

Reference: Main Points of Supervisory Policy (Financial Instruments Business Operators, etc.)

1. Overview

1. Environment Surrounding Financial and Capital Markets, and Basic Concepts on Future Supervision of Financial Institutions

(1) Environment surrounding financial and capital markets, and expected roles of Financial Instruments Business Operators, etc.

- Keep a close watch on trends in economic conditions and financial and capital markets overseas
- Financial Instruments Business Operators, etc. are expected to function as effective market intermediaries and contribute to fair price formation of financial instruments
- Financial Instruments Business Operators, etc. are also expected to contribute to increasing the funds available for growth (e.g., proactive market intermediation, product development/offerings contributing to customers' wealth creation, effective consultation, etc.)
- It is important to make responsible and timely business judgments, and formulate medium to long-term business strategies covering the next 5–10 year period

(2) Approach taken by the supervisory authority

- **Under the basic policy to make Better Regulation further embedded and enhanced, the FSA will take the following approaches as the supervisory authority. Financial administration, if implemented through regulations only, may cause distortions in the regulatory regime and result in excessive control, which may negatively impact the real economy. In view of this, the FSA will endeavor to improve the quality of supervisory administration while reducing regulatory costs on a medium to long-term basis by improving the self-discipline of financial institutions and its own capabilities as supervisory authority.**
 - ① **Financial supervision and administration with high risk sensitivity** (identify and understand the risks that can accumulate in each operator and in the financial system with a forward-looking perspective, promote risk-based supervision, and inspect IT systems and business continuity systems)
 - ② **Financial supervision and administration from a citizen's and user's point of view** (improvement of customer protection and convenience for users)
 - ③ **Supervisory response with a forward-looking perspective** (Being aware of the progress in international discussions, monitor environmental changes, and consider common structural issues faced by Japanese Financial Instruments Business Operators, etc.)
 - ④ **Supervisory response which contributes to Financial Instrument Business Operators', etc. improvement of their management and better business judgements** (straightforward and in-depth dialogues with Financial Instruments Business Operators, etc., promotion of the innovative initiatives by Financial Instruments Business operators, etc.)
- * Closer coordination with the Securities and Exchange Surveillance Commission, self-regulatory organizations, and the Bank of Japan

2. Areas to be Emphasized in Supervision

2. Appropriate Performance of Market

Intermediary Functions

- ① Verification of Development of Internal Control Systems for Appropriate Demonstration of Market Intermediary Functions
- ② Encouragement of Contribution to Increasing Funds Available for Growth

The FSA will encourage positive actions toward effective market intermediation under appropriate internal control systems.
- ③ Verification of Progress in Developing Sales Systems for Introduction of NISAs

Product offerings incorporating the purpose of NISAs, appropriateness of solicitation, and the status of sales system development.
- ④ Thorough Management of Customer Information and Sensitive Corporate Information
- ⑤ Prevention of Illegal Securities Trading
- ⑥ Prevention of Inappropriate Rigging of Benchmark Interest Rates, etc.

3. Risk Management and Stability of the

Financial System

- (1) Encouragement for Integrated Risk Management of the Entire Securities Company Group

For large securities company groups:

 - ① Encourage implementation of reliable liquidity risk management considering the progression in international discussions
 - ② Encourage enhancement of group-wide governance system and risk management system
- (2) Preparation for Business Risks of Firms' Management by (Domestic and Foreign) Small and Medium-sized Securities Companies and Investment Managers, etc.

Examine the effectiveness of measures for responding to deteriorated financial positions and difficulties in liquidity, etc. Monitoring of the situation of customer assets protection and involvement of antisocial forces, etc. and strengthen coordination with industry groups.
- (3) Initiatives for Monitoring Various Funds

4. Improvement of Customer Protection and

Convenience for Users

- (1) Sales Systems, etc.

The FSA will encourage implementation of measures to ensure that customers (especially elderly customers) understand product/risk characteristics and measures for prevention and early detection of potential problems.
- (2) Complaint and Consultation Handling Systems
- (3) Business Continuity (IT System and Business Continuity Plan)
- (4) Approach to Discretionary Investment Business Operators
- (5) Approach to Foreign Currency Margin Transactions
- (6) Approach to Type II Financial Instruments Business

In view of the case of MRI, the FSA will strengthen its monitoring functions, further improve information analysis capabilities, and enhance the system for financial supervision.
- (7) Approach to Credit Rating Agencies
- (8) Addressing Financial Crimes, etc.