

September 30, 2026

Securities and Exchange Surveillance Commission

Monitoring Priorities for Securities Businesses (July 2026 - June 2027)

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 2026.²

1. Industry-wide monitoring priorities

- (i) Business operations conducted with due regard for the best interests of customers, and the status of appropriate investment solicitation based on the suitability principle

The SESC will examine whether FIBOs are conducting their business in a faithful and fair manner, with due regard for the best interests of customers.

In light of the diversification of financial instruments, the SESC will examine whether FIBOs appropriately identify the customers to whom complex or high-risk products should be sold; provide explanations in a manner and to an extent necessary to ensure that customers understand such products, taking into account their attributes (including appropriate responses in accordance with individual customers' digital literacy in terms of media and methods for information provision); refrain from soliciting unreasonable short-term rollovers; and appropriately develop internal rules concerning these matters and monitor compliance with such rules.

- (ii) Status of system risk management measures

Cybersecurity incidents caused by cyberattacks and system failures continue to pose significant management challenges. In addition, the development of frontier AI has raised concerns about an increase in sophisticated cyberattacks. The SESC will intensively examine whether FIBOs appropriately manage system risks in light of the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." ("Comprehensive Guidelines for

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 2026-2028 published on January 16, 2026, the SESC committed to continuing securities inspections based on a risk-based approach and responding proactively to cases where investors are harmed.

Supervision”), changes in threats associated with frontier AI, and other relevant developments.

- (iii) 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).

- (iv) Status of implementation of measures to ensure the effectiveness of internal control frameworks

In order for FIBOs to conduct their business properly, it is important for their management to establish and develop internal control environments, including those relating to items (i) through (iii) above. Therefore, regardless of whether any significant problems relating to investor protection or compliance have arisen, the SESC will examine whether each FIBO has established effective internal control environments appropriate to its characteristics and the nature and scale of its business.

In addition, where a FIBO's business model has changed in response to changes in its major shareholders or management structure, or where the location of its registered headquarters differs from that of its substantial operational base, the SESC will conduct examinations from the perspective of the effectiveness of its governance.

The SESC will also examine whether management fully recognizes the importance of matters pointed out in internal audits or examinations conducted by self-regulatory organizations (SROs) and proactively implements effective improvement measures and measures to prevent recurrence.

2. Monitoring priorities by FIBOs' size and business type

- (1) Major securities business groups³

Considering the business environment surrounding each major securities business group, the SESC will verify that they have appropriate control environments for governance and risk management that support global business operations.

The SESC will also verify that they have appropriate internal control frameworks

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

for trade surveillance, the management of corporate information, and underwriting review to detect and prevent 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

In light of the increasing sophistication of criminal methods used in unauthorized access and unauthorized transactions in internet trading, the SESC will conduct cross-sectional examinations of whether online securities firms have appropriate control frameworks for cybersecurity measures, customer due diligence at the time of transactions, and trade monitoring (including face-to-face securities firms that also offer internet trading 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.

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

The SESC will review the efforts of semi-major/regional securities firms to build sustainable business models and verify that they have developed internal control frameworks in response to changes in their business operations, conduct appropriate screening when introducing new products and subsequent monitoring, and comply with 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

The SESC will examine whether there have been any breaches of fiduciary duty, such as transactions that prioritize the interests of parent companies or other related parties over those of investors, and whether appropriate frameworks for managing conflicts of interest have been established, including whether arrangements are in place to examine ex post facto the appropriateness of transactions with parent companies or other related parties.

The SESC will also examine the investment management business operators' actual investment practices (including the status of their operations in line with internal rules, etc.) and their investment management frameworks (including those for outsourced investment management), etc.

(7) Investment advisors/agencies

The SESC will examine investment advisors/agencies' solicitation activities conducted through false or misleading explanations and their use of false or misleading advertising methods. The SESC will also examine whether there have been any breaches of fiduciary duty, such as transactions that take advantage of information on transactions conducted by customers receiving advice.

(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, Regional Finance Bureaus (RFBs), investigative authorities, and the Consumer Affairs Agency.

3. Approach to the securities business monitoring

(1) Inspection

Business operators subject to the SESC's securities business monitoring currently total approximately 9,200. 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 concerns about business

operations that require prompt and in-depth verification (cases in which unregistered business operators may be directly or indirectly involved in such operations, etc.);

- (ii) where a FIBO's actual business operations cannot be fully comprehended through monitoring (such as 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.

When any problem is found, the SESC will ascertain the whole picture of the case through in-depth discussions, searching for its root causes. Rather than merely taking such actions as making a recommendation for administrative disciplinary actions, the SESC will encourage such actions as building effective internal control environments, thereby helping to prevent the occurrence and recurrence of problems. 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 RFBs 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 RFBs, 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 RFBs or among RFBs will be conducted as needed, and RFBs will mutually offer support for inspection flexibly, thereby making efforts to effectively utilize human resources and to share know-

how.

In response to changes in the market environment and revisions to regulatory frameworks, the SESC will address cases involving new types of business, including those associated with the development of digital technologies and the expansion of new financial products, in collaboration with relevant JFSA divisions and other relevant organizations, as necessary.

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 inspections and audits, etc., and its awareness of problems, as well as the status of the follow-up of these problems, in a timely and interactive manner.

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.

4. 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."

Reference: Background to monitoring priorities for securities businesses

- (1) Findings through the securities business monitoring over the past business year
 - (i) Type I FIBOs and financial instruments intermediary service providers

The SESC found cases where management conducted business operations in a seriously inappropriate manner, as well as cases where FIBOs failed to secure officers with sufficient knowledge and experience necessary to execute financial instruments business operations.

The SESC also found prohibited conduct involving recommendations to conduct offsetting transactions in commodity-related market derivatives

transactions.

The SESC found business operations that raised concerns from the perspective of investor protection, including inappropriate business operations such as false notifications in registration procedures for products eligible for the NISA program; breaches of the duty of due care of a prudent manager in securities management operations, specifically book-entry transfers; failures to consider and determine whether transactions constituted suspicious transactions; and deficiencies in system risk management frameworks, including those for cybersecurity.

The SESC also found inappropriate business operations in the solicitation of emerging-market bonds, including solicitation involving the provision of conclusive assessments and failures to sufficiently examine reasonable-basis suitability within the firms.

(ii) Investment management business operators

The SESC found cases where investment management business operators failed to conduct investment management business faithfully for real estate investment corporations with which they had entered into asset management agreements or for clients with which they had entered into discretionary investment management agreements.

(iii) Investment advisors/agencies

The SESC found seriously inappropriate conduct, including cases where officers and employees of an investment advisor/agency were involved in investment advisory business conducted by an unregistered business operator, and cases where an investment advisor/agency allowed a person falling under the grounds for refusal of registration to conduct business as an employee specified by Cabinet Order and repeatedly concealed this fact from the authorities.

The SESC also found breaches of the duty of due care of a prudent manager, including cases where an investment advisor/agency advised customers on financial instruments managed by an unregistered business operator.

The SESC found cases where an investment advisor/agency failed to secure officers or employees with sufficient knowledge and experience necessary to execute financial instruments business operations, failed to establish the systems necessary to properly conduct its investment advisory and agency business, or evaded an inspection.

The SESC also found breaches of fiduciary duty, including cases where an

investment advisor/agency purchased recommended securities before providing advice to customers, advised the customers to purchase the securities without disclosing that it held them, and sold the securities after providing the advice, as well as cases where an investment advisor/agency placed advertisements containing representations materially inconsistent with the facts regarding its investment advisory track record.

(iv) Type II FIBOs

The SESC found cases where measures had not been taken to conduct appropriate screening when handling offerings of funds, etc.

(v) Unregistered business operators

The SESC found business operators conducting Type II financial instruments business and investment advisory and agency business without registration as FIBOs.

(2) Environment surrounding FIBOs

(i) Customer-oriented business conduct, etc.

The NISA program was fundamentally expanded and made permanent in January 2024, broadening the investor base and promoting asset formation. Against this backdrop, measures have been introduced to raise the maximum age for participation in iDeCo and increase the contribution limits for iDeCo and other defined contribution pension plans, effective December 2026. In addition, in order to enable people of all generations to build assets in line with their life plans, the age requirement for the installment-type investment portion of the NISA program will be abolished, effective January 2027, and the range of eligible products has been expanded, effective April 2026. Under these circumstances, in order to promote stable asset formation among the public, it continues to be important for all financial institutions and other businesses involved in the sale of financial instruments, the provision of advice, product development, asset administration, and investment management to recognize their respective roles, appropriately ensure customer-oriented business conduct, and fully perform the roles expected of them.

(ii) Further strengthening of measures against fraudulent investment solicitation

The SESC has actively promoted measures to eliminate unregistered business operators as set out in the “Comprehensive Measures for Protecting People from Fraud 2.0.” However, the situation remains extremely serious, with losses from special fraud and social media-based investment and

romance scams reaching a record high in 2025. Therefore, the “Emergency Measures to Prevent the Spread of Damage from Fraud and Stalking,” formulated in July 2026, include measures to further strengthen efforts to address fraudulent advertisements involving the impersonation of celebrities and other similar practices.

(iii) Spread of new financial instruments

In light of the fact that crypto-assets are regarded as investment assets by investors in Japan and overseas, the Act Partially Amending the Financial Instruments and Exchange Act and the Payment Services Act (“Amended FIEA and Related Acts”), which provides for the transfer of the regulatory framework for crypto-assets from the Payment Services Act to the Financial Instruments and Exchange Act and includes revisions to crypto-asset regulations, was promulgated in July 2026 and will come into effect within one year of promulgation.

(iv) Importance of AML/CFT measures

As financial institutions and other businesses have largely completed the establishment of basic frameworks, the AML/CFT Guidelines were amended in March 2026 to take account of recent changes in the environment surrounding financial institutions and to promote the maintenance and enhancement of their frameworks for managing money laundering and other related risks.

(3) Changes to regulatory frameworks for FIBOs

(i) Response to unauthorized access to securities accounts

In response to the frequent occurrence of unauthorized access to and unauthorized transactions through internet trading services using customer information, such as login IDs and passwords, stolen through phishing websites impersonating securities companies’ websites, the JFSA amended the Comprehensive Guidelines for Supervision in October 2025 to strengthen authentication methods and fraud prevention measures for internet trading. The amendment added key supervisory perspectives concerning the development of internal control environments, ensuring security, and responding to customers, as well as a requirement to report incidents of criminal activity to the authorities.

(ii) Short-term measures for financial institutions and other businesses in response to changes in threats posed by frontier AI

In recent years, the development of frontier AI has raised concerns about an increase in sophisticated cyberattacks. In light of the possibility that vulnerabilities may be discovered and corrective programs, or patches, may be provided intensively within a short period of time, the JFSA, jointly with the Bank of Japan, issued a request to financial institutions and other businesses in May 2026 concerning “Short-term Measures for Financial Institutions and Other Businesses in Response to Changes in Threats Posed by Frontier AI.”

(iii) Underwriting review commensurate with fraud and other risks

In March 2026, the Japan Securities Dealers Association formulated the “Guidelines for Underwriting Review in Light of Accounting Fraud Cases at the Time of Initial Public Offerings.” The Guidelines set out matters requiring particular attention when conducting underwriting review in order to ensure that FIBOs appropriately perform their underwriting review and information management functions.

(iv) Promoting the provision of funding to startups

With a view to expanding the range of persons to whom solicitation for fundraising targeting professional investors may be conducted, the Act Partially Amending the Financial Instruments and Exchange Act and the Payment Services Act was promulgated in July 2026. The Act includes revisions such as adding to the scope of eligible counterparties for private placements for professional investors persons who satisfy the requirements for professional investors and have a high level of information analysis capability but have not completed the procedures for obtaining professional investor status, referred to as potential professional investors. The amendments will come into effect in April 2027.

In addition, from April to May 2026, the JFSA conducted a public consultation on proposed amendments to the Cabinet Office Order on Financial Instruments Business, etc. to relax the requirements applicable to individuals eligible to obtain professional investor status.

(v) Measures against investment fraud, unregistered business operators, etc.

In response to an increase in losses resulting from unauthorized remittances and unauthorized transactions caused by phishing attacks impersonating financial institutions, industry associations, the JFSA, and the National Police Agency jointly developed public-private and cross-industry public awareness materials in April 2026. These materials are intended to warn the public about phishing emails and raise awareness of phishing-resistant multi-factor

authentication.

In addition, based on information submitted to the “Contact Point for Information on Advertisements and Other Content Suspected of Involving Investment Fraud on Social Media,” the JFSA introduced methods used in investment fraud involving social media and issued alerts in December 2025.

Furthermore, the Act Partially Amending the Financial Instruments and Exchange Act and the Payment Services Act, which includes increased penalties for unregistered business operators, was promulgated in July 2026. The relevant provisions came into effect on August 12, 2026.