity, cloud computing, and operational resilience.
- Given the growing complexity and reliance on IT systems, IT and cyber risks pose threats that could undermine the management of financial institutions and destabilize the financial system. It is essential to strengthen IT resilience with the assumption that incidents will inevitably occur.
- This report highlights the need for senior management at each financial institution to recognize IT and cyber risks as among the most critical threats. It emphasizes the importance of continuously reviewing and strengthening governance, organizational structures, investment strategies, and human resource development, informed by both

internal and external examples.

- To enhance IT resilience in the financial sector, the FSA will encourage financial institutions to take proactive measures on their own but also promote mutual support within the industry. In addition to on-site supervision and monitoring, the FSA will strengthen public support through dialogue, information sharing, guidance, and opportunities for cybersecurity exercises.

(2) Measures and Challenges on AML/CFT and Financial Crime Prevention (June 2025)

- On June 27, 2025, the FSA published *Measures and Challenges on AML/CFT and Financial Crime Prevention (June 2025)*.
- With regard to AML/CFT measures, given that almost all financial institutions have completed the establishment of the basic framework after the deadline at the end of March 2024, it is important to shift the focus to enhancing the system through effectiveness verification, with an eye to the Financial Action Task Force (FATF) fifth mutual evaluation. The FSA also plans to confirm the status of effectiveness verification efforts by financial institutions through inspections and other means beginning in Program Year 2025.
- With regard to financial crime measures, it is important to steadily promote the measures listed in the *Comprehensive Measures to Protect People from Frauds 2.0 (April 2025)*. As one of these measures, we have also published as an exhibit the results of the follow-up on the status of responses to written requests to take measures to prevent unauthorized use of accounts, etc. that we have implemented since January 2025.
- We would like to ask each financial institution to make efforts to enhance its own AML/CFT measures and financial crime measures by referring to this report.

(3) Results of Monitoring of Customer-Oriented Business Conduct by Companies Selling and Structuring Risk-Involving Financial Instruments

- In Program Year 2024, in addition to following up on issues regarding foreign currency denominated lump-sum payment insurance and structured deposits that were filed in Program Year 2023, the FSA monitored the product governance and

sales and management systems of sales companies, etc. for a wide range of financial instruments such as foreign stocks, fund wraps, structured bonds, foreign currency bonds, and investment trusts.

- The results of this monitoring were published as *Results of Monitoring of Customer-Oriented Business Conduct by Companies Selling and Structuring Risk-Involving Financial Instruments* (July 1, 2025).
- Based on the results of dialogue with sales companies, etc. and qualitative and quantitative questionnaire surveys, this report summarizes the issues and innovations identified in sales companies, etc. with regard to their sales and management systems for financial instruments, as well as the basic concept and important elements of the PDCA cycle for building a system for conducting customer-oriented sales of financial instruments.

(Reference 1) Sales status of risk-involving financial instruments and monitoring results

- It should be noted that case studies are not intended to deny the intrinsic function or value of the financial instruments, but are intended to encourage further efforts to improve and enhance the system of the sales companies, etc. handling the financial instruments.

(Foreign stocks)

- While some sales companies allow short-term transactions of foreign stocks that do not necessarily meet customer preferences, the deemed asset turnover ratio (the amount of sales and purchases/balance) of face-to-face securities firms varies greatly among sales companies. The higher the deemed asset turnover ratio, the smaller the customer's profit (excessive trading can depress customer profits).

(Fund wrap)

- Some sales companies have negative expected returns after deducting total costs at the point of sale. Dialogues with particularly important sales companies revealed a number of products with negative actual returns after deduction of total costs, particularly in low-risk courses.

(Investment trusts)

- For investment trusts, the cancellation rate of the new NISA growth investment quota is low at 10% or less at most sales companies. The concept of long-term, periodic, and diversified investments seems to be spreading among individual investors.

(Reference 2) Expectations of management to ensure customer-oriented business conduct (PDCA cycle for financial instrument sales)

Plan (P)

- Formulation of retail business strategy and action policy in line with the management philosophy and vision
- Clarification of positioning of financial instrument sales
- Optimal resource allocation
- Formulation of performance evaluation system to promote customer-oriented sales behavior

Do (D)

- Initiatives aimed at fostering a customer-oriented corporate culture, such as sending of messages by management to employees
- Steady implementation of retail business strategy (formulation, introduction, proposal, and sales of financial instruments that meet the best interests of customers)

Check (C)

- Analysis of gaps between retail business strategy and action policy and results of implementation, and identification of issues including root causes

Action (A)

- Revision of retail business strategy and action policy
- Formulation of a system for formulating, selling, and managing financial instruments to resolve issues, and formulation of measures to improve the performance evaluation system, etc.

- It is requested that management exercise leadership in ensuring customer-oriented business Conduct by referring to the results of this monitoring, etc.

(4) Report on Results of Dialogue on Fostering a Sound Corporate Culture and Conduct Risk Management System

- On June 25, 2025, the FSA published the *Report on Results of Dialogue on Fostering a Sound Corporate Culture and Conduct Risk Management System*, based on examples identified through dialogues with major financial institutions on the theme of efforts to foster a sound corporate culture and manage conduct risks (June 25, 2025).
- This report summarizes the basic concepts and examples for considering and

implementing processes to reform corporate culture or manage conduct risks.

(Reference) Five processes to foster a healthy corporate culture

1. Verbalize (visualize) the corporate philosophy in line with the desired corporate culture
 - Formulation of corporate philosophy, purposes, values, code of conduct, etc. (hereinafter referred to as the “Corporate Philosophy”)
 2. Dissemination of Corporate Philosophy and recognition by officers and employees
 - Inform officers and employees through messages from top management, training, in-house newsletters, pamphlets, etc.
 3. Establishment of an environment for implementing decisions and actions conforming to the Corporate Philosophy
 - Revitalization of communication (town-hall meetings, etc.)
 4. Evaluation of the penetration of the Corporate Philosophy
 5. Efforts to improve evaluation issues through employee awareness surveys, pulse surveys, external experts, etc.
 - Based on (4), implement additional measures (1) to (3) to address the issues.
- We would like management to reaffirm that it is necessary to encourage officers and employees to have a sense of norms in order to prevent the occurrence of scandals, and to use this report as a reference to exercise leadership to foster a sound corporate culture and properly manage conduct risks.

10. Amendments to the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds (review of measures for non-face-to-face identity verification)

- In light of the fact that fictitious deposit and savings accounts in other people’s names opened using falsified identity verification documents are being used for frauds, the *Comprehensive Measures to Protect People from Frauds 2.0* (April 22, 2025) and the *Priority Plans for the Advancement of a Digital Society* (June 13, 2025) state a policy to unify, in principle, non-face-to-face identity verification methods with JPKI using My Number Card.
- Based on this, on June 24, 2025, the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds was amended, and among non-face-to-face identity verification methods, it was decided to eliminate the methods that pose

a high risk of impersonation thorough falsifying identity verification documents. In addition, the National Police Agency is considering making it obligatory to read the information on the IC chip of My Number Card and other documents for face-to-face identity verification methods.

- This method is extremely effective as a countermeasure against the opening and unauthorized use of accounts with falsified identification cards. Although the effective date of this amendment is April 1, 2027, we request that each financial institution take action as soon as possible before the effective date.

(End)