

Summary of Monitoring Priorities for Securities Businesses (July 2020-June 2021)

Basic monitoring policy

- The SESC will Continue to select the businesses subject to on-site monitoring based on the off-site risk assessment of all securities business. The SESC will carry out off-site risk assessment in collaboration with the relevant bureaus of the JFSA and conduct assessment from a multifaceted perspective including business models and other factors.
- Through its on-site monitoring, the SESC aims not only to point out problems and to take actions such as making recommendations for administrative disciplinary actions, but also to analyze the whole picture of the problems to identify their root causes, so that businesses can address them and prevent recurrence. Furthermore, if the need to improve business operations or other potential issues is identified before any problems materialize, the SESC will share the findings with the monitored businesses and urge them to build effective internal control environments or take other actions to address the issues.

Activity policy for the current business year

- Bearing in mind that expanding product lineups to include overseas financial products and higher-return funds and the impact of the coronavirus pandemic on the management environment and business operations of FIBOs, the SESC will continue to proactively conduct on-site monitoring for in-depth examinations particularly in any of the following situations
 - ① a relevant law and/or regulation is breached or there is a deficiency in business operations that requires a prompt in-depth examination;
 - ② a financial instrument is offered with an unclear risk profile, necessitating an examination of its solicitation activities;
 - ③ the actual situation of business operations is not fully comprehended from an information analysis based on off-site monitoring (including where there is a long period between examinations);
 - ④ there is a possible serious problem concerning investor protection (e.g. inappropriate segregated management of customer assets)
- With regard to unregistered FIBOs, the SESC will actively collect and analyze information, conduct investigations in collaboration with relevant agencies, and seek court injunctions to cease and suspend activities that violate the FIEA so as to contain the spread of damage to investors.

《Industry-wide and thematic monitoring priorities》

- ① Changes to customer service and business models attributable to the coronavirus pandemic
- ② Firm establishment of customer-oriented business conduct prioritizing appropriate investment solicitations based on the clarification of the principle of suitability
- ③ sufficiency of cyber security measures, and the status of risk management in systems that include securities businesses utilizing blockchain
- ④ Firm establishment of internal control environments for AML/CFT
- ⑤ Implementation of measures to improve or prevent the recurrence of matters pointed out in results of internal audits or examinations by self-regulatory organizations

《Monitoring strategies for various FIBO business models》

Type I FIBOs	Major securities business groups	<ul style="list-style-type: none"> • Development of governance/risk control environments that support domestic and overseas business operations and efforts to establish a sustainable business model • Efforts to establish an effective and principle-based compliance environment, efforts to instill and establish customer-oriented business conduct, and efforts to enhance AML/CFT measures • Private placements business, investment business risks, and risk management across the group as a whole, including overseas • Control environments for conflict of interest management for banking/securities collaboration (securities businesses under the three mega banking groups) • Swiftly conduct on-site monitoring where it is necessary to confirm the actual sales practices at sales offices.
	Foreign securities firms	<ul style="list-style-type: none"> • Progress of overseas outsourcing of back office operations and development of internal control environments that respond to structural changes in business models • Trends of products sold to Japanese financial institutions and the risks of these products
	Online securities firms	<ul style="list-style-type: none"> • Status of internal control environments connected with increases in products they offer, and with their launch and expansion of face-to-face sales activities in collaboration with independent financial advisors (IFAs), all the while bearing in mind the group's overall strategy and management policies • Status of system risk management that covers cyber security
	Semi-major/regional securities firms	<ul style="list-style-type: none"> • Inappropriate solicitation and other conducts that are inappropriate from the viewpoint of investor protection including steps taken to conform to the principle of suitability • Business models and governance of securities firms whose major shareholders and management structure changed due to participation of new investors
	Foreign currency margin transactions business operators	<ul style="list-style-type: none"> • Status of disclosure of risk information, implementation of stress tests, and reflection of the results of the stress tests to capital
Investment management business operators	<ul style="list-style-type: none"> • Control environment for management of conflicts of interests and outsourced investment management to ensure that investment management business operators fulfill the duty of loyalty and duty of due care of investors • Systems put in place to ascertain fair market values • Status of investments in alternative assets. 	
Investment advisors/agencies	<ul style="list-style-type: none"> • Misleading advertisements, solicitation activities using false explanations 	
Type II FIBOs/QII business operators, and others	<ul style="list-style-type: none"> • Funds advertising high returns and actual existence of business project to be invested (Type II FIBOs/QII business operators) • Risk-based securities monitoring in light of the firm's particular business types (registered financial institutions, credit rating agencies, securities finance companies, self-regulatory organizations, etc.) 	
Unregistered business operators	<ul style="list-style-type: none"> • Proactively exercise the investigative authority to seek court injunctions to cease and suspend activities that violate the FIEA. • Publicly disclose the name, name of representative, nature of illegal conduct, etc. of unregistered business operators. • Proactively collaborate with the JFSA's Supervisory Bureau, LFBs, Consumer Affairs Agency and other investigative authorities. 	
<ul style="list-style-type: none"> • With regard to operations pertaining to high-speed trading, examine internal control environments for brokerage businesses, as well as order execution, trading control, etc., across multiple markets: stock exchanges, private trading systems (PTS) and dark pools. • With regard to operations involving cryptoasset derivatives, security tokens, commodity futures, etc., analyze information and examine these operations in line with the risk characteristics of each business category. 		

《 Collaboration with relevant agencies, and dissemination of monitoring results 》

- The SESC will collaborate closely with Local Finance Bureaus (LFBs) from the planning stage of both off-site and on-site monitoring, and conduct joint examinations if needed. In addition, the SESC will collect and share information with LFBs, consider appropriate monitoring methods, and focus on training that LFBs require.
- The SESC will continue collaborating closely with self-regulatory organizations, and conduct efficient monitoring by exchanging information in a timely manner.
- The SESC will encourage FIBOs to make voluntary improvement by sharing the monitoring results and other information to their auditors and outside directors.