

# Summary of Monitoring Priorities for Securities Businesses (July 2018-June 2019)

## Basic monitoring policy

- Continue implementing a strategy of selecting the businesses subject to on-site monitoring based on the off-site risk assessment of all securities businesses, which will be carried out in collaboration with the relevant bureaus of the JFSA and include an analysis of the business environment covering economic and industrial trends and an entity's business model.
- Analyze the whole picture of the problems and identify their root cause through on-site monitoring to develop effective recurrence prevention measures. Also, urge securities business to improve business operations if they have potential issues which may not necessarily have become materialized problems.

## Activity policy for the current business year

- Assess risks focusing on FIBOs' move to change the traditional business models that relies on fee income by, for instance, starting new businesses and expanding their product lineup in response to investors' expectations for higher-return products.
- Proactively conduct on-site monitoring for in-depth examinations in the current business year particularly if any of the following situations is identified:
  - a relevant law and/or regulation is breached or there is a deficiency in business operations that requires a prompt in-depth examination;
  - a financial instrument is offered with an unclear risk profile, necessitating an examination of its solicitation activities;
  - 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); and
  - there is a possible serious problem concerning investor protection (e.g. inadequacy in the segregated management of customer assets).
- In addition to the above, actively collect and analyze information on unregistered business operators, conduct investigations in collaboration with relevant agencies, and seek court injunctions to cease and suspend the violations.

## <<Thematic Monitoring Priorities>> \*Themes are selected flexibly depending on change in the environment surrounding FIBOs.

- ◎ **AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) measures**
- ◎ **Sufficiency of cyber security measures**
- ◎ **Implementation status of measures to realize customer-oriented business conduct**
- ◎ **Efforts to upgrade trade surveillance of High Frequency Trading**

## <<Monitoring strategies for various FIBO business models>>

- ◎ **Major securities business groups**
  - ⇒ Development of governance/control environments for risk management that support global business operations and efforts to establish a sustainable business model (Swiftly conduct on-site monitoring where it is necessary to confirm actual practices at sales offices.); and  
Control environments for conflict of interest management for banking/securities collaboration (securities businesses under the three mega banking groups)
- ◎ **Foreign securities firms**
  - ⇒ Impact of international financial regulations on the business models of, and changes in control environments for risk management of, the Japanese offices of foreign securities;  
Internal control environments that adequately complies with Japanese laws and regulations in light of the growing trend to outsource internal control functions overseas as part of group strategy; and  
Trends of products sold to Japanese financial institutions and the risks of these products.
- ◎ **Online security firms**
  - ⇒ Efforts to prevent system errors, to ensure speedy recovery, and to operate alternative means; and  
Development of control environments that respond to changes in products offered, and launch and expansion of face-to-face sales activities in collaboration with independent financial advisors (IFAs) and regional financial institutions.
- ◎ **Second-tier/regional securities firms**
  - ⇒ Development of business operations that respond to changes in each firm's product line-up and earnings structure; and impact that change to the management structure or major shareholders may have on the business model.
- ◎ **Foreign currency margin transactions business operators (FX transactions business operators)**
  - ⇒ Investor protection measures against foreign exchange fluctuations; and  
Control environments for settlement risk management of operators including preparations for improving capital adequacy through stress testing and for improving transaction data reporting systems.
- ◎ **Investment management business operators**
  - ⇒ Effectiveness of governance functions and control environments for management (including improvement of the investment management abilities); and  
Business operations of private REIT operators and discretionary investment management business operators with a high proportion of individual and pension fund customers (e.g. management of conflicts of interest and liquidity risk).
- ◎ **Investment advisors/agencies**
  - ⇒ Misleading advertisements and solicitation activities using false explanations
- ◎ **Type II FIBOs/QII business operators**
  - ⇒ Funds advertising high returns and actual existence of business project to be invested (promptly conduct on-site monitoring on operators who are deemed high risk)
- ◎ **Unregistered business operators**
  - ⇒ Proactively exercise the investigative authority to seek court injunctions to force unregistered operators to cease and suspend their activities that violate the FIEA.

## <<Cooperation with self-regulatory organizations (SROs) and dissemination of monitoring results>>

- ◎ **Continue collaborating closely with SROs and other relevant organizations through, for instance, timely information exchanges.**
- ◎ **Provide FIBOs with feedback on problems and best practices found in the monitoring of securities businesses as needed to encourage their voluntary improvement efforts.**