Financial Services Agency

Summary Points from

Strategic Directions and Priorities 2015-2016

September 2015

Strategic Directions and Priorities:
Roles in the JFSA's PDCA cycle

- This document lists key elements of JFSA's *2015-2016 Strategic Directions and Priorities,* which indicate what goals the JFSA aims to attain during the period from July 2015 to June 2016, and how.
- We will review the progress made during the period and publish a summary report in June 2016. *2016-2017 Strategic Directions and Priorities* will reflect the outcome of the review.
- The *Strategic Directions and Priorities* depict the outcome of the "Plan" stage of the JFSA's PDCA cycle and the review report of the "Check" stage. The JFSA intends to continue to transform itself by repeating the cycle.

I. Our Mission

- The JFSA aims to contribute to the welfare of the nation by promoting the sustainable growth of business activities and the economy

- through ensuring efficient and effective financial intermediation, financial stability and market integrity and transparency, and
- coping with uncertainty in the global economy and the transformation of the industry resulting from factors such as innovations in financial technologies.

II. Strategic Priorities

II-1. Capital Market

-Transforming the flow of funds by addressing each stage of the investment chain

-Securing market integrity and efficiency

II-2. Supervision of Financial Institutions

-Towards financial institutions adding more values for their customers

-Towards a sound financial system which can serve customers well throughout business cycles

II-3. FinTech and Cyber Security

II-4. Global Regulatory Reforms and Cross-Border Cooperation

II-1. Capital Market

Transforming the flow of funds by addressing each stage of the investment chain

The JFSA intends to contribute to the sustainable growth of the economy, increases in the national wealth and the more effective and efficient functioning of Japan's capital market by taking the following measures:

- Household sector: The JFSA will promote the use of *NISA* tax benefit schemes, and will work to improve these schemes further.
- Corporate sector: The JFSA will establish an advisory council to effectively implement the Stewardship Code, introduced in 2014, and the Corporate Governance Code in 2015, and will ensure that the Codes will result in changes in substance, not just in form.
- Financial intermediaries: The JFSA will review whether the intermediaries that produce/sell/manage financial products put customers' interests first, and will thereby ensure that they abide by their fiduciary duties. The JFSA will encourage asset managers and institutional investors to enhance their skills and capabilities.

II-1. Capital Market Reforms

Securing market integrity and efficiency

- Based on recommendations to be given by a newly-established advisory council, the JFSA will take measures to secure the credibility of accounting and auditing.
- The JFSA will encourage stock exchanges to enhance their listing eligibility reviews of IPOs.
- The Securities and Exchange Surveillance Commission (SESC) will enhance its coordination with overseas authorities and its monitoring approaches in order to deal with the increase in cross-border and complex transactions.

II-2. Supervision of Financial Institutions

Towards financial institutions adding more values for their customers

- The JFSA will encourage financial institutions to actively contribute to the creation of customer corporate values, the sustainable growth of the national economy, and the revitalization of local economies by supporting customers' efforts to enhance their business models and by underwriting loans relying on customers' future business prospects, not just on collaterals and guarantees. In particular:
  - The JFSA will interview around 1,000 companies nationwide to examine how financial institutions work with their customers.
  - The JFSA will review financial institutions' corporate governance practices.
  - The JFSA plans to develop a set of benchmarking indices to assess financial institutions' contributions to their customers.
  - The JFSA will establish a "Working Group on Better Financial Intermediation", comprised of JFSA staff and outside experts, to find ways to facilitate these changes.
- The JFSA will encourage Japan Post Bank and Japan Post Insurance to form business models which complement those of other financial institutions and contribute to the revitalization of local economies.

II-2. Supervision of Financial Institutions

Towards a sound financial system which can fully serve customers throughout business cycles

- The JFSA will enhance its capability in macro-prudential analysis in order to identify emerging risks to the financial system through real-time monitoring of global economic trends, the activities of market participants and changes in financial institutions' behavior.

- Focusing on systemically important financial institutions, the JFSA will review how institutions are prepared for stresses in the market and the economy.

- The JFSA will review the way financial institutions manage their equity risk and interest rate risk, including the state of progress in the reduction of the amount of equities held for business relationship purposes.

- The JFSA will review the sustainability of financial institutions' business models to see if they can meet the challenges of declining and aging populations, innovations in financial technologies and other changes in their business environment, and continue to function as effective intermediaries.

II-3. FinTech and Cyber Securities

<Emerging Changes>

- FinTech, or the emerging integration of financial businesses and information technologies, could transform the industry and the market by providing a range of innovative services to customers.
- Cyber-security is becoming one of the highest priorities in securing financial stability.
- Algorithmic trades and other information technology-assisted transactions are transforming the market structure.

<JFSA's Responses>

- The JFSA will conduct forward-looking analysis on FinTech's potential impact on the financial industry, seeking input from experts, industry participants and users around the world. The Agency will explore which regulatory structures will fit to the future shapes of financial business.
- The JFSA, collaborating with the private sector, will work to enhance the resilience of the financial system against cyber attacks, implementing the policy program published by the JFSA in July.
- The JFSA will review the impact of algorithmic and other technology-supported trades on market volatilities and integrity.

II-4. Global Regulatory Reforms and Cross-Border Cooperation

<Global Regulatory Reforms>

- The global regulatory community has been introducing a series of regulatory reforms in response to the global financial crisis.
- These reforms may have had unintended consequences on the financial industry's capability to finance economic growth, on the growth of the shadow banking sector and on market liquidity in times of stress.

- The JFSA will contribute to these global regulatory reforms so that economic growth and financial stability can both be attained and side effects resulting from the interactions of diverse elements within the reform can be minimized.

<Cross-Border Cooperation>

- Growing cross-border activities and transactions require closer supervisory cooperation more than ever.

- The JFSA will strengthen its network with the overseas supervisory authorities.
- The JFSA will continue to enhance its cooperation with the Asian and other authorities and will assist the mutual entries of financial institutions.

III. Reforming the JFSA

III-1. Governance

III-2. Supervisory Approaches

III. Reforming the JFSA: Governance

- The JFSA policy needs to stay ahead of the fast-changing financial environment.
- The JFSA will therefore seek to become an "open organization" which welcomes proposals and criticisms from the outside and to change JFSA staff members' mindset in order to maximize their contribution to the benefits of the nation.

- Constructing an open organization
  - ✓ The JFSA will actively seek external experts' advice and build a decision-making system that continuously reflects this advice in policy decisions.
  - ✓ The JFSA will introduce a "monitoring post for financial administration" where private-sector experts will be employed to seek criticisms and proposals from financial institutions and other stakeholders.

- Changing the mindset of JFSA staff members
  - ✓ The JFSA will design an appropriate performance review mechanism that acknowledges staff members who take initiatives in meeting challenges in order to contribute to the benefits of the nation.
  - ✓ The JFSA will second its staff members as trainees to domestic SMEs and to the headquarters of global financial institutions so that they can broaden their perspectives and acquire specialized skills.

III. Reforming the JFSA: Supervisory Approaches

- The quality of financial services in Japan will be further improved when individual financial institutions take the initiative to seek best practices .
- The JFSA encourages the initiatives of financial institutions through constructive dialogue. The purpose of this dialogue is:

  i) to establish and share principles, with particular emphasis on their aim and spirit, that will provide general guidance to financial institutions rather than prescribing detailed measures,

  ii) to publish best practices and good examples in order to foster better understanding of such principles, and

  iii) to encourage further disclosure in order for financial institutions to let their stakeholders, including customers, obtain appropriate information about their businesses and services.
- The JFSA will continue to strictly address financial institutions that fail to comply with laws and regulations (i.e. the minimum requirements) through supervisory action. In that case, the JFSA will focus on determining the root cause of such violations and call for their remedy.

The JFSA seeks to ensure high-quality financial services in Japan by providing incentives for financial institutions to add creative ingenuity, rather than prescribing detailed measures.