



To turn challenges into opportunities

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The Commissioner of the Financial Services Agency of Japan

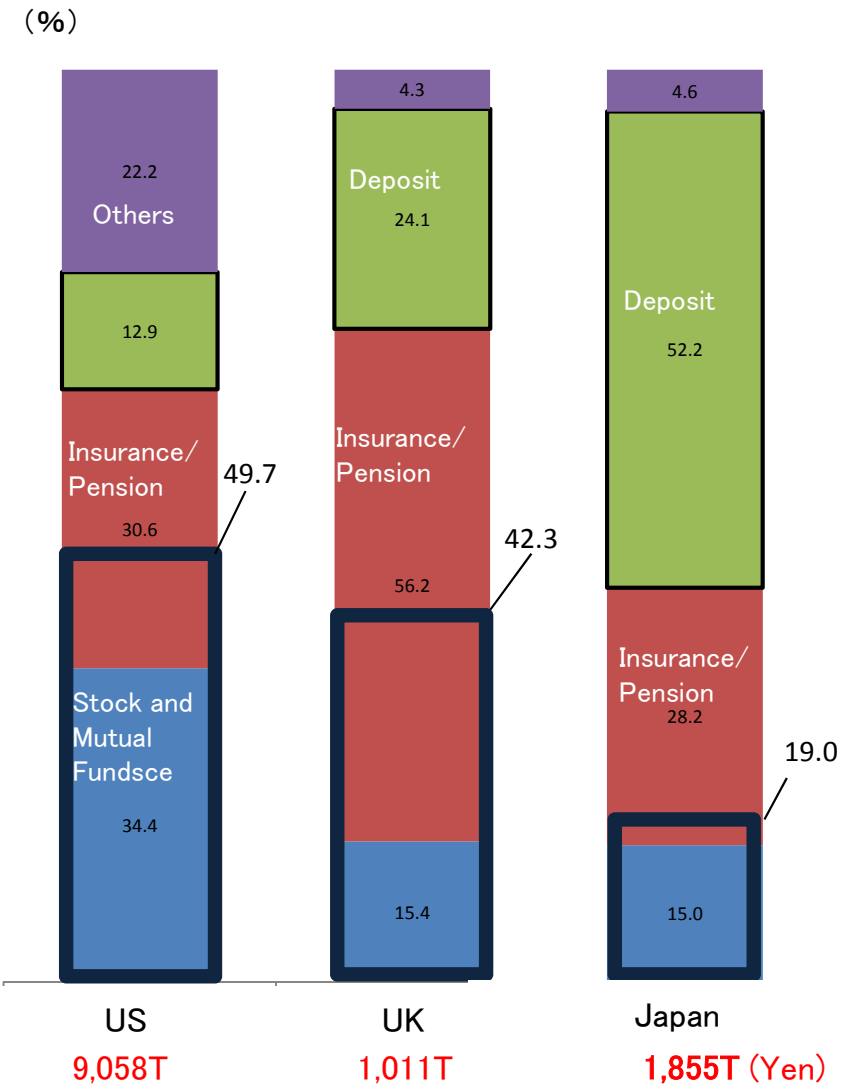
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I . Promoting long-term investment(1)

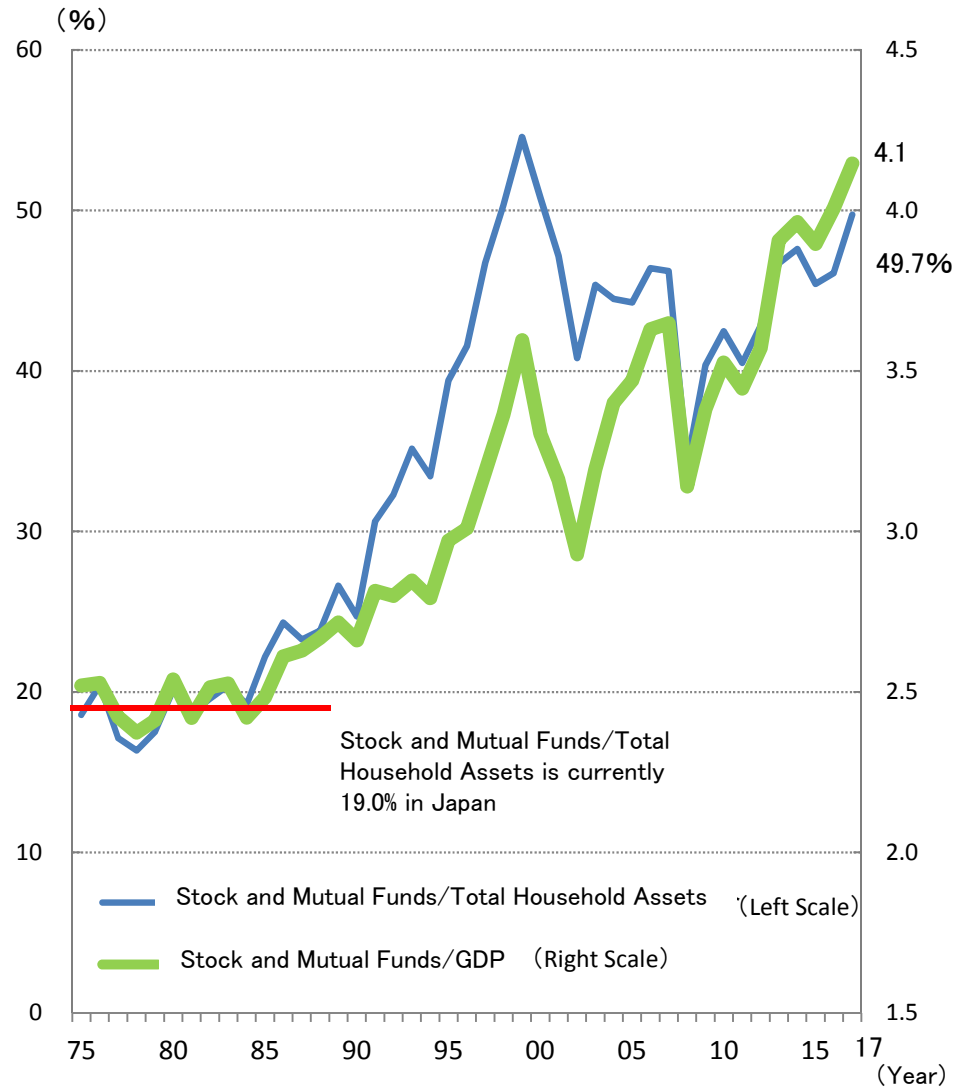
Components of Household Assets



shows the stock and mutual funds including indirect holdings

(As in the end of 2017 1USD=112.67Yen 1GBP=152.24Yen)
 (Source) FRB, BOE and BOJ

Stocks and Mutual Funds/ Total Household Assets in US

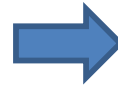


(Source) FRB

I . Promoting long-term investment(2)

- We will **promote the shift from deposits to investment** for growth and building assets for aging society.

Steady growth of household assets



Enhance economic growth

Build household assets for an aging society

Three policies to strengthen the shift to investment

Encouraging “customer-oriented” business conduct

Promote long-term and diversified investments

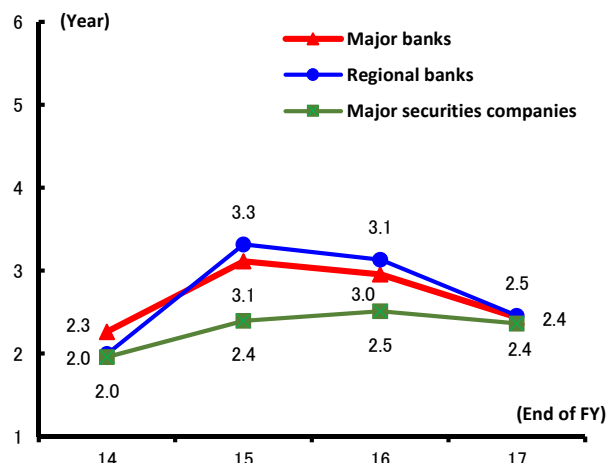
Review on financial services to make them appropriate for an aging society

I . Promoting long-term investment(3)

Encouraging customer-oriented business conduct

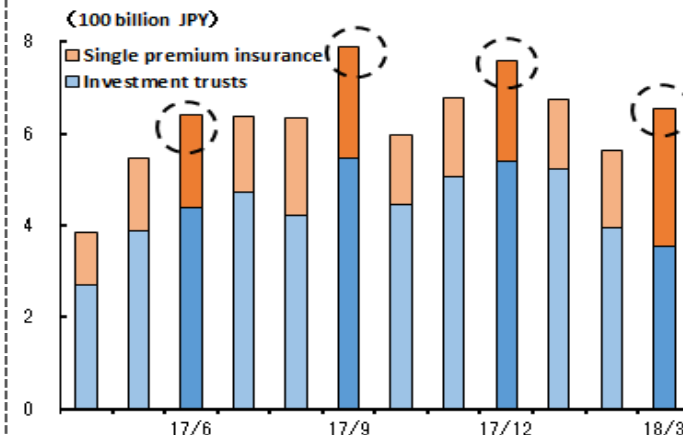
- **The average holding period for investment trusts has shortened.** This suggests investment trust distributors tend to approach customers based on **push strategy in order to meet quarterly profit targets.**

Average holding period for investment trusts



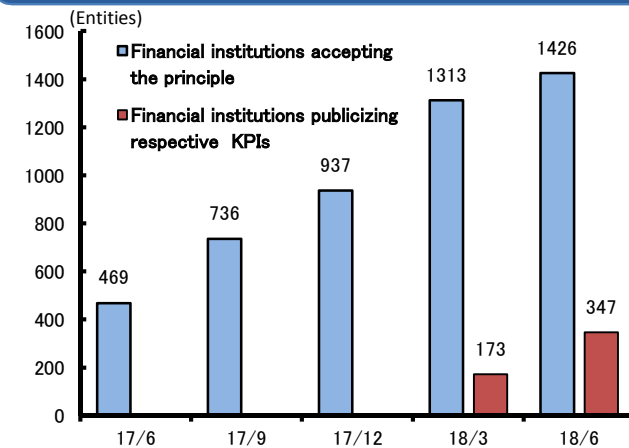
(Note1) 9 major Banks, 20 regional Banks and 7major securities companies
 (Note2) Figures include intermediary sales
 (Note3) Average holding period = (balance of the previous year + balance of the current year)/2 / (termination + redemption per year)
 (Source) JFSA

Monthly sales trends of risk-involving products



(Note1) 9 major banks and 20 regional banks
 (Note2) Sales figure is the total of single premium insurance and investment trusts from April 2017 to March 2018
 (Source) JFSA

Financial institutions accepting the “Principles for Customer-Oriented Business Conduct” and publicizing their respective approaches and KPIs



(Note) “Financial institutions publicizing their respective KPIs” is institutions developing their respective directions and approaches publicizing KPIs which show status of implementation
 (Source) JFSA

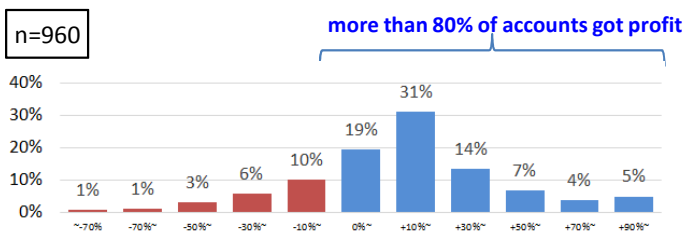
- **Visualization of Financial institutions(FIs)’ business activities** matters in order to encourage all the FIs in the investment chain (i.e., sales, advisory, product development, asset management) to run their businesses in a customer-oriented manner. To this end, the JFSA will:
 - Focus on the analysis and review of how **FIs** incorporate the idea of the “Principles for Customer-Oriented Business Conduct” in their corporate philosophies, develop their business strategies, and **apply the principles in everyday business operations**;
 - Analyze and ensure the actual status of implementation through **customer questionnaires** on whether FIs’ efforts are fully understood and considered in the selection of FIs by customers; and
 - Spread and penetrate **the common KPIs comparable across investment trust distributors**, and further promote “visualization” of the features of financial products, including savings-type insurance as well as investment trusts.

I . Promoting long-term investment(4)

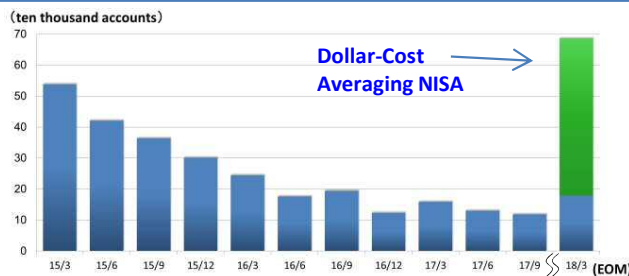
Enhancing long-term and diversified personal investment

- Dollar-Cost Averaging NISA was introduced this year.
- It allows a 20 year long tax incentive to encourage long-term investment.
- It is applicable only for qualified investment products fit for long-term investment.

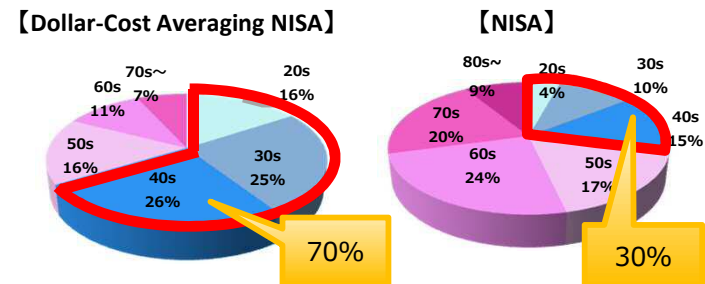
Profit and loss of NISA accounts(activated in FY2014)
(End of March 2018)



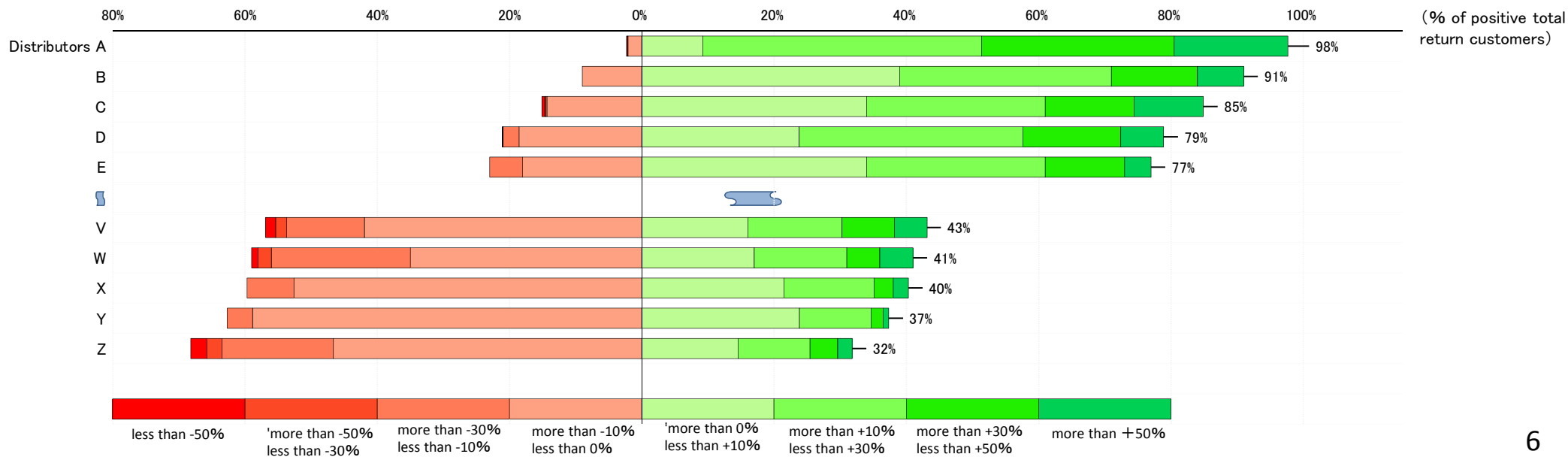
NISA and Dollar-Cost Averaging NISA accounts
(End of March 2018)



NISA and Dollar-Cost Averaging NISA accounts
(The data in terms of some generations)



- Distribution of customer's total return by investment trust distributors such as banks and securities companies

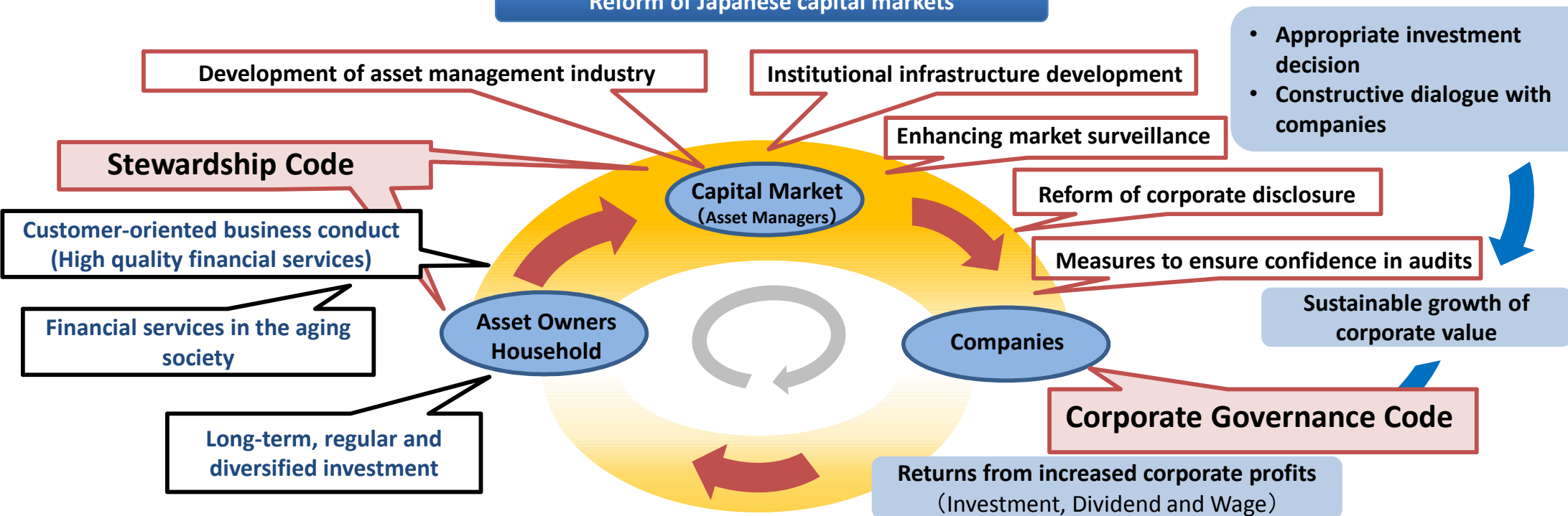


Developing financial services in an aging society

- The Working Group on Financial Markets will discuss how the financial services in the aging society should be developed. And it will compile the code of conduct for the financial industry.
 - The promotion of financial services and products suitable to the life stages and situations of customers
 - **Visualizing** post-retirement income and expenditure and the characteristics of financial products and services appropriate to the conditions of various users
 - Financial services for smooth inheritance of personal assets and business operations
 - Investor protection in light of **financial gerontology**

II . Enhancing corporate governance

Reform of Japanese capital markets



Enhance corporate governance reform

- Corporate governance reform has progressed, with two established codes: the Stewardship Code (The SC) in 2014 and the Corporate Governance Code (The CGC) in 2015.
- After follow-up discussion, **both codes were recently revised**. (The SC in 2007 and the CGC in June 2018)
- The JFSA will strengthen its substance to promote reform for improving corporate value in the long run.
- Review reduction of cross-shareholdings, ensuring diversity of boards and proxy voting results by individual company and hold “The Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code”
- **Publish best practices of effective communication between companies and investors.**

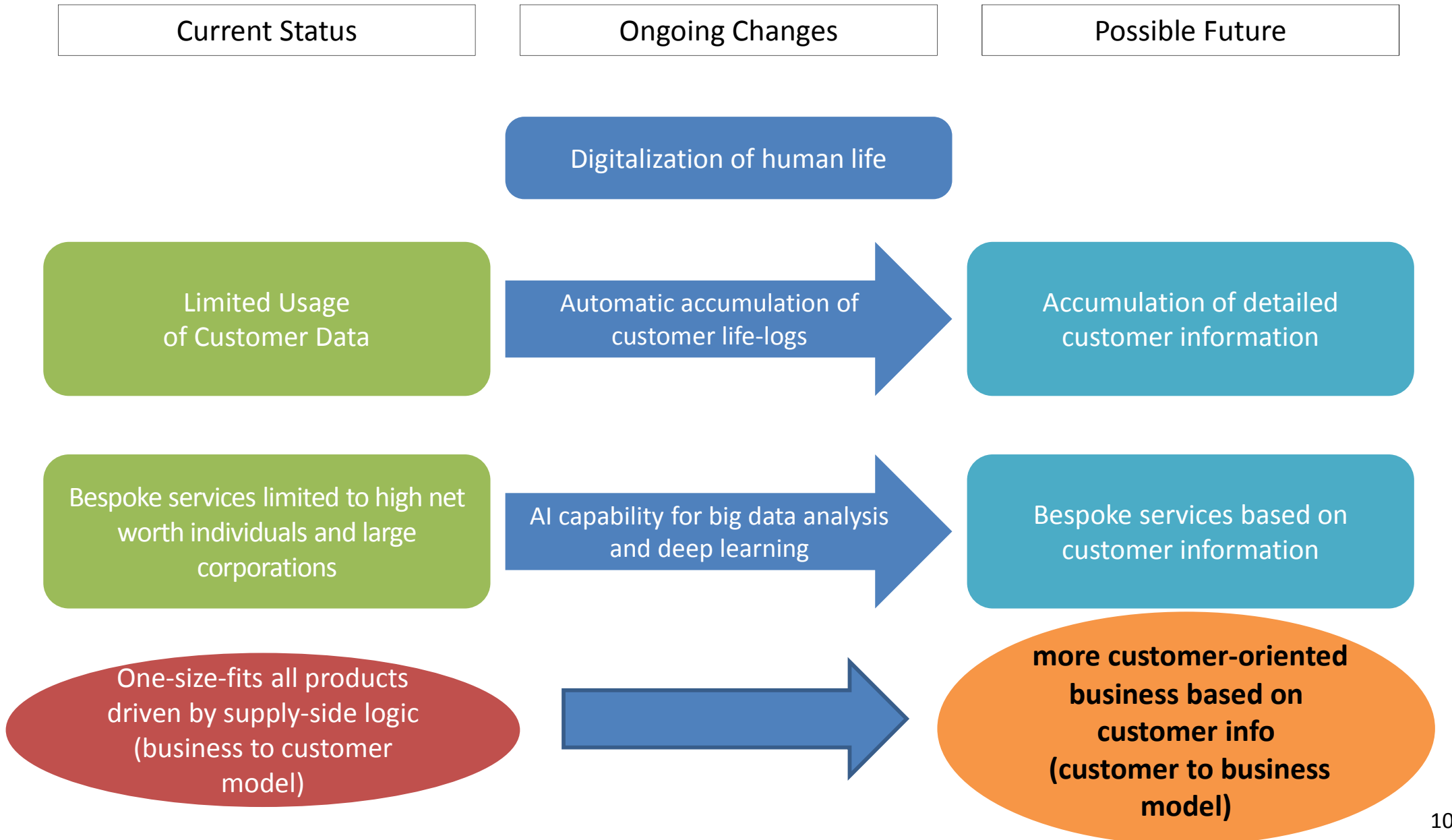
III. Strengthening capital market functions

Enhancing the function of the financial markets

- To make Japan's financial markets more efficient and attractive, the JFSA will:
 - Consider issues and measures to **develop the credit markets, including corporate bond markets** in which **various players participate**; and
 - Strengthen efforts to realize **early establishment of the comprehensive exchange** to achieve the following goals:
 - ✓ Strengthen the international competitiveness of the exchange
 - ✓ Expand derivative trading markets
 - ✓ Improve the convenience of investors

IV. Strategy for digitalization (1)

- The nature of ongoing changes -



IV. Strategy for digitalization (2)

- Finance digitalization strategy -

- **Digitalization has been accelerating in various kinds of goods and activities in all sectors including those of public administrations.**
 - **New entrants are joining the financial sector.** They may single out certain financial services such as payment services (i.e. unbundling). Or they may combine it with other business operations such as e-commerce services (i.e. re-bundling) .
 - As more data are accumulated and analyzed, **the data usage and application will be accelerated.**
 - **This could bring drastic changes in business.**



The JFSA encourages players in the financial markets **to provide best financial services by fully utilizing advancing technologies while avoiding associated risks.**

■ Finance Digitalization Strategy

I . To make digital information more accessible

- 1 . Accumulation and application of data
- 2 . Customer protection in terms of privacy and anonymity, credibility of customer data, and others
- 3 . Information/financial literacy to make use of digitalization

IV. Strategy for digitalization (3)

- Finance digitalization strategy -

II . To build digital infrastructure both for the public sector and for the private sector

4. Digitalizing financial infrastructure that enables the transmission of financial/non-financial information
5. Digitalization of financial administrative services

III . To encourage new innovative businesses

6. Promotion of various innovative challenges via sandbox platforms, etc.
7. Promotion of innovation via open architectures

IV . To improve various infrastructure for digital innovation

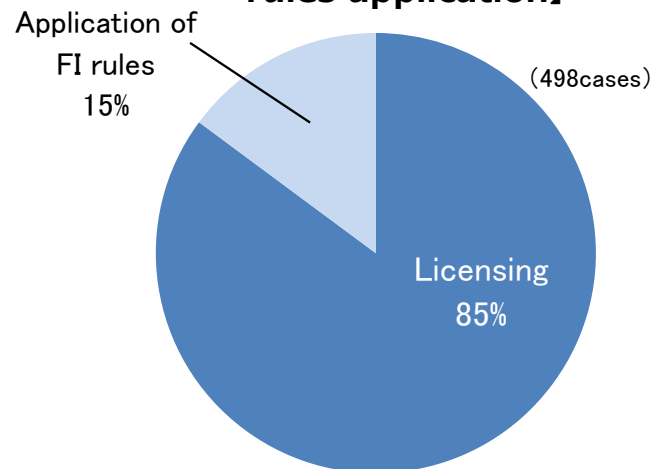
8. Global authority networks
9. Promotion of blockchain, AI, big data technologies that serve as the infrastructure for digitalization
10. Response to the issues concerning cyber security, financial system, and other financial system issues.
11. Function-based, cross-sectoral financial regulations to attain the aforementioned issues/challenges

IV. Strategy for digitalization (4) - FinTech Support Desk -

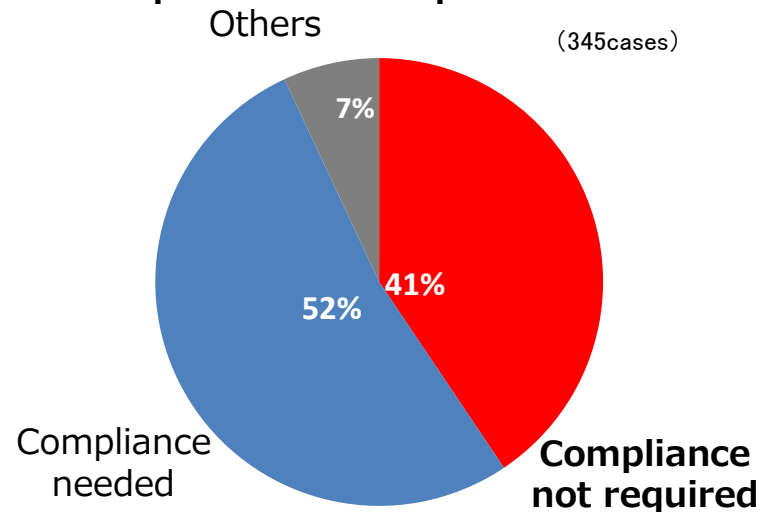
- The JFSA established the FinTech Support Desk as a one-stop service for FinTech businesses.
- It clarifies how existing rules will be applied to innovative businesses.

- Established on 14th December, 2015. By end-June 2018, there have been 602 cases seeking clarification.
- Out of 498 cases seeking clarification on enforcement of rules, around 80% is for licensing issues, and others are the application of rules for financial institutions.
- In the 345 completed cases, we clarified that **the financial laws and rules are not applied for around 40%.**

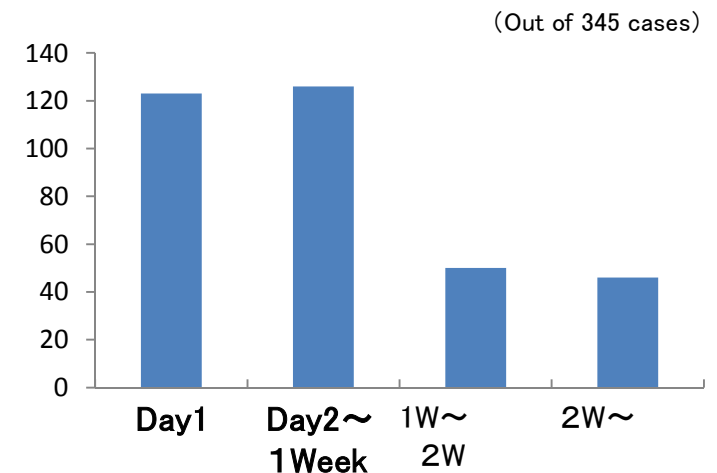
【Cases seeking clarification in rules application】



【Composition of completed cases】

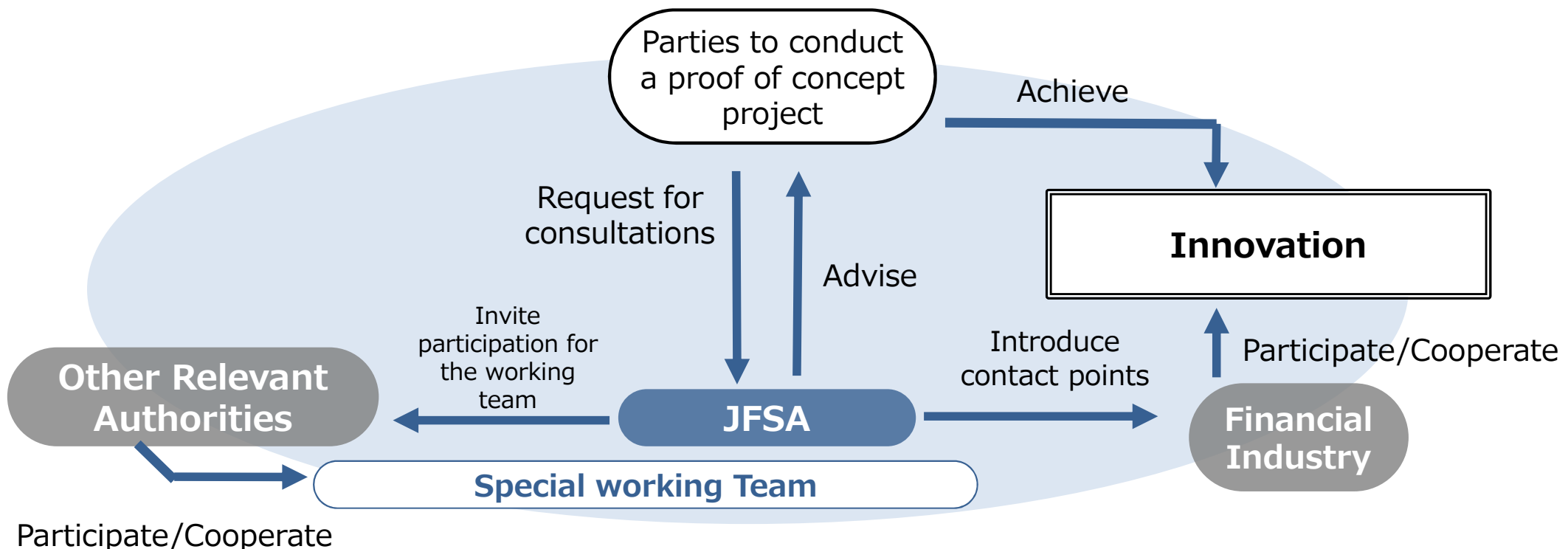


【Timeliness in rule clarification】



IV. Strategy for digitalization (5) - FinTech Proof of Concept Hub -

- ✓ The JFSA established “**FinTech Proof of Concept Hub**” aiming for supporting certain parties which conduct innovative projects (proof of concept projects) that leads to greater user convenience and/or productivity of companies in Japan.
- ✓ For each selected proof of concept project, the JFSA will set up a special working team within the JFSA in cooperation with other relevant authorities if necessary.
- ✓ The special working team will continuously support the project. It will give advice to the parties on issues related to compliance and supervision, etc.



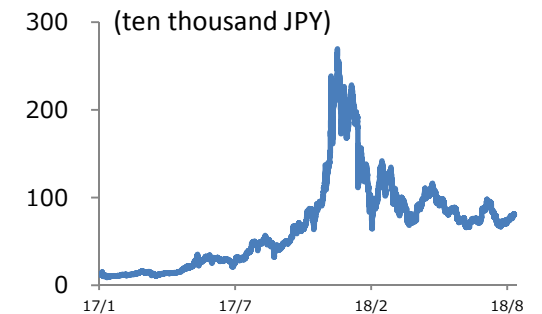
V. Approaches on crypto-assets

- The situation surrounding crypto-assets is changing rapidly. For example, new type transactions such as margin transactions and Initial Coin Offering are emerging.
- The price volatility of crypto-assets is enormous.
- Customers' assets are taken from some crypto-assets exchanges.

The JFSA will:

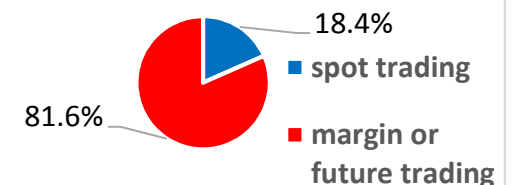
- Consider necessary regulatory measures at the Study Group on the Virtual Currency Exchange Services (established in March 2018).
- Improve registration screening process and monitoring considering issues found in inspections (Interim report August 2018);
- Lead the discussion for global cooperation in this area as the chair of the G20 in 2019

Bitcoin price (since Jan in 2017)



(source) Cryptocompare (as of September 3rd in 2018)

Breakdown of crypto-assets transactions



(Note) Total of 14 virtual currency exchange service providers and 3 deemed providers
(Source) Japan Virtual Currency Exchange Association

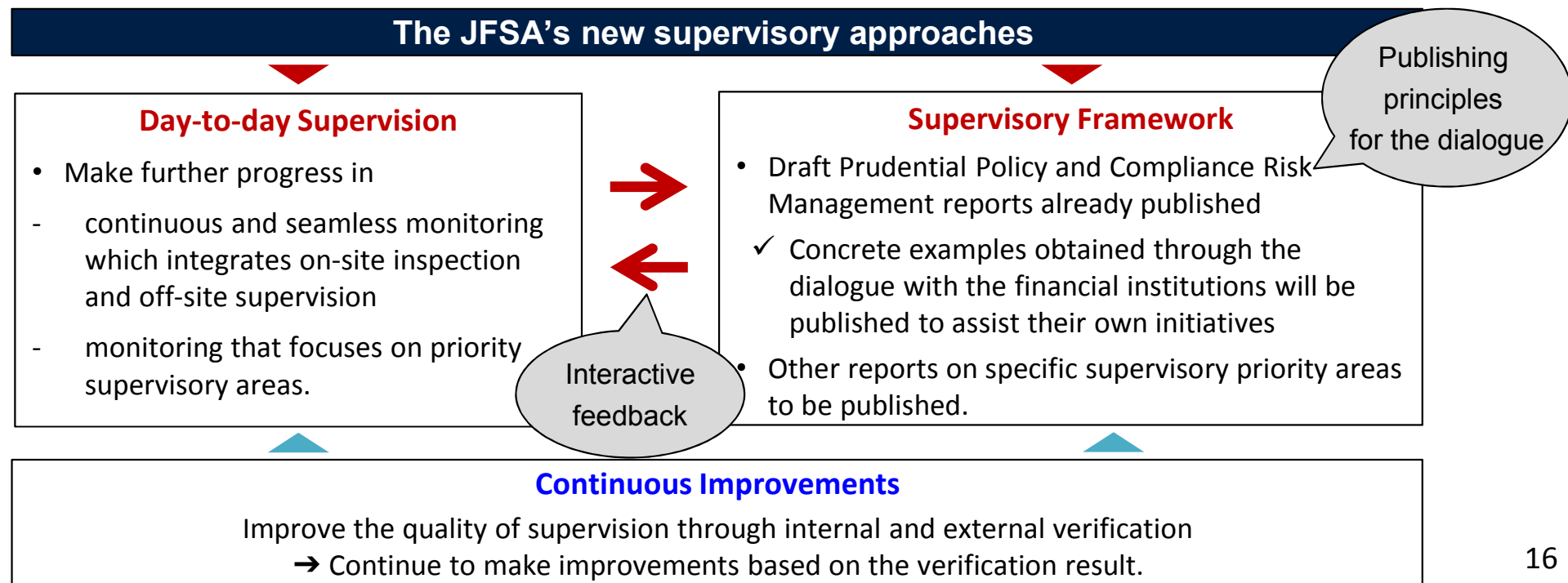
VI. The reform of the JFSA and its new supervisory approach (1)

Reforming the JFSA to be forward-looking and ready for change

- The JFSA will motivate its staff to be proactive to foresee and to adapt to fast changes in the financial sector to achieve its goals.
- The JFSA will:
 - Form small groups in each office and division to enhance communication to improve motivation, for example, by introducing “1on1 meetings.”
 - Establish “Open Policy Laboratory” to encourage its staff to make new policy proposals voluntarily.

New supervisory approaches for financial stability and excellent financial intermediation

- The JFSA will carry out its supervisory activities in line with “JFSA’s supervisory approaches -Replacing checklists with engagement-” published in June 2018.



VI. The reform of the JFSA and its new supervisory approach (2)

Supervision of foreign financial institutions

- The global strategies of foreign financial institutions have strong influence over their subsidiaries and branches in Japan.
- Some foreign financial institutions have business models different from banks and securities businesses in Japan. For example, sometimes, in their home countries, banking and securities businesses are integrated.
- Some foreign financial institutions are facing emerging issues which the Japanese financial sector is facing or may face in the future such as digitalization, globalization and aging.

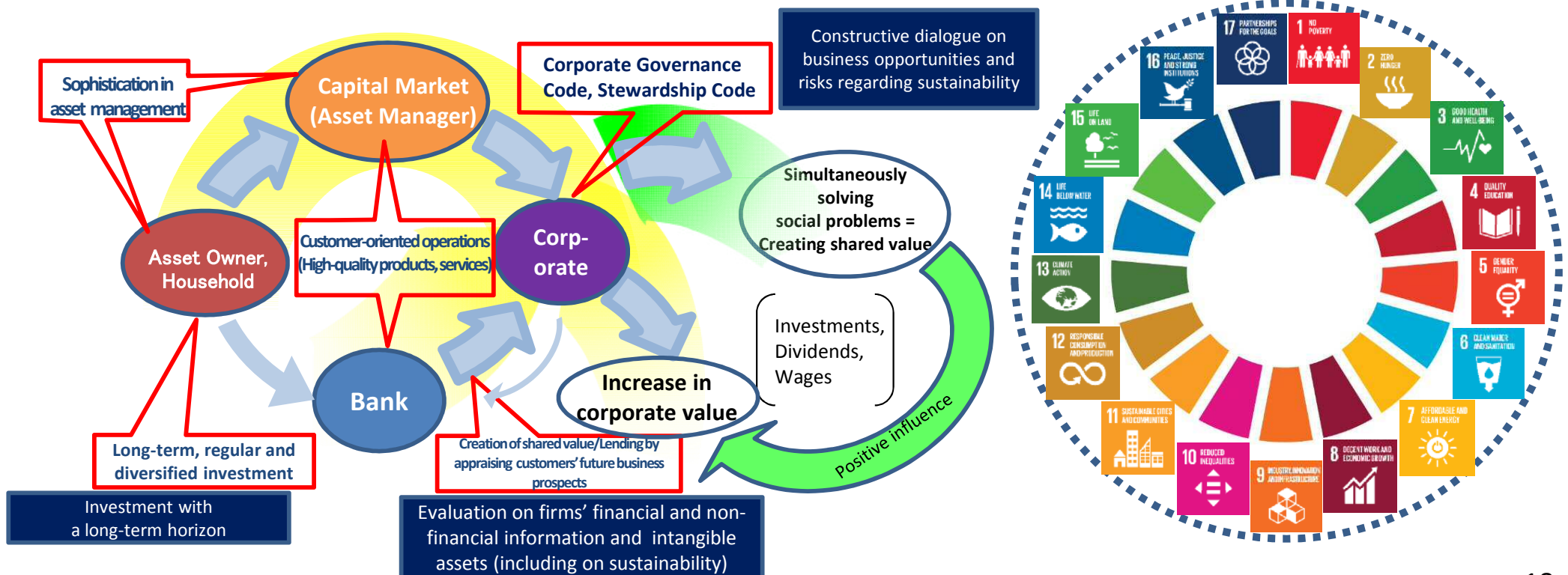
Thus, the JFSA will:

- Supervise and monitor Japanese subsidiaries and branches of foreign financial institutions focusing on **governance, internal control and business sustainability with thorough understanding of the influence of changes in their global strategies in a forward-looking manner.**
- **Integrate supervision for both foreign banking and foreign securities business in a new Office** combining onsite monitoring, offsite monitoring and international supervisory cooperation such as supervisory colleges to make them well-coordinated.
- **Collect information of best practices** in foreign financial institutions through closer dialogues with them **to improve the JFSA's supervision and Japan's financial system.**

VII. The JFSA's strategy for Sustainable Development Goals

- The JFSA will work proactively to achieve the Sustainable Development Goals (SDGs). The SDGs' vision is consistent with the JFSA's mission, i.e., to contribute to the national welfare by promoting sustainable growth of the national economy and wealth.
- While the private sector (e.g., corporates, investors, and financial institutions) is expected to engage with the SDGs as their own initiatives, should there be any obstacles that hinder their actions and result in creating negative externalities, there would be room for the JFSA to step in to achieve the optimal equilibrium for the overall economy. (*)

(*) In this context, the JFSA's primary role is to induce actions by the stakeholders in a manner that their SDG and ESG initiatives will bring about enhancing long-term corporate value and long-term investment returns alike.



VIII. Contributing to global policy discussion and building global network

Contributing to global policy discussion

Global policy agendas including financial regulatory reforms

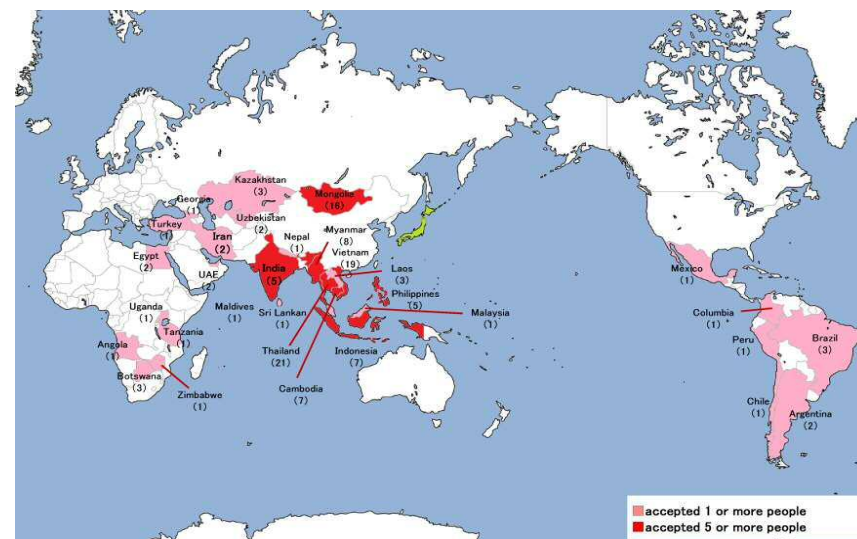
- Global issues related to the sustainability of economic and financial systems associated with digitalization and aging society
- Towards the Japanese G20 Presidency in 2019, the JFSA is to take initiatives for tackling a wide range of global policy agendas including:
 - Evaluating effects of the regulatory reforms
 - Addressing market fragmentation
 - Considering multilateral responses in the area of crypto-assets
 - Promoting financial inclusion in aging society

Building global network and cross-border cooperation

- Building cooperation framework with foreign authorities contributing to economic growth and financial stability of both countries.

The JFSA will:

- Contribute to capacity building of emerging countries through assistance program in accordance with needs of counterpart countries, taking into account requests of Japanese financial institutions for their possible entry and business expansion.
- Further improve the quality of programs of the Global Financial Partnership Center (GLOPAC) including lectures and network with its alumni fellows.
- Strengthen regulatory and supervisory cooperation frameworks with counterpart authorities through these initiatives.





Thank you.