

FSA's Strategic Priorities: July 2024 - June 2025

December 4th, 2024

ITO Hideki

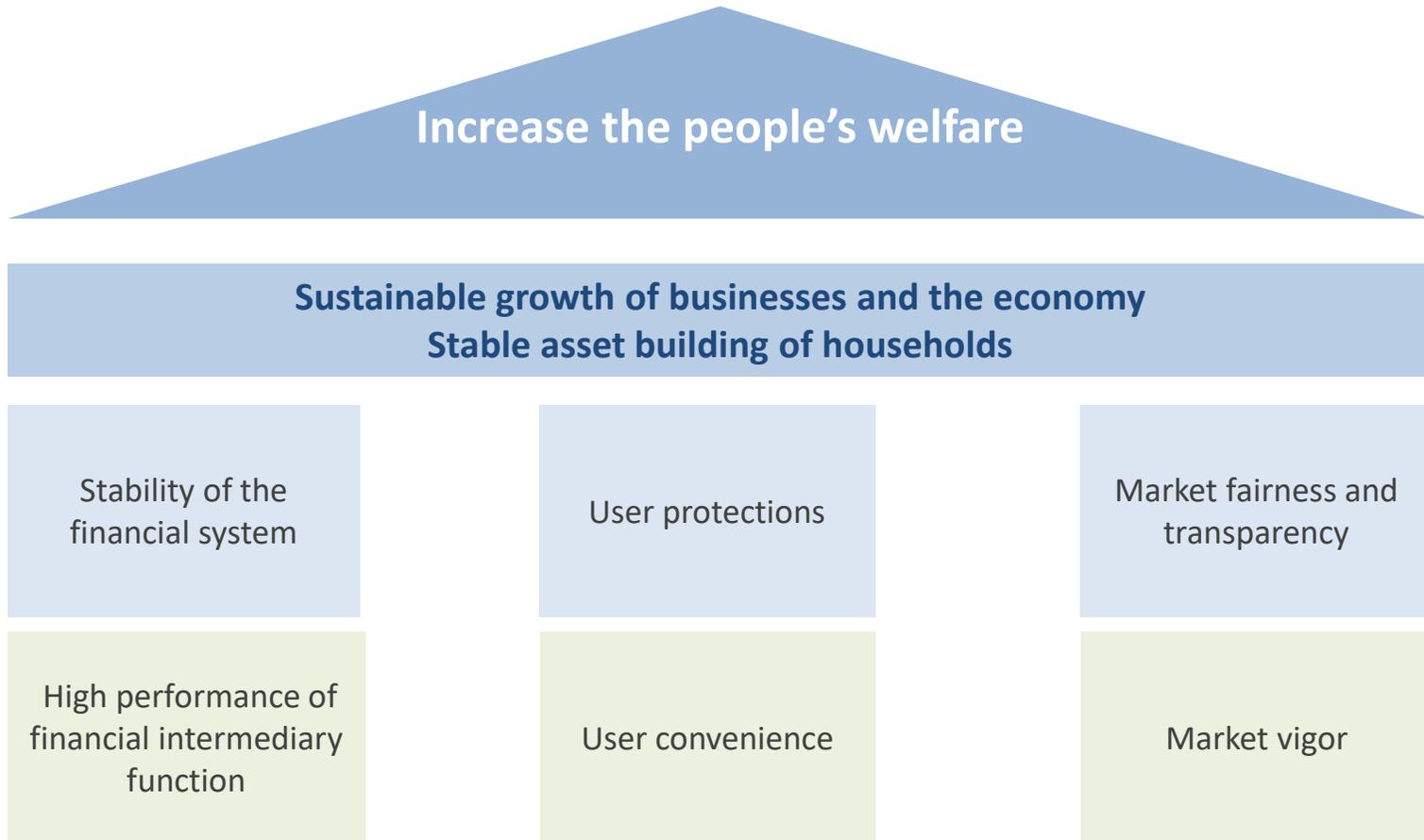
Commissioner



Financial Services Agency, the Government of Japan



- The FSA is committed to pursuing its mission to increase the people’s welfare through sustainable growth of businesses and the economy as well as stable asset building by striking a balance between each of the following: (i) **stabilizing the financial system and having financial institutions fully perform their financial intermediary function**, (ii) **ensuring user protections and enhancing user convenience**, (iii) **securing fairness and transparency over, and invigorating, the market**.



- The FSA will build a financial system that can flexibly adapt to various changes and challenges and ensure its stability and reliability and fulfill its high quality financial functions, through utilizing a comprehensive range of regulatory and supervisory powers, including participating to international discussions.

Economic & Markets

- ❑ Increased market volatility

Overseas

- ❑ Economic slowdown
- ❑ Resurgence of inflation
- ❑ Real estate market turbulence

Japan

- ❑ Transition to a “world with interest rates”

Demographical

- ❑ Declining population
- ❑ Aging population
- ❑ Excess concentration of population in Tokyo
- Labor shortage
- Lack of successors
- Structural changes in regional economies

Technological

- ❑ Dissemination and development of blockchain
- ❑ Widespread use of AI
- ❑ Non-face-to-face transactions
- ❑ Services across business types and borders
- Emergence of new financial services
- Heightened cyber risks and more sophisticated methods of financial crimes

Environmental & Geopolitical

- ❑ Climate change
- ❑ Geopolitical risks



In view of global and domestic social and economic structural changes, as well as heightened uncertainties in the economy and financial markets, the FSA is committed to advancing reforms and continuously reviewing its policy measures and tools.

I. Contribute to Sustainable Economic Growth through Financial Mechanisms

To this end, the FSA will work to enhance the functioning of the entire investment chain and respond to changes brought about by climate change and digital technology.

II. Ensure the Stability and Reliability of the Financial System and the Provision of High-quality Financial Services

Through in-depth inspection and supervision, the FSA will ensure appropriate business operations and soundness of financial institutions(FIs) and promote the provision of high-quality financial services that support people and businesses.

III. Enhance the FSA's Administrative Capacities

The FSA will continuously enhance data utilization, strengthen international and domestic policy communications, and build up the skills and capacities of its staff, including junior officials.

I. Contribute to Sustainable Economic Growth through Financial Mechanisms

The FSA will:

- Ensure the full implementation of the “Policy Plan for Promoting Japan as a Leading Asset Management Center” published December 2023 through:
 - Promoting appropriate use of expanded NISA (tax exemption program for retail investors)
 - Enhancing financial and economic education, in collaboration with the newly-established Japan Financial Literacy and Education Corporation
 - Advancing corporate governance reforms
 - Further enhancing the reliability of capital markets
 - Improving the functioning of asset management companies and promoting new entrants
 - Monitoring FIs’ asset management business operations that support asset owners
 - Facilitating the financing for startups seeking growth
 - Strengthening external promotion of the Policy Plan, for example by hosting “Japan Weeks”
- Promote sustainable finance through:
 - Improving and ensuring the reliable sustainability disclosure by companies
 - Promoting FIs’ support for companies in decarbonization efforts
 - Facilitating the implementation and expansion of impact investment
- Respond to the transformation of financial services using digital technology through:
 - Reviewing regulations for remittances, payment, and credit services
 - Developing a discussion paper for the sound and effective use of AI by FIs
 - Promoting the market entry of FinTech companies

II. Ensure the Stability and Reliability of the Financial System and the Provision of High-quality Financial Services

The FSA will:

- Ensure the stability of the financial system through:
 - Monitoring the governance, internal audit, and risk management systems that FIs have in place, including the response process under financial and economic stress
 - Strengthening the supervisory framework for financial groups with business diversification and/or expansion across sectors and borders
 - Reviewing FIs' initiatives to manage climate-related financial risks, taking into account international trends and the heightened importance of transition finance

- Build the resilient financial system against operational and conduct risks through:
 - Addressing emerging risks such as financial crime, money laundering/terrorist financing, economic security, cybersecurity and IT governance
 - Reinforcing legal compliance and encouraging customer-oriented business practices of FIs, with respect to the origination, sale, and management of financial products.
 - Enhancing the effectiveness of supervision of large-sized insurance agents and reviewing the regulations on insurance agents and insurance brokers

- Facilitate the provision of high-quality financial services to businesses through:
 - Encouraging FIs to support M&A of their clients
 - Paving the way for the use of newly-legalized Enterprise Value Charge (collateralization of entire business, including intangibles)
 - Holding dialogue with FIs to ensure sustainability of their business models

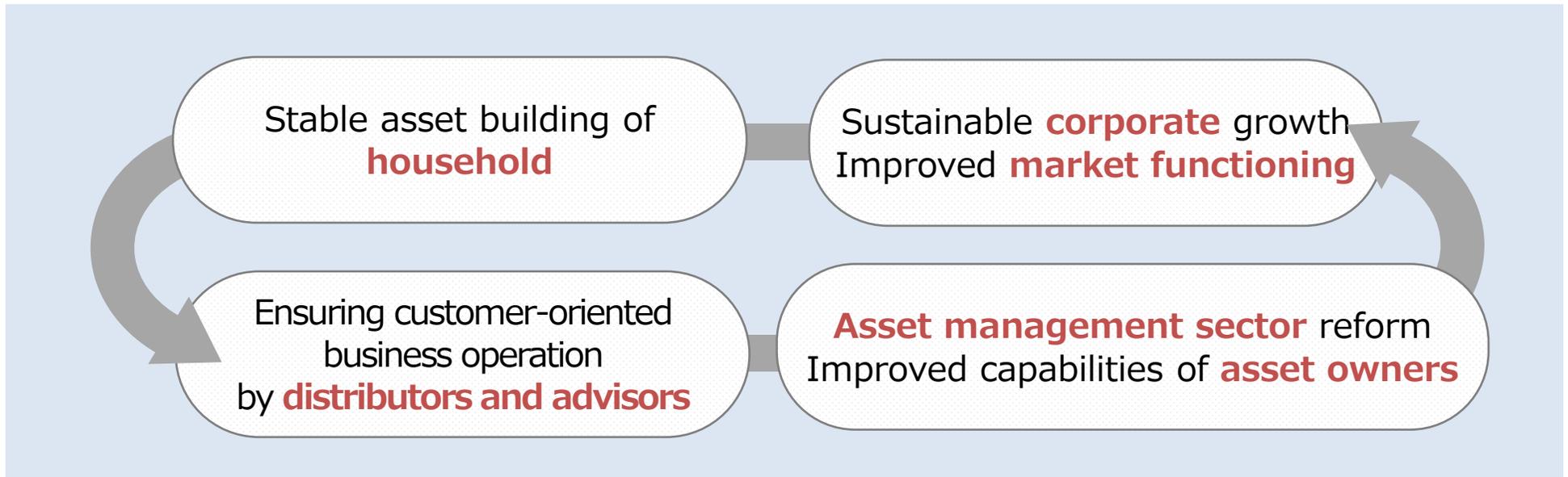
III. Enhance the FSA's Administrative Capacities

The FSA will:

- **Improve its policies, regulation and supervision** through :
 - Enhancing data utilization
 - Promoting further collaboration with the Local Finance Bureaus
 - Strengthening policy communications, domestically and internationally

- **Enhance its organizational capabilities** through :
 - Building up the skills and capacities of its staff, including the talent development of junior officials
 - Placing priority on self-motivated initiatives
 - Creating a flexible and efficient work environment to enhance productivity

- It is essential to increase economic productivity and corporate value through financial and capital market mechanisms in order to achieve continuous economic growth.
- From this perspective, the FSA is working on advancing **corporate governance reform**, encouraging the **digital transformation of financial services** and promoting **sustainable finance**.
- The FSA is also advancing reforms to **promote Japan as a leading asset management center** to realize a virtuous economic cycle in which increases in corporate value reward households, which then lead to further investment and consumption.



1. November 2022 : **Doubling Asset-based Income Plan**
2. April 2023 : **Action Program for Accelerating Corporate Governance Reform**
3. December 2023 : **Policy Plan for Promoting Japan as a Leading Asset Management Center**

Stable Asset Formation of Household

- ✓ Complete Revamp of NISA (Jan. 2024)
- Reform of iDeCo (to be decided by end 2024)
- ✓ Establishment of J-FLEC (in full operation from Aug. 2024)
- ✓ The legal obligation to operate in the best interests of customers (Nov. 2023)

Corporate Governance Reform

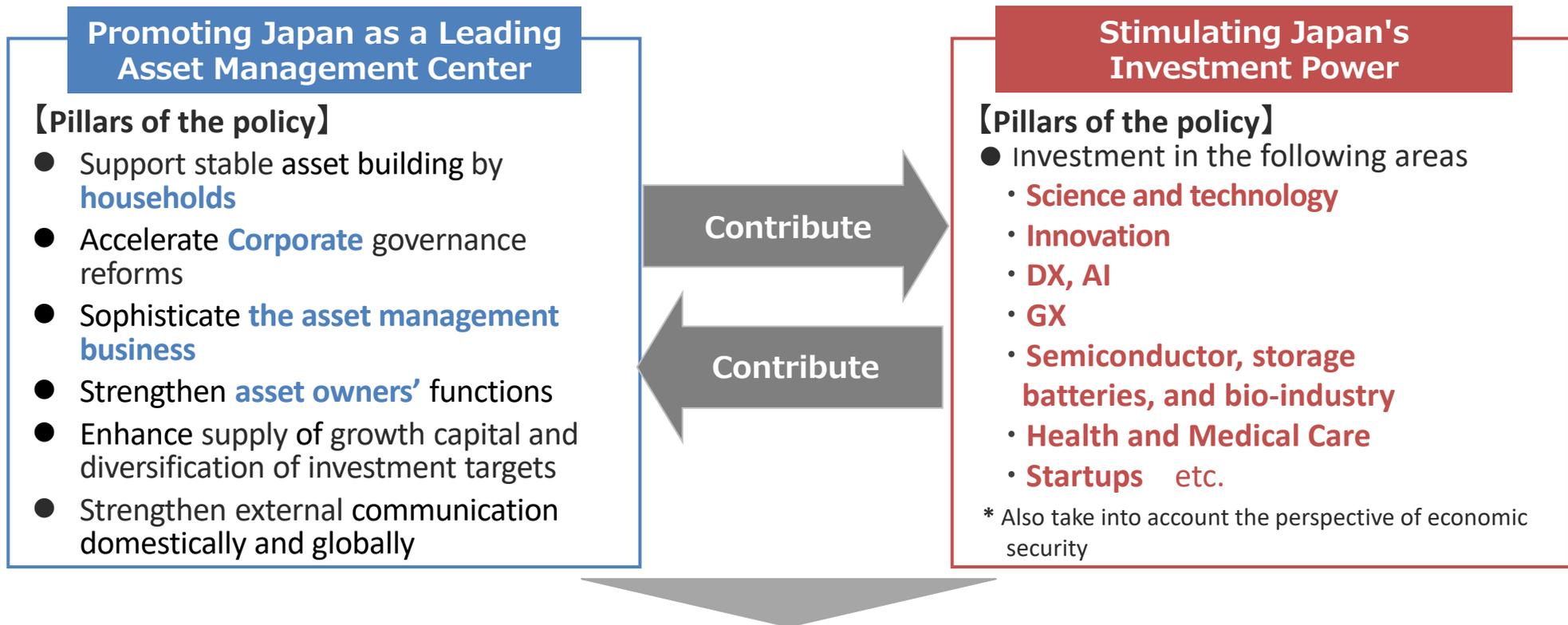
- ✓ Request by TSE to encourage effective management of listed companies (Mar. 2023)
- ✓ Reform of the Quarterly Securities Reporting system (Apr. 2024)
- ✓ Obligation for listed companies to disclose key information in English (Apr. 2025)
- ✓ “Action Program for Corporate Governance Reform 2024: Principles into Practice” (Jun. 2024)
- Acceleration of Corporate Governance Reform (ongoing)

Reforming the Asset Management Sector and Asset Ownership

- ✓ Plan for Major financial groups to enhance asset management businesses (Jan. 2024-)
- ✓ Policy Package to Achieve Special Zones for Asset Management Businesses (Jun. 2024)
- ✓ A new program to assist new entrants (Emerging Manager Program) (Jan. 2024-)
- ✓ Asset Owner Principles (Aug. 2024)
- Reform of occupational pension funds (to be decided by end 2024)

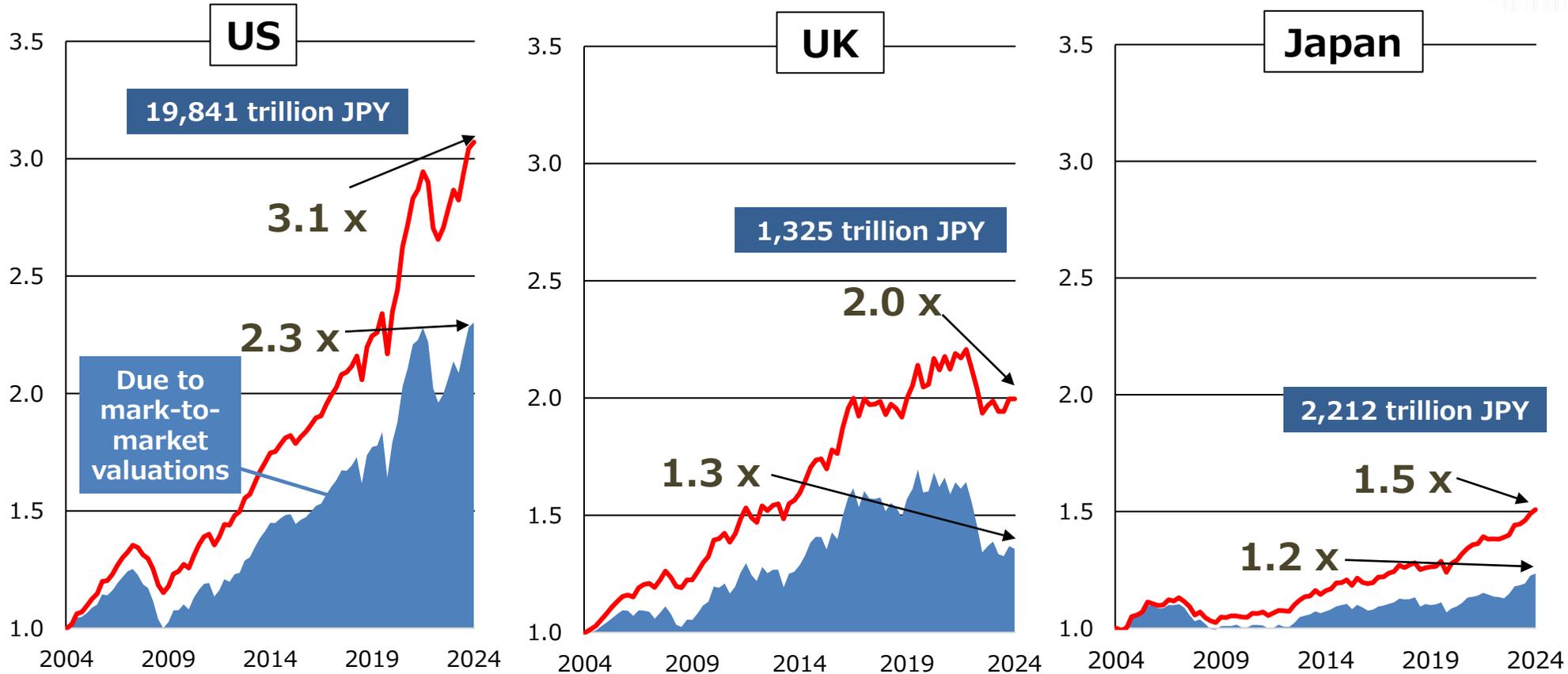
Initiatives for “Promoting Japan as a Leading Asset Management Center” and “Stimulating Japan’s Investment Power”

- ❑ The initiatives for “**Stimulating Japan's Investment Power**” aim to **promote bold domestic investment in growth areas** through public and private sectors.
- ❑ The initiatives for “**Policy Plan for Promoting Japan as a Leading Asset Management Center**” aim to **support households’ asset building** through a steady shift from savings to investment.
- ❑ By these initiatives, the Government will transform the Japanese economy into a **growth-oriented economy** where profits earned by companies will be distributed to employees through wage increases. As a result, a **virtuous cycle of growth and distribution** is expected to achieve, leading to the future economic growth.



“Growth-oriented economy driven by wage increases and investments”

- During the past 20 years, the US and the UK saw strong growth in their household financial assets at 3.1 times and 2.0 times, respectively. Japan only saw a growth of 1.5 times.



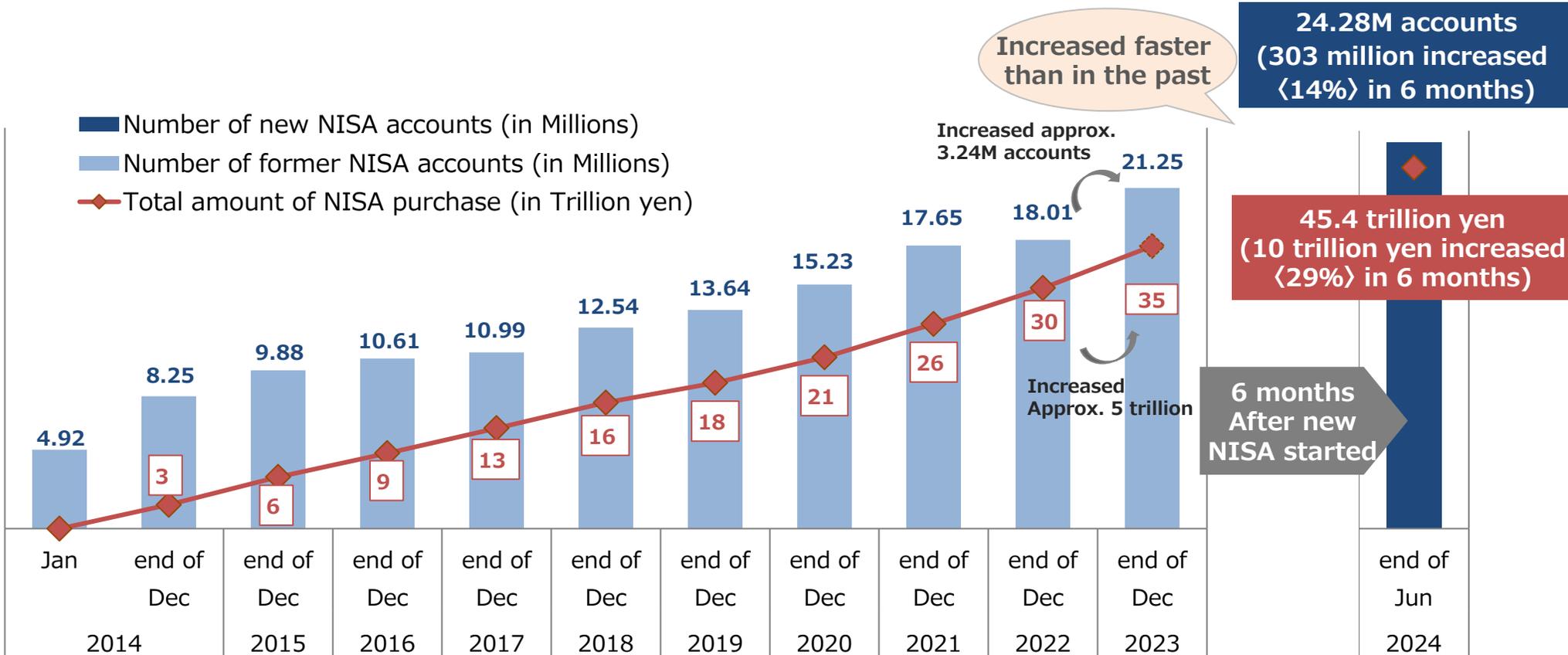
— Changes in household financial assets — Increase in assets due to investment returns

(Source) Compiled by FSA based on statistical data from BOJ, FRB, and ONS

(Note1) The growth in assets due to investment evaluation is calculated based on the growth due to change in asset price and doesn't include interest received and dividends.

(Note2) Value of US and Japan as of end of June 2024. Value of UK as of end of March 2024. For USA and UK, based on the exchange rate at the end of Dec 2023. (1 US dollar = 161 yen, 1 pound = 191 yen)

- The Number of NISA accounts increased to **24.28M accounts** as of June 2024. (303 million increased <u>14%</u> in 6 months.)
 - The total amount of NISA purchase increased to **45.4 trillion yen** as of June 2024. (10 trillion yen increased <u>29%</u> in 6 months.)
- ➔ It has increased faster pace than the annual increases of recent years.

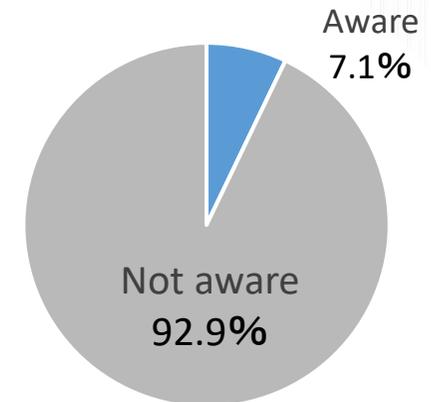


Issues surrounding financial education

Previously, the government, the Central Council for Financial Services Information (CCFSI), and financial industry associations have been carrying out initiatives on financial education, such as raising awareness about asset formation and developing teaching materials, at schools and workplaces. However, the following issues remain.

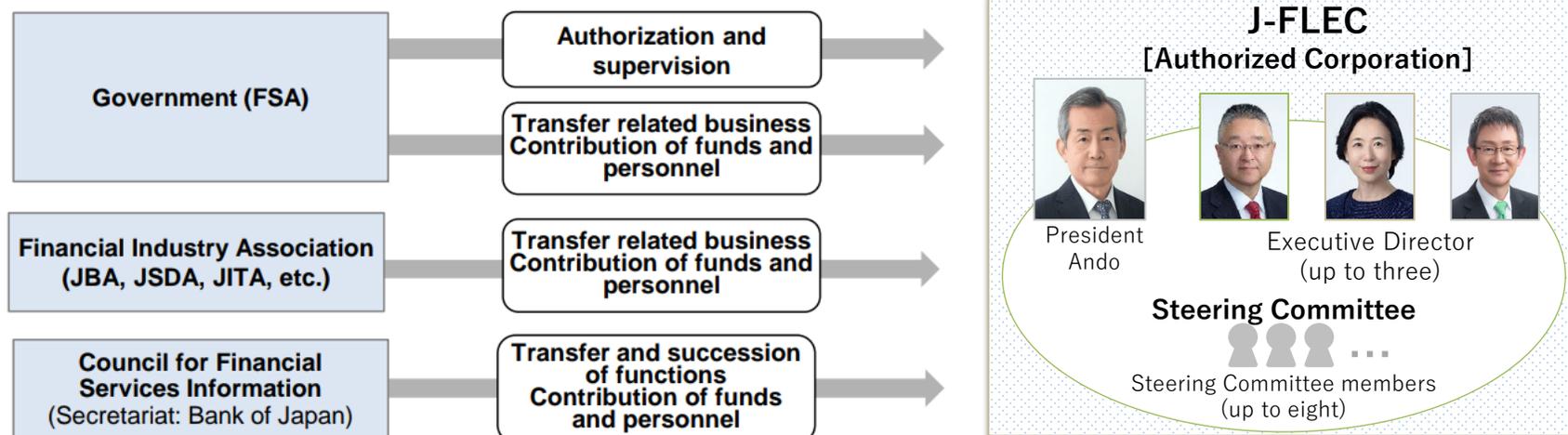
- Only around 7% of people perceive that they have received financial education.
- Continuous education on investment for defined contribution pension plan participants is deemed insufficient in the workplace.
- Cases of investment fraud and other forms of damage continue to be seen, and trouble caused by solicit investment via social networking sites has recently arisen.
- When the providers of education are financial institutions and industry associations, the recipients (especially individual companies) tend to avoid them.
- It was pointed out that efforts and cooperation by the government, CCFSI, financial industry associations, etc. should be strengthened.

Perception receiving financial education

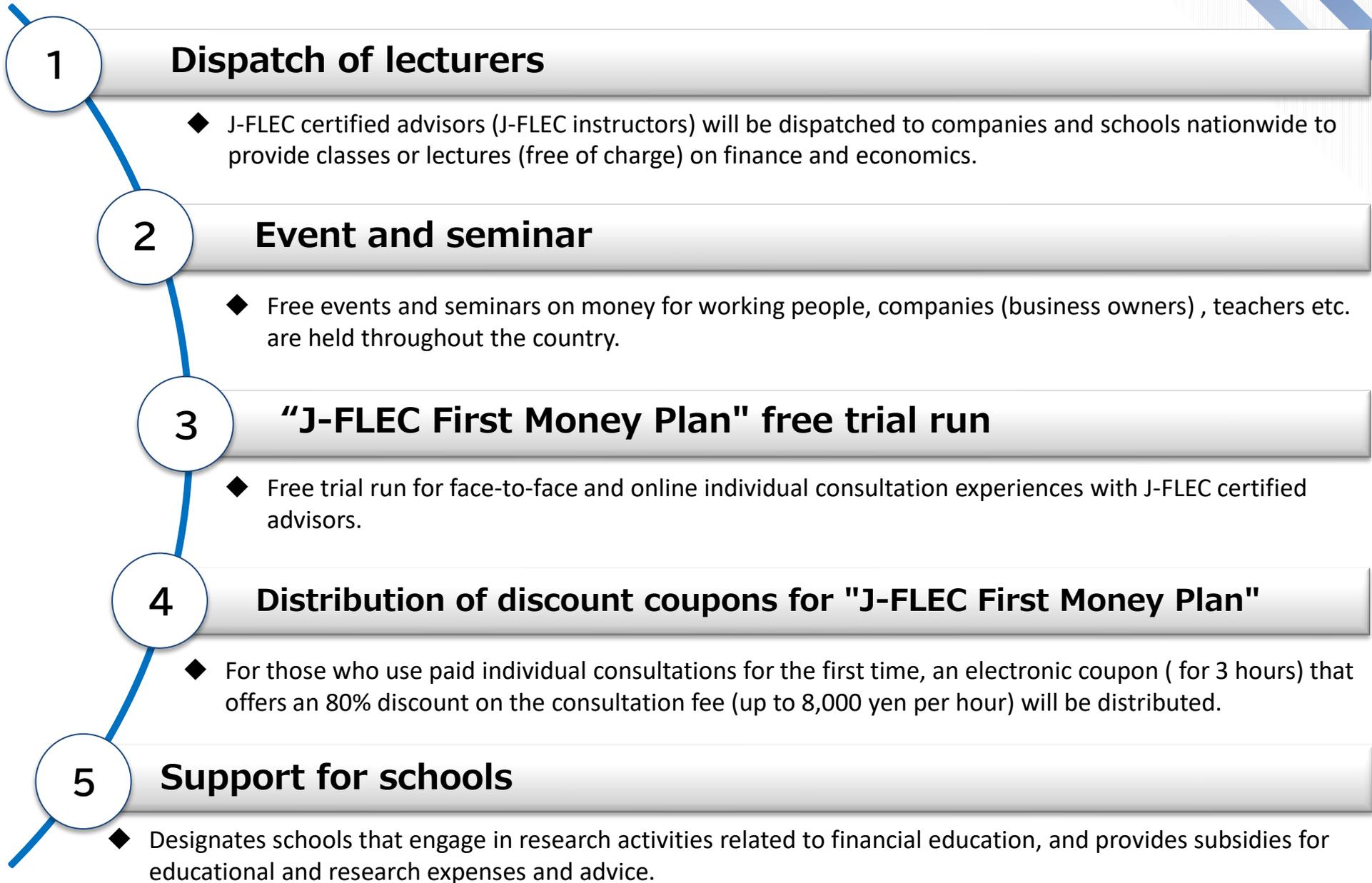


Source: CCFSI, Financial Literacy Survey (2022)

Establishment of the Japan Financial Literacy and Education Corporation (April 5, 2024)



- Collaboration with local organizations such as prefectural financial publicity committees,
- JSDA regional associations, and local banking associations.

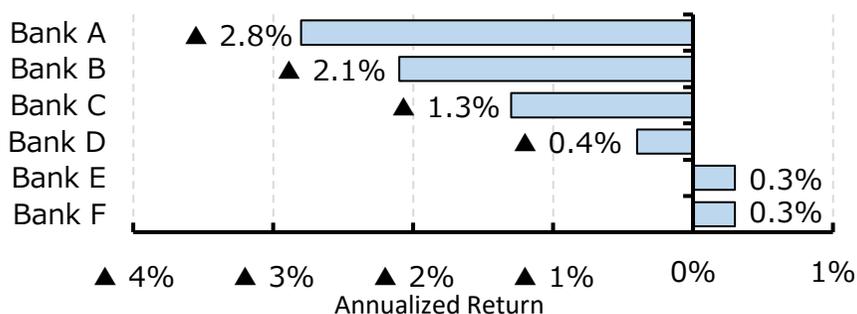


- The following issues were indicated at financial product distributors and originators:
 - Distributors recommend and sell products whose risks are difficult to understand and costs may not be reasonable, without sufficient explanation for customers.
 - Originators structure and manage financial products, prioritizing sales promotion over customer interests.
- The FSA encourages financial services providers to **establish appropriate product governance, sales and management systems, that contribute to the best interests of customers.**

Example: Products whose risks are difficult to understand and costs may not be reasonable <Deposits with foreign currency redemption option>

- Deposits with foreign currency redemption option are **deposit products with exchange risk** redeemed in foreign currency when the yen appreciates to a certain level.
- Fees are high at **3-5% annual rate** (at six banks that sell a large amount of such deposits).
- Returns to customers are **negative** for many of the banks.

Investment performance of the products



* Data collection period: from the initial handling date of the product until the end of 2023
 Typical maturities of the product: 1w, 2w, 1M, 3M, 6M and 1 year
 * Fees are annualized and weighted average.
 * Returns are calculated at the FX rate at maturity when redeemed.
 Source: Financial Services Agency

Legalized “Sincere and Fair Duty in Consideration of the Best Interests of Customers, etc.”

- Amended the Act on Provision of Financial Services to require financial services providers, etc. **to conduct their business in a sincere and fair manner**, while taking into consideration **the best interests of customers**, etc., as their common obligation. (Enforced on November 1, 2024)
 - Establish and improve **customer-oriented business conduct**, initially encouraged by the "Principles for Customer-Oriented Business Conduct" (Mar. 2017).
 - Expanded the scope of the sincere and fair duty from the financial instruments services providers to **financial services providers in general and those involved in the management of corporate pension funds***, etc.

* The Ministry of Health, Labor and Welfare regulates them.

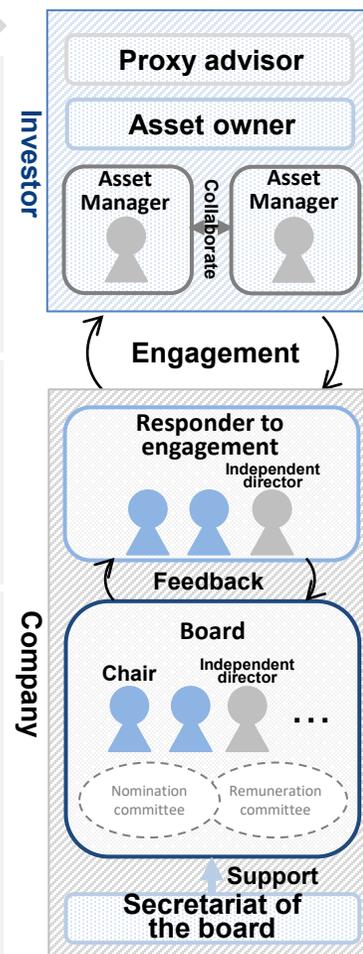
Developing “Principles for Product Governance”

- Added “Supplementary Principles” for financial products, **including investment trusts and structured bonds**, into the **“Principles for Customer-Oriented Business Conduct”** in order to develop financial **product governance** as a whole of structuring and sales sector.

- Various initiatives are taken based on the “Action Program for Accelerating Corporate Governance Reform” established in April 2023. It is necessary to follow-up on the progress of each measure and consider the future initiatives continuously.

➤ Going back to the spirit of the Codes, which is to ensure **sustainable corporate growth and increased corporate value over the mid- to long- term**, the following initiatives should be undertaken for putting corporate governance reform “into practice” based on self-motivated changes in the mindsets of companies and investors through examining and sharing specific measures.

Issues	Follow up	Future Initiatives
Effective implementation of stewardship activities	<ul style="list-style-type: none"> The law to amend the Financial Instruments and Exchange Act, including clarification of the scope of “joint holders” in the large shareholding reporting rule, was enacted (in May 2024). 	<ul style="list-style-type: none"> Consider the revision of the Stewardship Code with the aim of promoting collective/collaborative engagements that contribute to constructive and purposeful dialogues and ensure the transparency of beneficial shareholders. Assess compliance with the Stewardship Code by investors (asset managers, asset owners, proxy advisors, etc.)
Improvement of the effectiveness of the board	<ul style="list-style-type: none"> Published "The Basics of Being an Independent Director" to ensure and improve the quality of independent directors (in January 2024). The private sector continues to conduct educational activities for directors. 	<ul style="list-style-type: none"> Share specific examples of efforts, such as dialogues between independent directors and investors and encouragement for substantive discussions by the secretariats of boards, in order to promote the implementation of efforts to improve the effectiveness of boards.
Encouraging the management with an awareness of profit-making and growth	<ul style="list-style-type: none"> “Visualized” companies that make efforts in order to implement management that is conscious of the cost of capital and stock prices, including PBR, based on the request from the TSE (from January 2024). 	<ul style="list-style-type: none"> Follow up on the status of each company's initiatives continuously to encourage them to take substantial measures. In doing so, focus on whether boards are committed to the initiatives proactively and actively, whether specific discussions are conducted during dialogues with investors and whether analyses and evaluations are conducted with an awareness of specific outcomes from the perspective of increasing corporate value over the mid- to long-term occur.



Issues	Follow up	Future Initiatives
<p>Enhancing the quality of disclosure and promoting dialogues with global investors</p>	<ul style="list-style-type: none"> ✓ Requested to disclose information about dialogues with investors, and published sufficient and insufficient cases of explanations (in March 2023). ✓ Revised the TSE’s Listing Rules toward mandatory English disclosures (financial results and timely disclosure information) from April 2025 (in May2024). 	<ul style="list-style-type: none"> ✓ Examine actual situations and advance discussions on the development of an environment, including enhancing the efficiency of disclosures of duplicate information in Annual Securities Reports and Business Reports, that will lead companies to disclose Annual Securities Reports before general shareholder meetings, in addition to enhancing timely disclosures. ✓ Publish a specific list in order to “visualize” the group of companies that willingly and actively respond to the expectations of global investors.
<p>Resolving market environment issues</p>	<ul style="list-style-type: none"> ✓ Requested the enhancement of information disclosures of quasi-controlled listed companies (in December 2023). ✓ Published issues and good practices regarding disclosures of cross-shareholdings (in March 2024). 	<ul style="list-style-type: none"> ✓ Encourage companies to examine their rationale of cross-shareholdings in light of the Corporate Governance Code (e.g. whether appropriate disclosures based on actual situations be made in the Annual Securities Reports) to avoid a formalistic response.
<p>Encouraging the management with an awareness of sustainability issues</p>	<ul style="list-style-type: none"> ✓ Added metrics on diversity such as the ratio of women in managerial positions and the gender pay gap in Annual Securities Reports (from the fiscal year ended March 31, 2023). ✓ Published a booklet of companies’ good disclosure practices on sustainability issues such as human capital (in December 2023). ✓ Amended the TSE’s Listing Rules to set numerical targets for the ratio of female executives at companies (at least 30% by 2030) (in October 2023). 	<ul style="list-style-type: none"> ✓ Discuss disclosures and assurances of the sustainability-related information while ensuring international comparability. ✓ Share specific good examples such as the awareness of the outcome of increasing corporate value as well as management and dialogues with an awareness of corporate culture.

(The image of a list)
The status of JPX Prime 150 Index
Constituent Stocks

Company name	Status of various indicators		Governance items expected by global investors	
	PBR (times)		Ratio of Independent Directors (%)	Ratio of female executives (%)
A	2.5		37.5	18.2
B	1.1		41.7	8.3
C	1.2		44.4	23.1
D	1.2	...	44.4	22.2
E	5.3		33.3	13.3
F	5.8		66.7	22.2
G	1.8		60.0	20.0
H	6.7		40.0	13.3
I	16.8		37.5	16.7

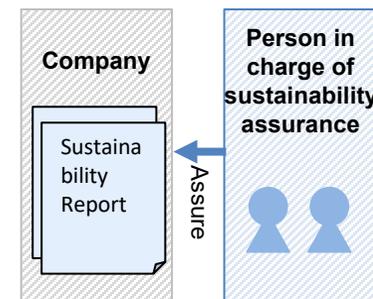
Annual Securities Report

Part 1: Company Information

...

IV. Information on the Company Submitting Financial Reports

The purpose of holding each issue of cross-shareholdings is not stated specifically.



- Compared with banks and insurance companies, Japan's asset management companies do not necessarily have a large global presence (in terms of the number of companies and the size of assets under management).
- The FSA is working to provide high-quality financial products and services to households by **promoting competition and strengthening the investment capabilities** of asset management companies that manage household assets.

Household Financial Assets and Number of Asset Management Companies

	Household assets (trillion yen)	Number of AM companies
U.S.	16,638	15,114
Hong Kong	458	2,069
Singapore	190	1,194
UK	1,169	1,000
France	877	702
Germany	1,204	466
Japan	2,144	417

Strengthening Asset Management Business and Asset Ownership Functions

- ❑ Follow-up on plans by major financial groups to **improve their asset management capabilities and strengthen their systems**
- ❑ Development of **“Principles for Product Governance of Financial Products and Services”** at asset management companies, etc.
- ❑ Correcting **business practices and entry barriers unique to Japan**
- ❑ Launch of **Special Zones for Financial and Asset Management Businesses**
- ❑ Formulation and implementation of the **Emerging Managers Program (Japanese version of EMP)**
- ❑ Dissemination of the **Asset Owner Principle** (a common principle useful for asset owners to fulfill their responsibility to manage on behalf of beneficiaries)

Source: Compiled by the Financial Services Agency from various sources.

Note: Figures for household financial assets are as of the end of December 2023 (Hong Kong and France are as of the end of December 2022). The FX rates used to convert are 1 USD = 131.12 JPY, 1 Euro = 140.41 JPY (as of the end of 2022), 1 USD = 141.04 JPY, 1 Euro = 155.72 JPY, and 1 Singapore Dollar = 106.84 JPY (as of the end of 2023). The numbers of AM companies are as of 2022.

1. Purpose

- ✓ **Concentrate financial and asset management (AM) businesses** through improving the business and living environment
- ✓ Attract domestic and foreign investment funds and **create an environment for a sufficient supply of investment funds into growing areas/industries of the region**

2. Regions

- | | |
|---------------------------------|--|
| ① Hokkaido & Sapporo | Cluster GX (Green Transformation) industries and financial functions, to realize a special business zone for GX, financial and AM businesses |
| ② Tokyo | Promote sustainable finance and facilitate growth of startups in Japan and Asia, through creating a better environment as an international financial center |
| ③ Osaka | Promote realization of innovation by startups, through attracting investment from overseas |
| ④ Fukuoka | Strengthen financial services as a gateway to Asia, and foster startups in Fukuoka and Kyushu |

3. Major Initiatives

○ National measures / ● Area-limited measures

National Initiatives

Concentration of domestic and foreign financial / AM companies

- Deregulation to **allow asset managers to outsource middle- and back- office operations**
- **Enhancing administrative services in English**
 - ① Registration procedures for AM business
 - ② Business commencement procedures (commercial registration, social insurance, immigration control)
- **Creating a new status of residence for foreign nationals investing in startups**
- **Supporting foreigners in opening bank accounts**

Support for growing areas to be promoted as investees

- **Deregulation on banks' investment in GX-related businesses**
- **Deregulation on investment in startups** by banking groups' Specialized Subsidiary Company
- **Expansion of investment cap for venture fund for qualified institutional investors**

Promotion and fostering of growth industries (GX, startups)

- **Deregulation of restrictions on compressed hydrogen storage** towards social implementation
- **Promoting acceptance of foreign nationals** through the points-based system for highly-skilled professionals (GX, FinTech, etc.)

Local Initiatives

- **Expansion of English support** (establishment/expansion of one-stop English support centers, English administrative services by local governments)
- **Tax and fiscal support** for domestic and overseas financial and AM companies (reduction/exemption of local taxes, subsidies for establishment of business bases, etc.)

- ❑ While the scope of asset owners is wide and the size of asset owners and the type of funds managed vary, the Government of Japan established **a set of common principles that is useful for asset owners to fulfill the responsibility to manage their assets (fiduciary duties)** in August 2024.
- ❑ The Principles adopt a **“comply or explain” approach**. **The Government will publish a unified list of the asset owners who accept the Principles** in January 2025.
- ❑ The asset owners who accept the Principles are expected to report their status to their corresponding Ministries.

Principle 1. Determining the purpose of investment, investment target and management policy, which should be reviewed as appropriate.

Principle 2. Securing talents with sufficient knowledge and experiences, in order to realize the investment purpose and policies.

Principle 3. Choosing investment methods for the best interest of beneficiaries, with **appropriate risk management** and selection of the optimal investment trustee **while managing conflicts of interest**.

Principle 4. Providing information of asset under management and engaging in **dialogue with stakeholders**, in order **to fulfill accountability to stakeholders**.

Principle 5. Encouraging the sustainable growth of investee companies by conducting stewardship activities, in order to **achieve the investment targets for beneficiaries**.

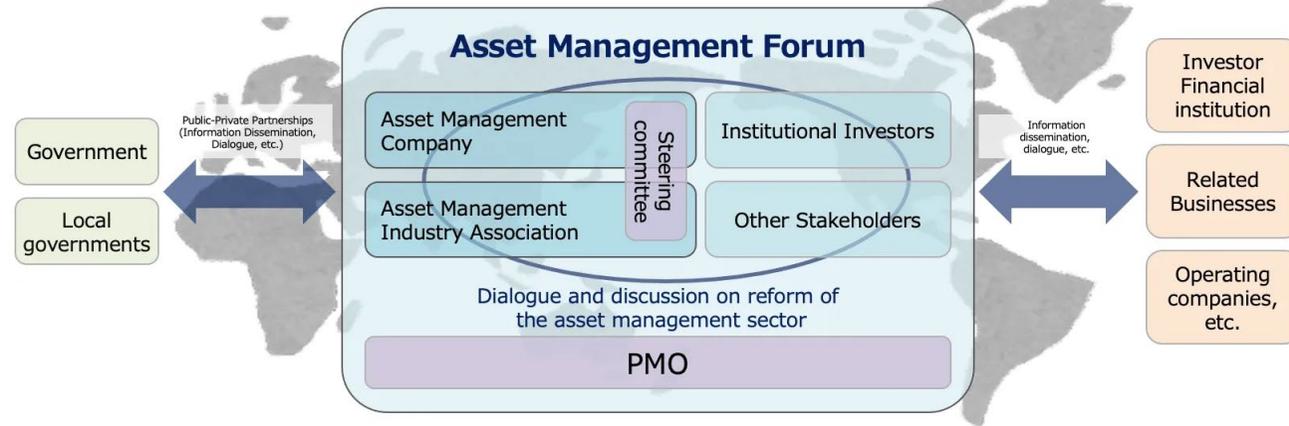
In order to set an example for other asset owners, **major public asset owners** promptly announced in September their acceptance and their policies for strengthening their asset management capabilities.

- In order to further strengthen communication with stakeholders on the attractiveness of Japan's financial and capital markets, the FSA held the **Japan Weeks**, as in 2023, from late September 2024 to early October 2024.
- During the Japan Weeks, the **Asset Management Forum** was launched as a communication platform among asset management companies and other stakeholders from Japan and abroad.

JAPAN WEEKS



2024 Core week
MON 9/30
10/4 FRI



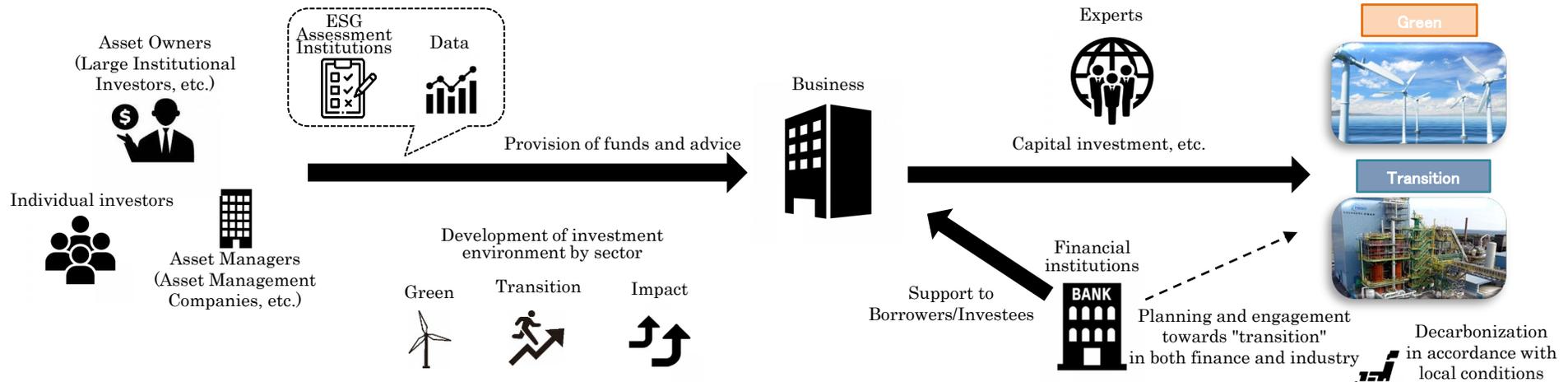
- As the importance of social and environmental issues such as climate change grows, the FSA will further promote sustainable finance to encourage a transition to new industrial and social structures and to realize a sustainable society.

Development of capital market function

- Discussing the timing of the application and the framework of guarantee of sustainability disclosure standards in Japan at the Financial System Council
- Discussing the development of a database in Japan for corporate sustainability information, such as GHG emissions.
- Summarized the status of endorsement for the "Code of Conduct" (Dec. 2022) by ESG evaluating institutions and data providers (as of the end of June 2024). Checking the status of each institution's response, further actions are considered.

Penetration into a wide range of stakeholders

- The "Dialogue for Enhancing Sustainability Investment Products" was held and the "Insight" from discussion was published (July 2024). Discussion on expected roles of sustainability investment or flagship investment opportunity continues.
- Utilizing the "Skills Map," which summarizes the necessary skills to practically promote sustainable finance, discussions with industry associations, universities, etc. continues.



Development of investment and finance environment by category

- Considering international developments regarding green bonds, etc., discussions on Japan's framework are being held in collaboration with relevant ministries and agencies.
- Transition finance is being promoted through the development of guidelines in collaboration with related ministries and agencies while the GX Promotion Strategy is announced by the Government. The Asia GX Consortium is another initiative to internationally promote transition finance.
- The "Basic Guidelines" for impact investment is formulated (Mar. 2024). Data development, corporate strategy, local support measures, etc. are being discussed at the "Impact Consortium," a public-private partnership.

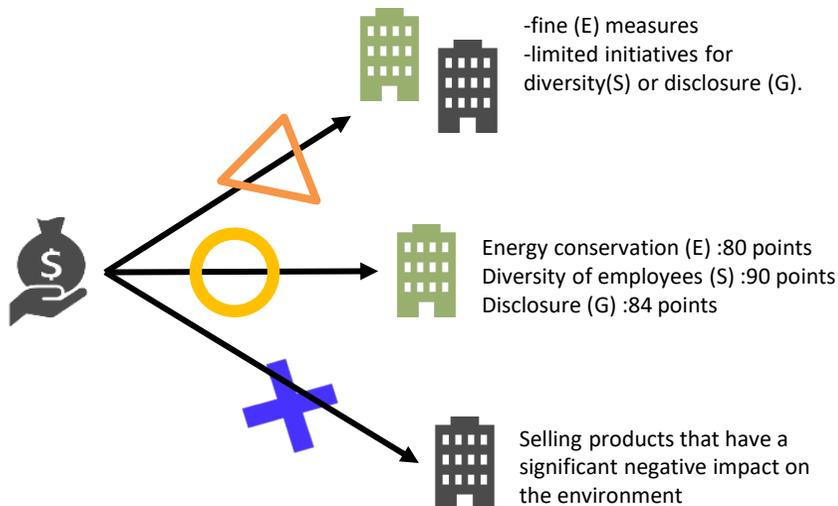
Initiatives on decarbonization

- The "Guidance" on the basic approach for financial institutions' response to climate change was formulated (July 2022). Intending possible updates of the Guidance, discussion on the transition strategy framework continues.
- Enhancing and disseminating support in accordance with the actual circumstances of each region in collaboration with regional financial institutions and business associations, etc.
- At the "Working Group," discussion is being done on the transaction infrastructure and market practices, from practical and expert perspectives, to ensure the transparency and soundness of carbon credit transactions.

- ❑ As the importance of social and environmental issues such as decarbonization, declining birthrate and aging population increases, **the support of companies engaging in innovation and transformation that contribute to solving social or environmental issues has become urgent.**
- ❑ While addressing social or environmental issues is often assumed to be costly, increasing numbers of companies undertake business transformation addressing those issues, based on a premise that they would complement and strengthen their own potentials (virtuous cycle).
- ❑ **As an investment that intends to realize “social or environmental impact,” at the same time to secure “financial return,”** *impact investment* is characterized by concretely identifying impact that are to be created by the investment, and could play roles in materializing impact that also foster business potential.

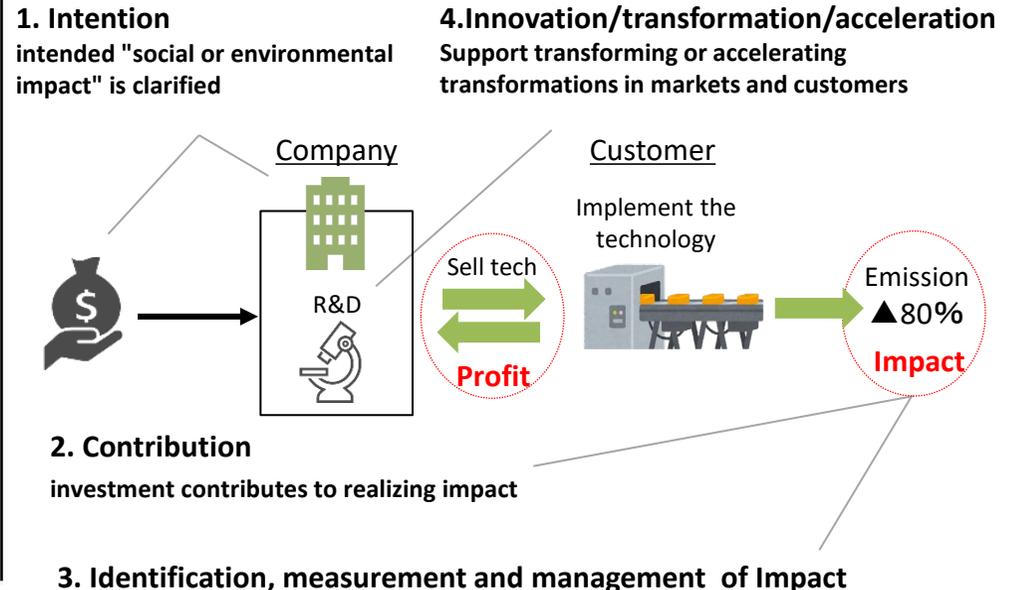
Common ESG investment methods

Comprehensively evaluating companies' ESG initiatives
to determine investment ratios or exclude specific industries from investment portfolio



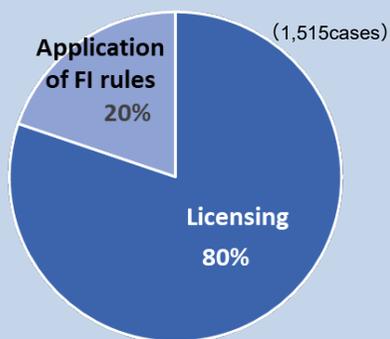
Impact investment

Identify and commit to the specific impact that should be realized through an investment



- In order to respond to financial services and transactions using AI, blockchain, and other digital technologies, and to increase convenience for individuals and businesses, the FSA encourages to promote the provision of characteristic financial services by financial institutions, while ensuring user protection and the safety of the financial system.

Fintech Support Desk (One-stop consultation)



[Types of inquiries]



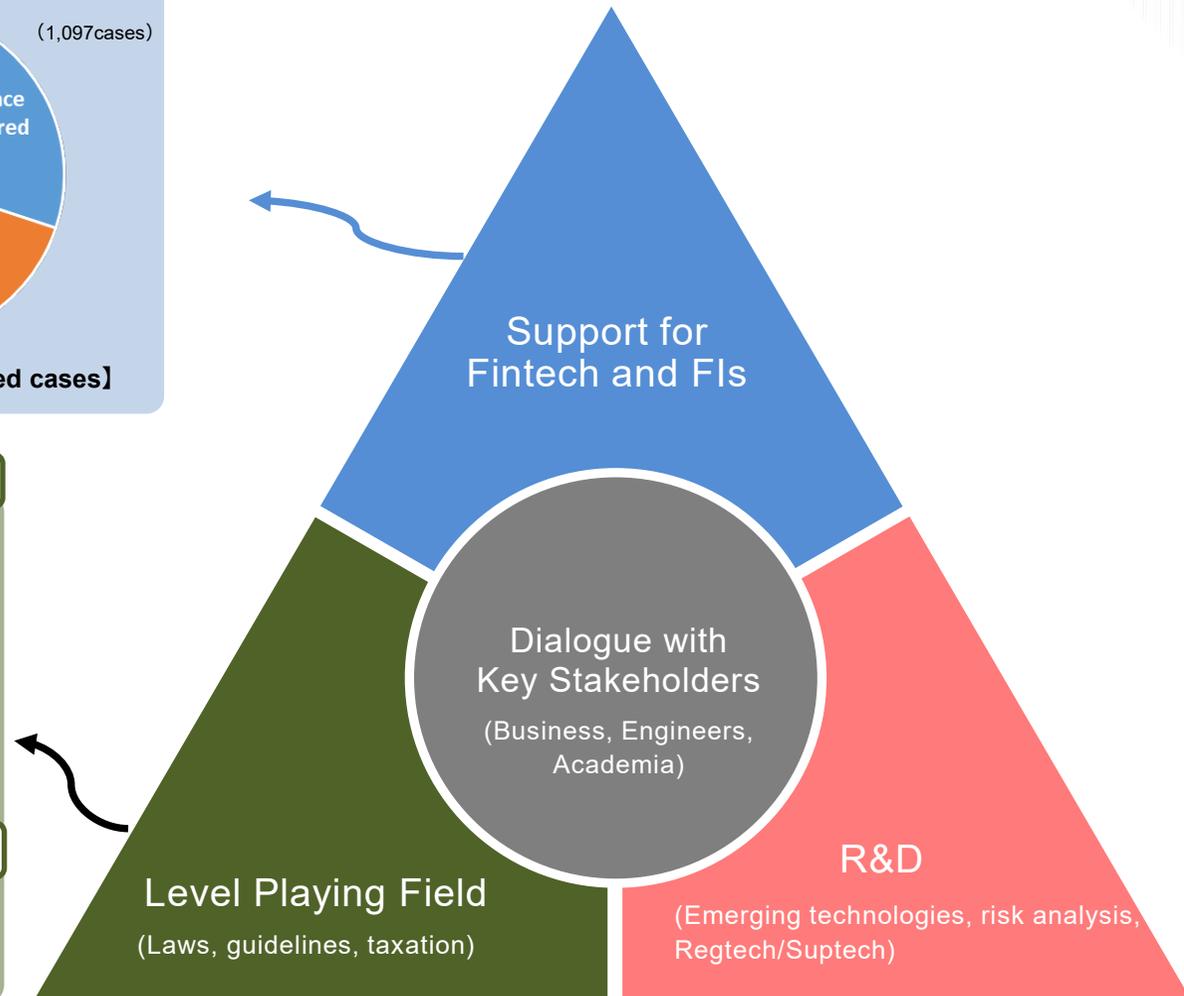
[Outcomes of completed cases]

Recent regulatory change

- Web3.0
Stablecoin, Security token, Clarification of the difference between NFTs and crypto-assets, Regulation for Crypto Asset Custody by Trust Banks
- Embedded Finance
- PSP
- Payroll

Responding to new developments

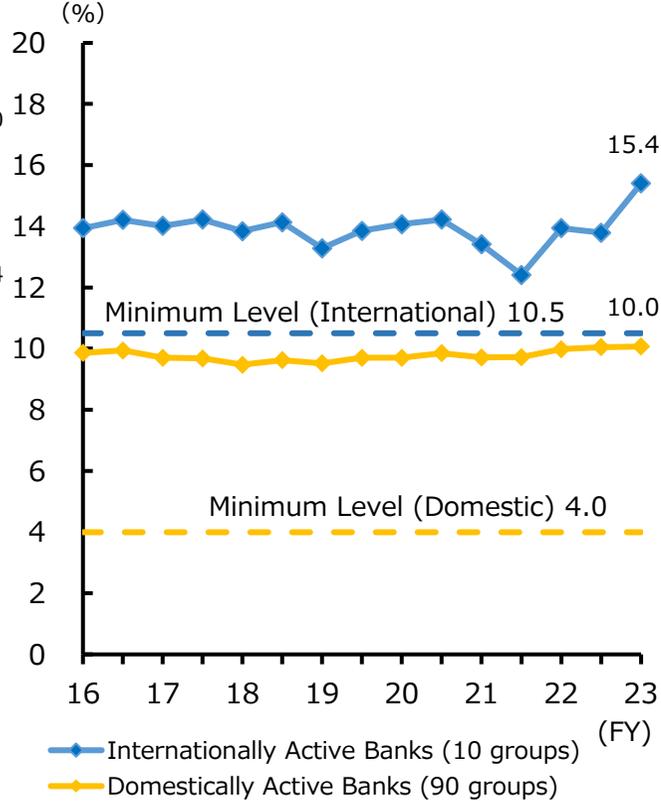
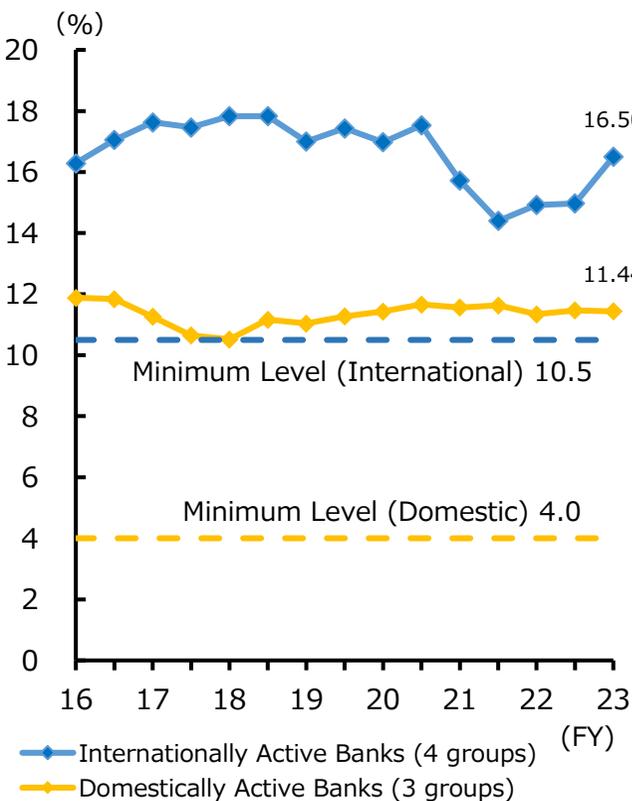
- AI
Establishment of an AI discussion paper



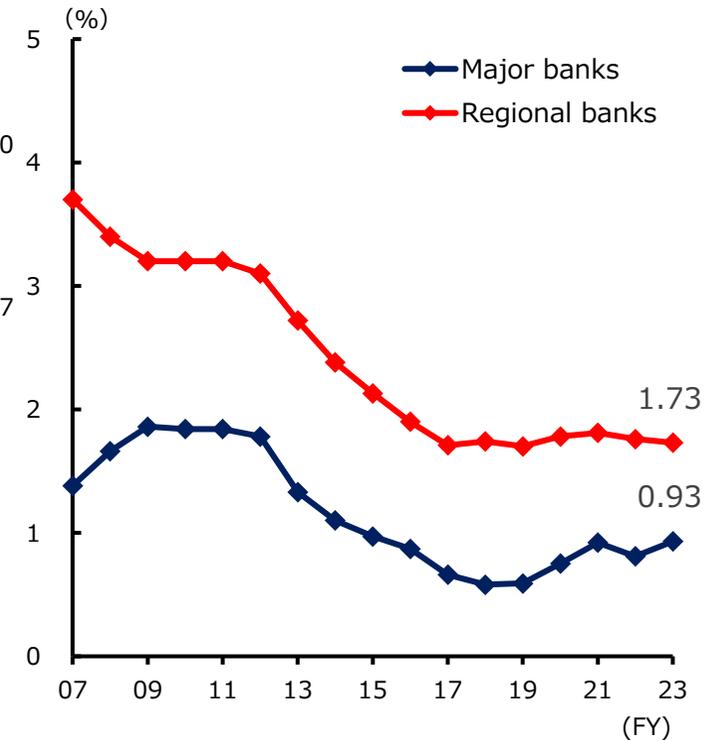
- The foundation for sustained economic growth is a **stable and reliable financial** system and a provision of high-quality financial services.
- Japan's financial institutions are generally **well capitalized and have ample liquidity, and the financial system remains stable**. However, as the transition to a “world with interest rates” progresses, they also face heightened uncertainties in the economy and financial markets as well as social and economic structural changes in domestically and internationally.

Capital Adequacy Ratio

Major Banks Regional Banks



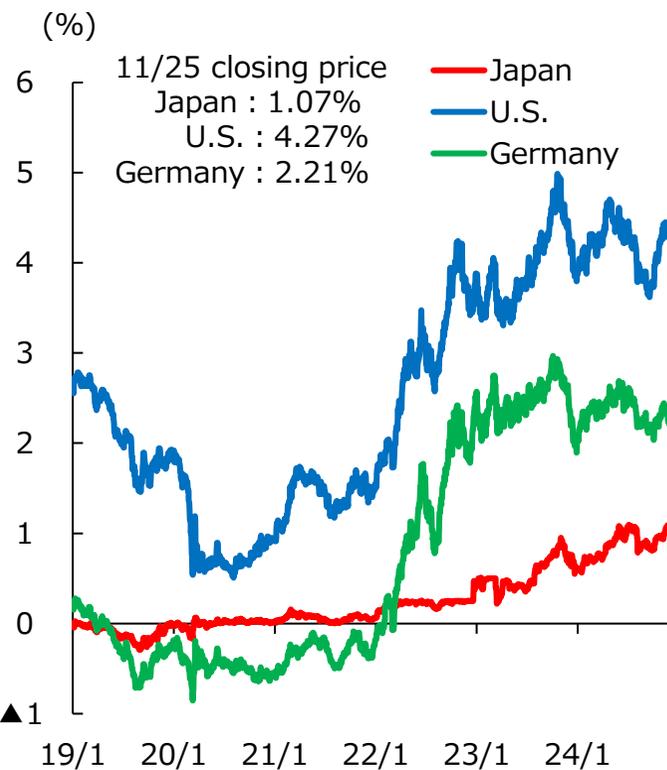
NPL Ratio



(Source) FSA

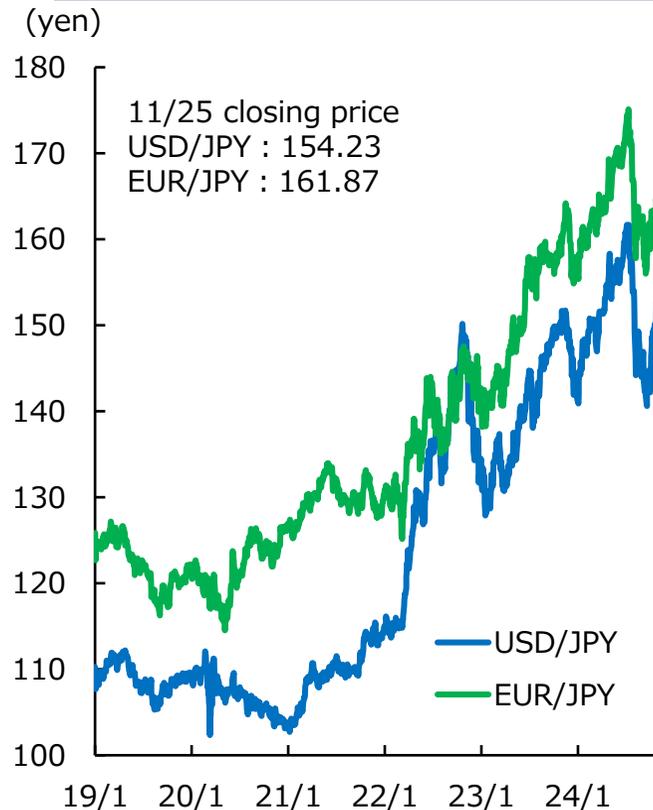
- Global financial markets face various risks, including economic slowdowns, resurgence of inflation, abrupt changes in financial and real estate markets, and geopolitical risks. In Japan, the financial environment is changing: as seen in a gradual rise in long-term interest rates and increased volatility in the stock market.
- The FSA keeps a close watch over the trends in financial and economic situations and monitors the **risk management systems** that financial institutions have in place, **including the response process under financial and economic stress and governance.**

10 Year Interest Rates

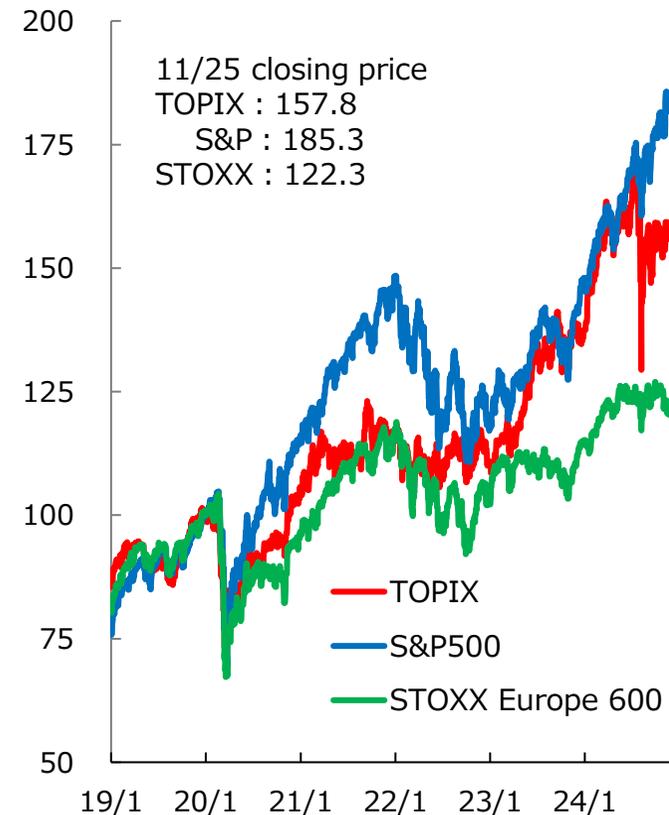


(Source) Bloomberg

FX



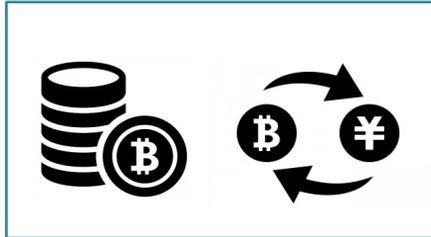
Stock Price Index



- Amid changes in individual lifestyles and business practices, unbundling and re-bundling of financial functions are processing, which expedited new providers of financial services to entry into the financial industry and financial institutions to expand their business across categories and borders.
- In response to these trends, the FSA **reviews the regulations for new financial services** and **strengthens the supervisory framework for financial groups** with business diversification and/or expansion across sectors and borders.

The Expansion of Users and Usage Patterns, and the Emergence of New Financial Services

Cryptoassets and Stablecoins



Funds Transfer Services



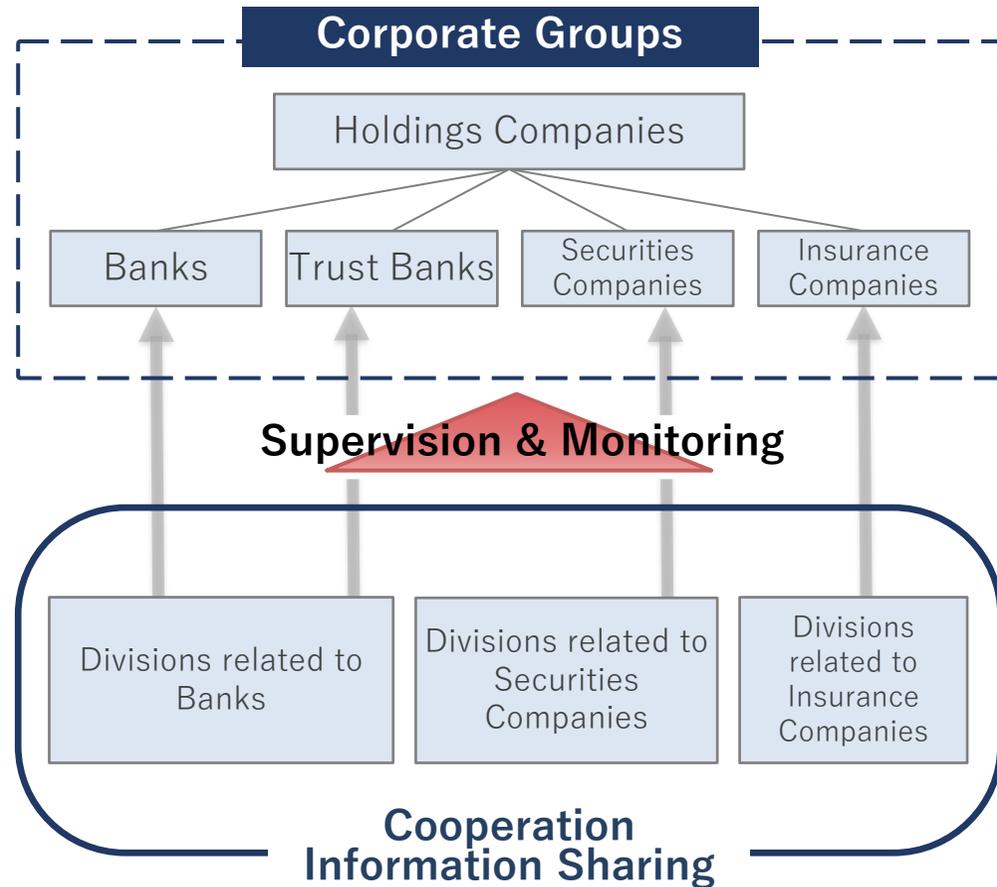
Cross-border collection agent Services



Matter to be consulted to the Financial System Council (August, 2024)

Based on the expansion of users and usage patterns for remittance, payment, and credit services, and the emergence of new financial services, consideration should be given to appropriate regulatory framework while taking user protection, etc. into account.

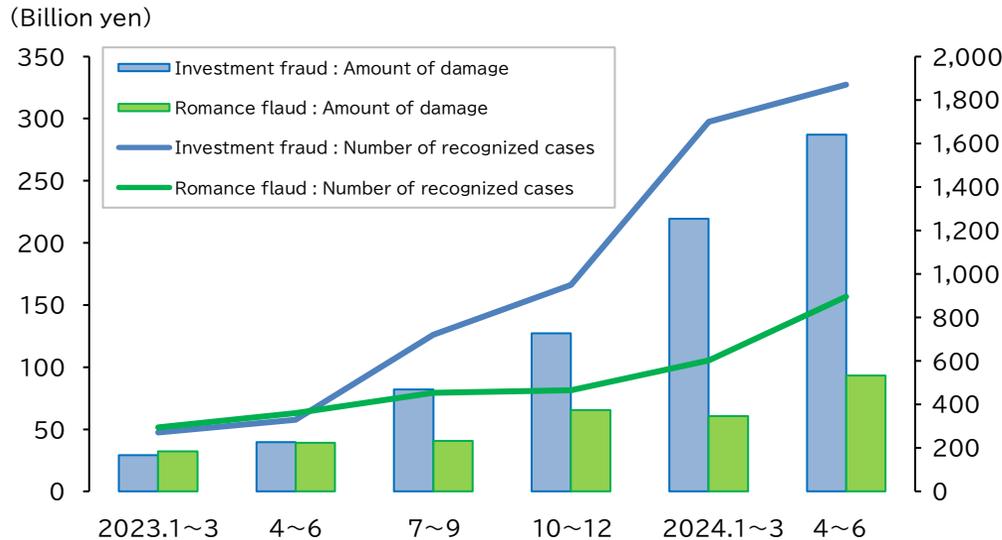
Strengthening Our Supervisory Framework for Group Management



- While the deepening of digital technology and its increased use have facilitated non-face-to-face and cross-border transactions and improved user convenience, it has also increased and complicated risks, as witnessed in heightened cyber risks and more sophisticated methods of money laundering and financial crime.
- To protect users and ensure the reliability of the financial system, the FSA encourages financial institutions to **address such emerging risks.**

Investment Fraud and Romance Fraud via SNS

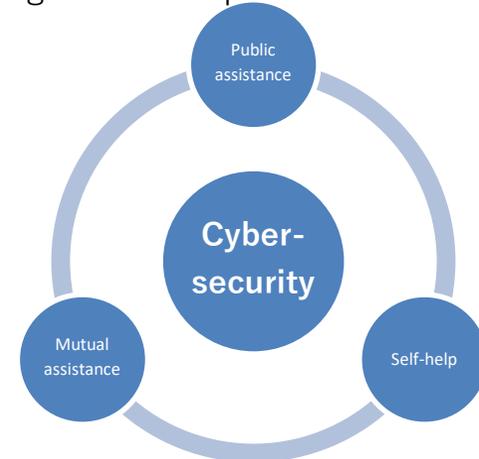
- The amount of criminal damage on first half of 2024
 - Investment fraud was sevenfold increase year on year.
 - Romance fraud was twofold increase year on year.



Source: Created by the JFSA based on the JNRA's document

Enhancing Cybersecurity

- Providing a cybersecurity self-assessment (CSSA) tool
- Conducting a financial industry-wide cybersecurity exercise (Delta Wall)
- Encouraging threat-led penetration testing (TLPT)

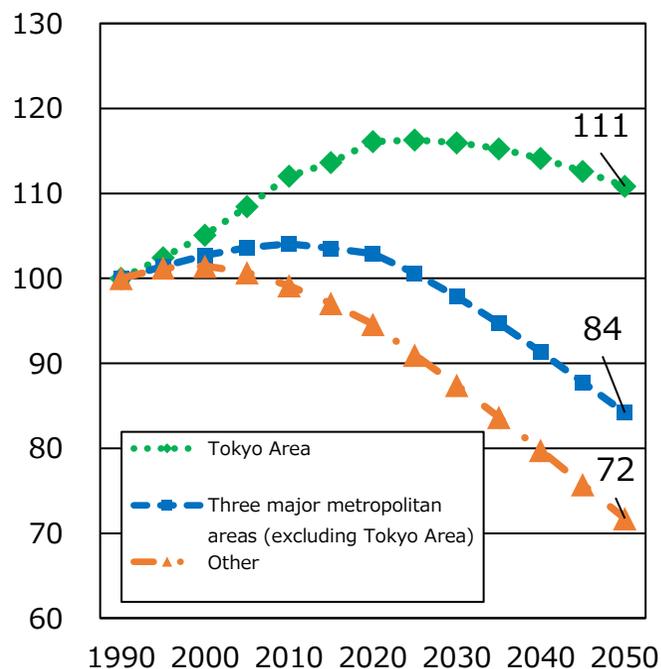


- Encouraging efforts of industry groups and information sharing institutions
- Strengthening FIs' cybersecurity management posture through the implementation of the Guidelines on Cybersecurity for the Financial Sector

Social and Economic Structural Changes

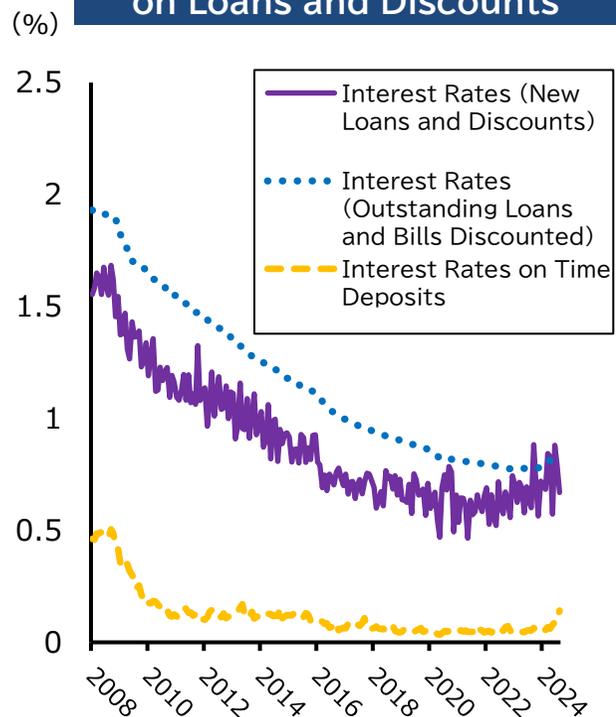
- The declining and aging population, as well as a sustained decrease in the number of businesses, coupled with the past low-interest rate environment, have threatened the sustainability of financial institutions' business models. At the same time, as socioeconomic activities recover from the COVID-19 pandemic, businesses have faced increasingly diverse management challenges, including rising prices and labor shortages, and a lack of successors.
- In view of this, we will engage in dialogue with financial institutions to encourage them to grasp these changes accurately, **provide high value-added support and services**, as well as **establish a sustainable business model** by strengthening the revenue base.

Changes in Population (Medium variant)



Note: Population in 1990 is indexed as 100.
Source: National Institute of Population and Social Security Research (IPSS)

Changes in Interest Rates on Loans and Discounts



Source: Bank of Japan

Business Issues Recognized by Companies



※ Aggregated up to the fifth management issue that felt more strongly.

(Source) Prepared by the JFSA from the Business Questionnaire Survey

Thank you for your attention

FSA Official X (formerly Twitter)

- ◆ The FSA disseminates information in a timely manner not only on its website but also on its official X.
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