

# Summary of Monitoring Priorities for Securities Businesses (July 2024-June 2025)



## Environment surrounding FIBOs (Financial Instruments Business Operators), etc.

### 1. Environment surrounding FIBOs

- Requirement for customer-oriented business conduct, sharp increase in the number of victims of fraudulent investment solicitation, building a sustainable business model, etc.

### 2. Changes to regulatory frameworks for FIBOs

(i) Measures for ensuring customer-oriented business conduct; (ii) Response to the progress in digitalization, etc.; (iii) Sophistication and diversification of asset management; (iv) Clarification regarding control environments for preventing conflicts of interest of real estate-related fund management companies, etc.

### 3. Findings through the securities business monitoring over the past business year

- Type I FIBOs: Violation of the principle of suitability, violation of the firewall regulations between banks and securities firms, acceptance of orders for fictitious market formation, implementation of stress tests using falsified data
- Investment management business operators: Deficiencies in conflict-of-interest control systems, and deficiencies in the decision-making process concerning investment policy
- Investment advisors: False notification, misleading representation
- Type II FIBOs: Deficiency in requirements for acts of managing specified securities
- Unregistered business operators: Financial instruments business operations without Type II FIBOs registration (public offering or private placement of collective investment schemes under foreign laws and regulations)

## Industry-wide monitoring priorities



1. Development of internal control environments with a focus on appropriate investment solicitation based on the principle of suitability, and appropriate sales operations based on customer-oriented business conduct (Sale of complex or high-risk products, unreasonable, short-term solicitation for switching, sale and solicitation by bank-securities collaborative business)
2. Business model changes along with progress in digitalization, etc., and the development of internal control environments in response to such changes
3. Sufficiency of cybersecurity measures (including countermeasures against unauthorized access in online trading), and system risk management (including management of system development and operation and management of trustees) in response to progress in digitalization
4. Firm establishment of internal control environments for AML/CFT (Anti-Money Laundering and Combating the Financing of Terrorism)
5. Implementation of measures to improve or prevent the recurrence of matters pointed out in internal audits or self-regulatory organization examinations

In addition to the above, the SESC (Securities and Exchange Surveillance Commission) will also examine other matters in a timely manner in response to changes in the environment surrounding FIBOs.

## Monitoring priorities by FIBOs' size and business type

<b>Type I FIBOs</b>	Major securities business groups	<ul style="list-style-type: none"> <li>• Development of control environments for governance and risk management that support global business operations</li> <li>• Efforts to build sustainable business models</li> <li>• Development of internal control environments, including those for detecting and preventing market misconduct.</li> <li>• If necessary, the SESC will swiftly inspect relevant sales offices to examine actual sales practices there.</li> </ul>
	Foreign securities firms	<ul style="list-style-type: none"> <li>• Development of internal control environments in response to the overseas outsourcing of back-office operations and control environments for system risk management</li> <li>• Development of control environments for managing sales of financial instruments to Japanese financial institutions and other investors</li> </ul>
	Online securities firms	<ul style="list-style-type: none"> <li>• Development of control environments for system risk management, including cybersecurity measures</li> <li>• Development of control environments for outsources in response to the expansion of face-to-face sales utilizing Financial Instruments Intermediary Service Providers, and business operation environments in light of business models changes such as provision of new products and services.</li> <li>• As the new NISA (Nippon Individual Savings Account) has been launched, development of internal control environments, including an effective trade management environment suited to the increasing number of new accounts opened and trading volume.</li> </ul>
	Semi-major/regional securities firms, etc.	<ul style="list-style-type: none"> <li>• Efforts to build sustainable business models, and compliance with the principle of suitability.</li> <li>• Development of internal control environments at those securities firms whose major shareholders or business management systems have changed, from the viewpoint of their business models or governance.</li> </ul>
	Foreign currency margin transactions business operators	<ul style="list-style-type: none"> <li>• Development of control environments for system risk management, including cybersecurity measures</li> <li>• Development of adequate internal control environments for relevant advertising and sales/solicitation regulations</li> <li>• Settlement risk management, including implementation of stress testing.</li> </ul>
<b>Investment management business operators</b>	<ul style="list-style-type: none"> <li>• Actual investment practices, development of control environments for managing investment (including those outsourced) and conflicts of interest (including whether there is a system in place under which the appropriateness of transactions can be examined ex-post facto), etc.</li> </ul>	
<b>Investment advisors/agencies</b>	<ul style="list-style-type: none"> <li>• Misleading advertisement, solicitation through false explanation, breach of fiduciary duty, development of internal control environments at those securities firms whose major shareholders or business management systems have changed, etc.</li> </ul>	
<b>Registered financial institutions</b>	<ul style="list-style-type: none"> <li>• Development of internal control environments regarding appropriate investment solicitation and the principle of suitability</li> </ul>	
<b>Type II FIBOs, QII business operators, Financial instruments intermediary service providers, etc.</b>	<ul style="list-style-type: none"> <li>• Funds claiming high returns and existence of investment projects, development of internal control environments at those securities firms whose major shareholders or business management systems have changed. [Type II FIBOs, QII business operators]</li> <li>• Appropriateness of their investment solicitation and sufficiency of management by their entrusting FIBOs [Financial instruments intermediary service providers]</li> </ul>	
<b>Unregistered business operators</b>	<ul style="list-style-type: none"> <li>• Exercising investigative authority proactively to file a petition with the court for a prohibition and stay order against their illegal conduct</li> <li>• Further strengthen information dissemination, including warnings and public disclosure of their representatives' names and illegal conduct, etc.</li> <li>• Coordinating more proactively with relevant JFSA (Financial Services Agency, Japan) divisions, Local Finance Bureaus, investigative authorities and the Consumer Affairs Agency.</li> </ul>	

\*The SESC will also examine FIBOs' response to the changes in regulatory frameworks.

## Approach to the securities business monitoring

- The SESC will continue to collaborate with relevant JFSA divisions to identify and assess risks at FIBOs for risk-based inspection, and it will continue to be proactive in ascertaining their actual situation through inspections mainly for the following cases. Also, the SESC will conduct inspections in a flexible manner, including by narrowing down items for verification as necessary.
  1. an FIBO has breached a relevant law and/or regulation or has concerning business operations, which necessitates prompt in-depth verification;
  2. an FIBO's actual business operations can not be fully comprehended through monitoring-based information analyses alone (including where the FIBO has never been inspected or not been inspected for a long time, where its business operation environments or business models have been changed due to acquisition.);
  3. there is a need to ascertain an FIBO's actual status regarding risks of financial instruments it deals in and the appropriateness of segregation of customer assets.
- In its inspections, the SESC will endeavor to conduct verification and point out problems in a practically meaningful manner. Also, going further than just pointing out problems and recommending administrative disciplinary actions, the SESC will analyze the whole picture of the problems to identify their root causes, to help develop effective measures to prevent recurrence. Furthermore, if the SESC identifies the need to improve business operations before any potential issues materialize, it will share the awareness with the inspected FIBOs to encourage actions such as building effective internal control environments.

## Cooperation with relevant organizations and dissemination of inspection results

- The SESC will work closely with the Local Finance Bureaus from the planning stage of monitoring and inspection, and support them by exercising its coordination function. As necessary, the SESC will conduct joint inspections with, and arrange inspection support between, the Local Finance Bureaus.
- The SESC will seek to collaborate with the JFSA's inspection divisions and the Local Finance Bureaus in its inspections on Crypto-asset Exchange Service Providers and Financial Service Intermediaries.
- The SESC will continue to work closely with self-regulatory organizations, and seek to further expand and deepen the collaboration. Through timely and bi-directional information sharing, the SESC will conduct its securities businesses monitoring effectively and efficiently.
- The SESC will share inspection results also with their audit-related staff and outside directors, and thereby encourage those FIBOs to voluntarily improve practices.