

August 1, 2025

Securities and Exchange Surveillance Commission

Monitoring Priorities for Securities Businesses (July 2025 - June 2026)

Considering the recent environment surrounding financial instruments business operators (FIBOs), the Securities and Exchange Surveillance Commission (SESC) has compiled the priorities for its securities business monitoring¹ for Business Year 2025.²

1. Industry-wide monitoring priorities

- (i) 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

The duty of good faith and fair dealing in consideration of the best interest of customers has been enshrined into law. The SESC will examine whether FIBOs are performing their duties and offering services to their customers in a faithful and fair manner.

In light of the diversification of financial instruments, such as the introduction of publicly offered investment trusts incorporating unlisted shares, the SESC will examine whether FIBOs have appropriately developed internal rules for the setting of targeted customers to sell complex or high-risk products and for the provision of explanations to customers, whether they are appropriately monitoring compliance with such internal rules, whether they do not solicit unreasonable short-term rollovers, and whether their actual sales operations are consistent with their policies on the Principles for Customer-Oriented Business Conduct.

In addition, the SESC will examine FIBOs' sales and solicitation activities in their bank-securities collaborative business and their internal control environments, including customer information management.

Additionally, considering the occurrence of misconduct by financial institutions' employees in recent years, the SESC will also examine the status of financial institutions' development of an internal control environment to prevent

¹ "Securities business monitoring" in this document covers both inspection and monitoring. "Inspection" means activities based on Article 56-2 of the Financial Instruments and Exchange Act, while "monitoring" refers to activities other than inspection.

² In its Strategy & Policy 2023-2025 published on January 27, 2023, the SESC committed to continuing securities inspections based on a risk-based approach and responding proactively to cases where investors are harmed.

misconduct.

- (ii) Sufficiency of cybersecurity measures and system risk management (including management of system development and operation and management of trustees) in response to progress in digitalization based on the "Guidelines for Cybersecurity in the Financial Sector"

In light of the seriousness of recent cases of unauthorized access and transactions in internet transactions, the SESC will intensively examine whether FIBOs have developed internal control environments and are ensuring security and appropriately responding to customers with the aim of preventing recurrence and occurrence of such cases.

- (iii) Business model changes and the development of internal control environments in response to such changes

The SESC will examine how FIBOs' business models change, such as the expansion of non-face-to-face sales and the provision of new products and services, or how the continued adoption of their conventional business models exerts impacts on their business management amid changes in market environments and customer needs, and will verify that they have appropriate internal control environments in response to those changes.

In the case where there have been changes in major shareholders or in FIBOs' management systems or where the locations of their registered headquarters and those of their substantial operation base are different, the SESC will also examine the functions of their internal control environments from the perspective of their business models and governance.

Furthermore, the SESC will verify that FIBOs are making appropriate responses in accordance with individual customers' digital literacy in terms of media and methods for information provision.

- (iv) Firm establishment of internal control environments for Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT)

The SESC will verify the development and the enhancement of internal control environments based on the "required actions" stated in the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" (AML/CFT Guidelines).

- (v) Implementation of measures to improve or prevent the recurrence of matters pointed out in internal audits or self-regulatory organizations (SROs) examinations

2. Monitoring priorities by FIBOs' size and business type

(1) Major securities business groups³

Considering the business environments surrounding each major securities business group, the SESC will continue to verify that they have appropriate control environments for governance and risk management that support global business operations, and that they are working to build sustainable business models.

Given that deficiencies have been found in their business operations, including trade screening, the SESC will verify that they have appropriate internal control environments, including those for detecting and preventing market misconduct.

(2) Foreign securities firms

The SESC will verify that the foreign securities firms have appropriate internal control environments in response to the overseas outsourcing of back-office operations as part of their group strategies, and that they have appropriate control environments for system risk management.

The SESC will also verify that they have appropriate control environments for managing sales of financial instruments to Japanese financial institutions and other investors.

(3) Online securities firms

Given the recent increases in damage due to unauthorized access and transactions in internet transactions, the SESC will verify that online securities firms have appropriate control environments for system risk management, including cybersecurity measures, from a cross-sectional perspective (including OTC securities firms which also offer internet transaction services).

Additionally, the SESC will verify that they have appropriate control environments for managing outsourcees in response to the expansion of face-to-face sales activities using financial instruments intermediary service providers, and that they have appropriate business operation environments in line with their business model changes, such as the provision of new products and services.

The SESC will also verify that they have appropriate internal control environments, including effective trade management that can deal with increases in newly opened accounts and transaction volume associated with the commencement of the new NISA (Nippon Individual Savings Account) program.

³ Major securities business groups: Japanese securities companies with global operations

- (4) Semi-major/regional securities firms (including regional bank-affiliated securities companies)

The SESC will check whether semi-major/regional securities firms have developed sustainable business models and are considering them, and will verify that they are following the principle of suitability.

- (5) Foreign exchange margin transactions business operators

The SESC will examine compliance with relevant advertising regulations, internal control environments for sales and solicitation, and the OTC FX business operators' settlement risk management, including the implementation of stress testing.

- (6) Investment management business operators

While taking into account the results of the "Fund Monitoring Survey" by the JFSA, the SESC will examine the investment management business operators' actual investment practices (including the status of their operations in line with internal rules, etc.), their 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.

- (7) Investment advisors/agencies

The SESC will examine investment advisors/agencies' solicitation activities conducted by providing false explanations and their advertisement methods using SNS, and whether they are free from problematic practices in terms of investor protection, such as transactions using information on transactions of customers who received advice from them.

- (8) Type II FIBOs, and business operators, etc. engaging in specially permitted businesses for qualified institutional investors (QII business operators)

The SESC will examine funds claiming high returns and the substantiveness of investment projects.

- (9) Registered financial institutions

The SESC will examine whether registered financial institutions have

appropriate internal control environments, such as for ensuring the appropriateness of investment solicitation and following the principle of suitability.

(10) Financial instruments intermediary service providers and other securities businesses subject to monitoring

Considering that some online securities firms are expanding face-to-face sales activities in cooperation with independent financial advisors, the SESC will verify that their investment solicitation is conducted appropriately and managed sufficiently by their entrusting FIBOs.

As for other securities businesses, including credit rating agencies, securities finance companies, and SROs, the SESC will conduct its monitoring in light of their business characteristics.

(11) Unregistered business operators

To prevent the spread of investor damage by eliminating unregistered business operators, the SESC will proactively exercise its investigative authority to file a petition with the court for a prohibition and stay order against their illegal conduct. While further heightening caution against advertisements using SNS, etc., the SESC will also enhance information dissemination, including the public disclosure of the names of and illegal conduct by unregistered business operators and their representatives, as well as the issuance of alerts and messages to investors regarding transactions with unregistered business operators. In addition, the SESC will intensively cope with cross-border cases in collaboration with foreign authorities, and will also further strengthen collaboration with relevant JFSA divisions, Local Finance Bureaus (LFBs), investigative authorities, and the Consumer Affairs Agency.

3. Background to monitoring priorities for securities businesses

(1) Findings through the securities business monitoring over the past business year

(i) Type I FIBOs, registered financial institutions, financial instruments intermediary service providers

The SESC found some regional securities firms that were conducting inappropriate business operations, such as cases where, concerning profits and losses from traded domestic shares, false notifications and misleading representations were repeatedly provided to elderly customers upon

solicitation with the aim of obtaining fees for sale of shares they hold or for rollovers to other shares, and cases where inappropriate investment solicitations had been pointed out in inspections by SROs but similar solicitation activities were repeated thereafter.

With regard to the development of internal control environments with a focus on appropriate investment solicitation based on the principle of suitability, the SESC found deficiencies in those of some semi-major/regional securities firms, such as inappropriate solicitation activities in light of customers' attributes, which were caused due to insufficient monitoring from the perspective of suitability.

The SESC also found deficiencies in major securities firms' trade management, such as cases where some major securities firms, which are supposed to investigate any suspected market misconduct by their traders as detected by SROs, failed to conduct internal investigations sufficiently in trade screening, and where reasonable extraction standards depending on transaction statuses had not been considered and adopted, and as a result, extraction standards were not reasonable as thresholds.

(ii) Investment management business operators

The SESC found such a case where an investment management business operator was conducting business operations that conflict with the basic terms and conditions of investment trust contracts without sufficiently considering the alteration of the terms and conditions, such as paying expenses for investment trusts itself in contravention of the provisions of the contracts.

(iii) Investment advisors/agencies

The SESC found an investment advisor's or agency's violation of the duty of loyalty wherein it purchased shares of a recommendable issue using an account under the name of a third party before recommending that issue to customers and sold those shares thereafter, an investment advisor's or agency's provision of false notifications and misleading representations regarding its advisory performance and information sources for recommendable issues, and an investment advisor's or agency's act of extending investment advisory contracts of some customers free of charge, continuing providing investment advisory services, and thereby giving those customers special benefits.

(iv) Type II FIBOs

The SESC found cases where fund operators received money deposited by

customers without satisfying the requirements pertaining to separate management of investments in funds as specified by laws and regulations, such as where a fund operator handles the public offering of another company's fund while managing its customers' capital contributions to that company's fund without separating them from those to its own fund.

- (v) Notifiers for specially permitted businesses for qualified institutional investors, etc.

The SESC found inappropriate situations, such as where there is a notifier's violation of the duty of loyalty, like substantially making transactions between a fund and its director without obtaining consent from investors, and where a notifier filed a false notification to the authority by making up a dummy fund with an attempt to disguise remittances of consideration for the introduction of foreign financial instruments as remittances of dividends from the fund.

- (vi) Unregistered business operators

The SESC found some business operators that were conducting the type II financial instruments business and the investment management business across borders, without registration as an FIBO.

(2) Environment surrounding FIBOs

- (i) Customer-oriented business conduct, etc.

As the NISA program was fundamentally expanded and made permanent in January 2024 and the Japan Financial Literacy and Education Corporation (J-FLEC) commenced the full-scale operation in August 2024, the base of investors has been increasing broadly and people's asset formation has been progressing. Under such circumstances, in order to further promote people's stable asset formation, it continues to be important that all FIBOs, which sell financial instruments, provide customers with advice, develop financial instruments, manage assets, and make investments, properly understand their individual roles, ensure customer-oriented business conduct, and fulfill their expected roles sufficiently.

- (ii) Increasing cybersecurity risks

While damage due to cyberattacks, such as unauthorized access and transactions in internet transactions, has been occurring continuously, FIBOs are required to continue making efforts to strengthen their system risk management, including management of cybersecurity, under the initiative of their top management.

(iii) Increase in the amount of damage from fraudulent investment solicitation

As investment scams using SNS, etc., are becoming more complicated and sophisticated, the amount of damage from solicitations by suspected unregistered business operators has been increasing. The "Comprehensive Measures for Protecting People from Fraud 2.0," formulated in April 2025, continues to incorporate the government's commitment to actively promoting measures to eliminate unregistered business operators.

(iv) Spread of new financial instruments

As part of the measures to provide growth capital to start-ups, etc., the Rules of the Investment Trusts Association, Japan, were revised and it became possible to incorporate unlisted shares in publicly offered investment trusts under appropriate screening within a range not exceeding 15% of the total net assets, in principle.

(v) Importance of AML/CFT measures

Financial institutions developed their basic AML/CFT frameworks in line with the "required actions" stated in the AML/CFT Guidelines by the end of March 2024, but it is important for them to continuously enhance their frameworks depending on risks they actually face. Accordingly, the JFSA compiled the "Issues and Practices for Dialogue on Validation of Effectiveness of AML/CFT Frameworks."

(vi) Importance of the improvement of internal audits

With the aim of encouraging financial institutions to improve their internal audits, the JFSA published the "Monitoring Report for Improving Internal Audits of Financial Institutions (2024)" and also published a report (2025) based on discussions at the Working Group on Improving Internal Audits of Financial Institutions. Furthermore, the JFSA published the "Report of the Results of Talks on the Development of a Healthy Corporate Culture and on the Conduct Risk Management System" in relation to the recent occurrence of misconduct by financial institutions.

(3) Changes to regulatory frameworks for FIBOs

(i) Measures for ensuring customer-oriented business conduct

In response to recommendations by the Working Group on Capital Market Regulations under the Financial System Council and the amendment of the Financial Instruments and Exchange Act, relevant legal provisions were amended as follows.

The "Supplementary Principles for Product Governance" targeting developers of financial instruments were added to the "Principles for Customer-Oriented Business Conduct" (September 2024).

In addition, the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." ("Comprehensive Guidelines for Supervision") was amended, and statements concerning the duty of good faith and fair dealing in consideration of the best interest of customers were added (November 2024).

Furthermore, the Cabinet Office Order on Financial Instruments Business and other relevant laws and regulations were amended to oblige FIBOs to provide their customers with information on possible conflicts of interest with regard to investment trusts, wrap services (discretionary investment management agreements), and structured bonds (to be enforced in December 2025).

(ii) Response to the progress in digitalization, etc.

As a result of the amendment of the Financial Instruments and Exchange Act, FIBOs are newly obliged to provide explanations to customers in accordance with their attributes upon concluding a financial instruments transaction contract, but are allowed to select whether to provide information to customers in writing or digitally depending on individual customers' digital literacy (enforced in April 2025).

The JFSA formulated the "Guidelines for Cybersecurity in the Financial Sector" to clarify the matters to be dealt with in principle and the matters to be preferably dealt with, and amended the Comprehensive Guidelines for Supervision to add the point that supervisors should conduct verification while noting whether the board of directors, etc. are fully aware of the importance of cybersecurity and have developed a required system based on the Guidelines (October 2024).

(iii) Sophistication and diversification of asset management

The Financial Instruments and Exchange Act and the Act on Investment Trusts and Investment Corporations were amended and a voluntary registration system was created for businesses that are entrusted by investment management business operators with their compliance-related work and accounting work, and registration requirements were eased for investment management business operators that entrust work to those registered businesses. Additionally, in order to let investment management business operators concentrate on fund operation functions (designing and planning),

they were allowed to entrust their management authority (authority to execute investment) in full. Furthermore, when only engaging in intermediary service for unlisted securities targeting professional investors in principle and accepting money deposits only within a range necessary for the settlement of transactions, registration requirements for type I financial instruments business were eased (enforced in May 2025), and when the transaction size is limited under the Proprietary Trading System (PTS) handling only unlisted securities, it became possible to conduct business only with registration for type I financial instruments business without the need to obtain authorization (enforced in November 2024).

The JFSA conducted the first "Fund Monitoring Survey" targeting domestic funds with net assets of 50 billion yen or more from the perspective of ascertaining potential liquidity risks, and also conducted cross-sectional monitoring with the aim of sophisticating the asset management business.

- (iv) Measures against investment scams and unregistered business operators, etc.

Based on the "Comprehensive Measures for Protecting People from Fraud," the JFSA established a point of contact to receive information on SNS advertisements and other displays that are intended to defraud investors for the purpose of taking countermeasures in collaboration with SNS service providers, such as requesting the deletion of such SNS advertisements.

Additionally, through the amendment of the Guidelines for the Financial Instruments and Exchange Act and the Comprehensive Guidelines for Supervision, it was made clear that if an unregistered business operator uses an advertisement that seems not to fall under one for the financial instruments business at first glance for soliciting people to conclude a financial instruments transaction contract, a series of those acts may fall under an illegal conduct.

4. Approach to the securities business monitoring

(1) Inspection

Business operators subject to the SESC's securities business monitoring currently total approximately 8,800. They widely differ in size, services, and financial instruments they deal in, and some have yet to introduce adequate basic control environments for compliance and investor protection. Therefore, it is important for the SESC to conduct its securities business monitoring effectively

and efficiently according to FIBOs' risk characteristics and promptly identify risks, based on the "Basic Principles of Securities Business Monitoring."

Accordingly, the SESC will continue taking a risk-based approach in selecting FIBOs for inspection, through risk identification and assessment in collaboration with relevant JFSA divisions, and will proactively ascertain their actual situations through inspections, with a focus on the following situations, in a flexible manner, such as narrowing down items for verification as necessary:

- (i) where there are specific legal violations or doubts about business operations, which necessitates prompt in-depth verification;
- (ii) where an FIBO's actual business operations cannot be fully comprehended through monitoring (including FIBOs for which inspection has never been conducted or has not been conducted for a long period of time, and FIBOs whose business models and business operations were altered upon a change in the shareholder composition as a result of merger, etc.); or
- (iii) where it is necessary to ascertain actual conditions regarding risks of financial instruments dealt in and the appropriateness of segregation of customer assets.

In its inspections, the SESC will endeavor to examine and point out problems in a practical and meaningful manner, and examine them in depth by using digital forensics according to each FIBO's characteristics and issues. When it is necessary to check actual business situations at business offices, the SESC will flexibly conduct inspections at relevant business offices.

Rather than merely pointing out problems and taking such actions as making a recommendation for 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 describe such items as "Items to be noted" in the notification of completion of inspection, to share the awareness with the inspected FIBOs to encourage actions such as building effective internal control environments.

(2) Cooperation with relevant organizations

The SESC and LFBs will work closely from the planning stage of inspection, including information sharing and exchange of opinions, and the SESC will exercise its coordination function to support the initiatives of LFBs, in consideration of possible cases where the locations of FIBOs' registered

headquarters and those of their substantial operation bases are different. In addition, joint inspection between the SESC and LFBs or among LFBs will be conducted as needed, and LFBs will mutually offer support for inspection flexibly, thereby making efforts to effectively utilize human resources and to share know-how.

The SESC, relevant JFSA divisions, and LFBs will also collaborate to share information and conduct simultaneous inspections regarding the inspection of financial service intermediary businesses as well as cryptocurrency exchange service providers trading in over-the-counter cryptocurrency derivatives.

The SESC will continue close collaboration with SROs and will endeavor to further expand and deepen the collaboration. The SESC will share with SROs matters detected through inspection and supervision, etc. and its awareness of problems, as well as the status of the follow-up of these problems, in a timely and interactive manner, and will assist newly inaugurated SROs with their efforts to strengthen their self-regulatory functions.

The SESC will strengthen collaboration with investigative authorities and the Consumer Affairs Agency through such means as providing information on unregistered business operators, conducting personnel exchanges, and holding lectures.

5. Dissemination of inspection results and other initiatives

As necessary, the SESC will encourage voluntary improvement efforts by inspected FIBOs by providing feedback in collaboration with relevant JFSA divisions on problems and root causes found, and by sharing inspection results also with their audit-related staff members and outside directors at review meetings.

The SESC will also endeavor to provide information about its perspectives in a specific and straightforward manner, including through the "Overview of Securities Business Monitoring and Case Studies."