

The JFSA Strategic Priorities
July 2023 - June 2024



Introduction

Three years have passed since COVID-19 began to spread, and the normalization of social and economic activities is progressing. On the other hand, global price hikes are continuously exerting influences, and climate change issues, progressing digitalization, population decline and aging, increasing geopolitical risks, and other factors have brought about structural environmental changes.

In the financial sector as well, a large foreign cryptocurrency exchange went bankrupt in November 2022 and multiple banks collapsed in the United States in the spring of 2023. The European banking sector also temporarily faced turmoil. Even amid such circumstances, Japanese financial institutions have generally maintained sufficient capital and liquidity, and the Japanese financial system as a whole has been stable. However, global markets and economies are interconnected, and domestic and international financial and economic conditions, such as price trends, and the statuses of interest rates and the foreign exchange market as well as the real estate market, are changing from moment to moment. Accordingly, it is necessary to closely watch these trends continuously with a sense of alertness.

In PY2023, the JFSA will prioritize the following four issues.

I. Support the Economy and People's Lives for Future Growth

The JFSA supports Japan's economic activities and people's lives from a financial aspects so that they remain stable in the face of changing social and economic circumstances, and lead to subsequent growth.

II. Build the Financial System for Achieving Economic Growth and Resolving Social Issues

The JFSA will endeavor to achieve a “virtuous cycle of growth and asset-based income” and deal with various social problems including climate change and the advancement of a digital society realization for building a financial system for simultaneously achieving economic growth and resolution of social issues .



III. Ensure Stability and Confidence in the Financial System

The JFSA will conduct in-depth monitoring to maintain financial institutions' soundness, enforce thorough compliance with laws and regulations, ensure customer-oriented business conduct, and fully perform financial intermediary functions.

IV. Constantly Evolve and Deepen JFSA's Financial Administration

The JFSA will constantly evolve and deepen its financial administration through enhancing data utilization, strengthening its capabilities to disseminate policy information at home and abroad, and improving its staff members' capacity and quality.

The JFSA will focus on these priority issues and continue our effort to increase the welfare of the people through sustainable growth of businesses and the economy as well as stable asset formation by striking a balance among: [1] stabilizing the financial system and having financial institutions fully perform their financial intermediary function, [2] ensuring user protection and enhancing user convenience; and [3] securing fairness and transparency over, and invigorating, the market.



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I. Support the Economy and People's Lives for Future Growth

As COVID-19 came to be newly categorized as a Class V Infectious Disease, the normalization of social and economic activities is progressing, and Japan is expected to achieve a full-fledged economic recovery and ride a new growth track. On the other hand, there still are many companies facing severe business environments due to price hikes of raw materials and energy, the yen's depreciation, and labor shortage, and repayment for effectively interest-free and unsecured loans provided by public and private financial institutions has commenced. Under such circumstances, it is important that regional financial institutions, in particular, support local industries and companies and contribute to the recovery and growth of local economies. It is necessary to reaffirm whether or not making such efforts would eventually affect regional financial institutions' business foundations.

From such perspective, the JFSA encourages financial institutions to positively provide support for business improvement and business revitalization in accordance with individual companies' actual conditions, not limited to cash flow support, and it supports a robust recovery of the Japanese economy toward further growth into the future through backing up financial institutions' efforts for enhancing their business support capabilities and establishing lending practices that encourage the sustainable growth of businesses.

1. Promotion of Business Support in Response to Changes in Social and Economic Circumstances

(1) Further promoting business support

Business support amid the pandemic was centered on cash flow support, including the provision of effectively interest-free and unsecured loans, but as social and economic circumstances are changing, financial institutions are required to provide not only cash flow support but also support for business improvement and business revitalization in accordance with individual companies' actual conditions, without delay, while utilizing the COVID-19 Refinancing Guarantee System,¹ subordinated capital loans, support tools by certified organizations for supporting management innovation (tax accountants, attorneys, etc.) or by the Council for the Future of Small and Micro Enterprises, equity funds by the Organization for Small and Medium Enterprises and Regional Innovation (SME SUPPORT JAPAN) and by the Regional Economy Vitalization Corporation of Japan (REVIC), and the "Guidelines on

¹ A system under which an SME that satisfies certain requirements formulates a business action plan through dialogue with a financial institution and has credit guarantee fees significantly reduced upon borrowing money on the condition that it receives close-following support from the relevant financial institution continuously



Business Rehabilitation of SMEs."²From such perspective, the JFSA and Local Finance Bureaus will check the status of financial institutions' concrete initiatives for business support qualitatively and quantitatively through intensive interviews with financial institutions on their business support or other means, grasp difficulties and challenges faced by financial institutions in providing business support, and encourage them to thoroughly provide support in accordance with individual companies' actual conditions. With regard to challenges, etc. thus grasped, the JFSA and Local Finance Bureaus will take various opportunities to continue dialogues with financial institutions.

Regarding the "Projects to Establish Support Systems for Businesses"³ by Local Finance Bureaus, the JFSA and Local Finance Bureaus will confirm the effectiveness of the systems established through past initiatives, and deepen partnership and cooperation with Bureaus of Economy, Trade and Industry and local stakeholders to further promote initiatives, while taking into account challenges identified through intensive interviews, etc. conducted so far, so that support for business improvement and business revitalization would be promoted further more smoothly. As part of such efforts, for example, meetings for sharing and confirming business support measures and case examples that were held for each block in PY2022 will also be held for each prefecture, at a level closer to the actual situations, in consideration of the challenges faced by individual blocks and prefectures.

The JFSA will also endeavor to thoroughly disseminate the "Guidelines on Business Rehabilitation of SMEs," and as one of the measures for fostering and increasing human resources who play the central role in business revitalization in individual regions, the JFSA will consider revisions of measures, such as the easing of requirements for selecting assistants for experts (attorneys, etc.) who become involved in cases utilizing the Guidelines. Additionally, for avoiding business owners' personal bankruptcies, the JFSA will deliberate with relevant ministries and agencies concerning measures for encouraging business owners who intend to withdraw from business to have consultations at an early stage.

Furthermore, the JFSA will encourage financial institutions to develop arrangements for responding to disasters in peacetime, considering the status of natural disasters in recent years, such as earthquakes and rainstorms. In the event of a disaster, the JFSA will consider the actual situations in the disaster-affected areas and closely cooperate with Local Finance Bureaus and other relevant organizations in encouraging financial institutions to promptly

² "Publication of the 'Guidelines on Business Rehabilitation of SMEs' and the 'SME Revitalization Package'" (March 4, 2022) <https://www.fsa.go.jp/news/r3/ginkou/20220304.html> (Available in Japanese)

³ Projects for Local Finance Bureaus to cooperate with Bureaus of Economy, Trade and Industry in sharing challenges and measures upon offering support to businesses in each prefecture with local stakeholders (including, but not limited to, financial institutions, Credit Guarantee Corporations, business associations, local governments, SME Revitalization Support Committee, Organization for Small & Medium Enterprises, Regional Economy Vitalization Corporation of Japan (REVIC) and tax accountants)



and accurately provide fine-tuned support to disaster victims.

(2) Enhancing business support capabilities⁴

The JFSA will broadly facilitate partnership and cooperation among local stakeholders engaging in business support and back up initiatives to have regional financial institutions' staff members share know-how related to business support.⁵ The JFSA will proceed with studies on the further enhancement of an AI model that can be utilized by front-line staff members in prioritizing client companies for business improvement support, and will compile problems toward the expansion of the use thereof by financial institutions. To ensure that regional financial institutions' staff members can smoothly launch support for companies regardless of whether they have sufficient experience, the JFSA will expand the targeted business types in the "Business Support Viewpoints Appropriate for Respective Industries"⁶ (published in March 2023) and will endeavor to disseminate it.

Furthermore, in order to increase human resources in charge of business revitalization support in regional financial institutions and improve their capabilities, the JFSA helps REVIC to aggregate its knowledge and know-how on business revitalization support into a guidebook and disseminate it to regional financial institutions' staff members through practical training, etc.

The JFSA will also back up regional financial institutions' support for diversifying challenges and needs of companies, such as by promoting the utilization of REVICareer, a human resources platform developed by REVIC for supporting regional financial institutions' initiatives to introduce human resources to local companies in need of business administration professionals. In addition, the JFSA will back up regional financial institutions' support for client companies' digitalization in collaboration with relevant ministries and agencies.

(3) Taking measures for further facilitation of business support

Regional financial institutions' business improvement support and business revitalization support for companies should preferably be consistent with relevant regional financial institutions' business models and incentives for individual staff members. From such perspective, the JFSA will examine and analyze challenges in business support and consider

⁴ See "Improving business support capabilities of the regional financial institutions."
<https://www.fsa.go.jp/news/r4/ginkou/20230330/20230330.html> (Available in Japanese)

⁵ See **Column 1** "Progress Report on the Efficiency of Financial Intermediation."

⁶ "Business Support Viewpoints Appropriate for Respective Industries" (March 30, 2023)
https://www.fsa.go.jp/common/about/research/20230330_2/0330gyosyubetu_00.pdf (Available in Japanese)



and externally communicate measures for facilitating business support based on the results thereof.

More specifically, the JFSA will conduct examination and analysis on how the economic and business environments surrounding regional financial institutions affect their attitudes toward initiatives for business support, and on their organizational ideas and systems, etc. regarding performance evaluation, development, and career formation of individual staff members who engage in business support.

The JFSA will also conduct examination and analysis on how regional financial institutions position their business to support companies' digitalization and business to introduce human resources in their business models and on their measures for utilizing external human resources and fostering internal human resources for these businesses.

2. Establishment of Lending Practices that Encourage the Sustainable Growth of Businesses

(1) Establishing lending practices that do not depend on personal guarantee provided by business owners

Personal guarantee provided by business owners is an obstructive factor for startups' establishment of business, dramatic business expansion, smooth business succession and early business revitalization, etc. from some aspects. The JFSA will promote the implementation of the "Reform Program Regarding Personal Guarantee Provided by Business Owners"⁷ (published in December 2022) with the aim of eliminating financial institutions' easy dependence on personal guarantee provided by business owners and encouraging the sustainable growth of businesses and enhancement of corporate value in the medium- to long-term.

More specifically, the JFSA will grasp the number of cases where financial institutions specifically explained the necessity of guarantee contracts to the company and the guarantor upon concluding a guarantee contract and the status of their announcement of "Policies for Disseminating and Entrenching the Guidelines for Personal Guarantee Provided by Business Owners."

In addition to the above, based on the opinions of businesses presented via the "Hotline on

⁷ "Formulation of the Reform Program Regarding Personal Guarantee Provided by Business Owners" (December 23, 2022) <https://www.fsa.go.jp/news/r4/ginkou/20221223-3/20221223-3.html> (Available in Japanese)



Personal Guarantee Provided by Business Owners,"⁸ which was newly established in the JFSA, special interviews are to be conducted with financial institutions as necessary.

(2) Early institutionalizing security interests over all assets

In order to ensure funding to encourage the sustainable growth of a wide range of businesses, financial institutions are prompted to provide loans based on the accurate understanding of the businesses' actual conditions and possibilities, instead of easily depending on tangible asset collateral, such as real estate, or personal guarantees.

From such perspective, the "Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices"⁹ of the Financial System Council (published in February 2023) states the necessity of a new collateral system covering the entirety of the businesses' assets, including intellectual property and intangible assets, alongside financial institutions' investment on human capital and development of relevant frameworks. Based on this report, the JFSA will seek to submit related bills, collaborating with other relevant ministries and agencies, and will promote better understanding of financial institutions and businesses regarding the purport of the new system.

⁸ "Establishment of the Hotline on Personal Guarantee Provided by Business Owners" (April 3, 2023) https://www.fsa.go.jp/receipt/k_hotline/k_hotline.html (Available in Japanese)

⁹ See **Column 2** "Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices, Financial System Council."



II. Build the Financial System for Achieving Economic Growth and Resolving Social Issues

The JFSA will endeavor to create a virtuous cycle of growth and asset-based income for achieving sustainable economic growth by leading households' assets that have just been kept idle to investments and having the fruit of the growth returned broadly to people for their asset formation and further investment and consumption. Amid rapid changes in social and economic structures, we are required to solve various social problems, such as responses to climate change issues, promotion of diversity, achievement of a digital society, and support for startups. The JFSA will develop a financial environment so that our efforts for solving those social problems lead to the creation of new markets, with the aim of achieving both economic growth and solutions to social problems.

1. Achievement of a Leading Asset Management Center and Promotion of the Doubling Asset-based Income Plan

In order to create a virtuous cycle of growth and asset-based income, the JFSA will promote initiatives for Promoting Japan as a Leading Asset Management Center, such as through the sophistication of the asset management business and enhancement of capabilities of asset owners, and will also actively disseminate information both domestically and internationally. At the same time, the JFSA will promote the implementation of the Doubling Asset-based Income Plan (published in November 2022), which is centered on the dissemination and the promotion of the use of the new NISA system and the enhancement of financial and economic education.

(1) Promoting initiatives for achieving a leading asset management center

In the process of creating a virtuous cycle of growth and asset-based income, asset management companies and asset owners, which manage households' financial assets as institutional investors, are expected to play significant roles. On the other hand, problems concerning their portfolio management capabilities and governance have been pointed out.¹⁰

Accordingly, based on the "Grand Design and Action Plan for a New Form of Capitalism 2023 Revised Version"¹¹ (published in June 2023) and the "Basic Policy on Economic and

¹⁰ See **Column 3** "Progress Report on Enhancing Asset Management Business 2023."

¹¹ "Grand Design and Action Plan for a New Form of Capitalism 2023 Revised Version" (June 16, 2023)
https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/ap2023en.pdf



Fiscal Management and Reform 2023"¹² (published in June 2023), the JFSA will take measures for Promoting Japan as a Leading Asset Management Center in collaboration with relevant ministries and agencies, and will formulate concrete policy plans under the Council of New Form of Capitalism Realization within this year.

(i) Enhancement of portfolio management capabilities, improvement of governance, and reinforcement of systems of asset management companies

The JFSA will encourage asset management companies and asset owners to take measures necessary for enhancing their portfolio management capabilities, including the enhancement of expertise and securing of staff in charge of asset management, and will develop an environment for backing up their efforts.

The JFSA will also develop an environment for assisting them with their efforts for improving governance, including the ideal disclosure of information to stakeholders, so that they ensure business conduct in consideration of the best interests of customers. In that process, for asset management companies belonging to financial groups, the JFSA will also keep an eye on the positioning of such efforts in relevant groups' management strategies and the statuses of appointing management personnel and fostering staff in charge of asset management.

(ii) Effective implementation of stewardship activities

Based on the "Action Program for Accelerating Corporate Governance Reform: From Form to Substance"¹³ (published in April 2023), the JFSA will encourage asset managers and asset owners to take measures for effective implementation of their activities on stewardship responsibilities,¹⁴ and will create an environment as necessary by such means as reviewing the large shareholding reporting rule for promoting effective dialogues between companies and investors. Regarding the review of the large shareholding reporting rule and other rules, the JFSA aims to reach a conclusion by the end of 2023 and submit relevant bills to the Diet as soon as possible.

(iii) Promotion of competition through expanding support for new entries

The JFSA will ascertain possible entry barriers for domestic and foreign asset management

¹² "Basic Policy on Economic and Fiscal Management and Reform 2023" (June 16, 2023)

https://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/honebuto/2023/2023_basicpolicies_ja.pdf (Available in Japanese)

¹³ "Publication of the 'Action Program for Accelerating Corporate Governance Reform: From Form to Substance'" (April 26, 2023)
<https://www.fsa.go.jp/en/news/2023/20230426.html>

¹⁴ The responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies' corporate value and sustainable growth through constructive dialogue



companies, such as business practices regarding asset management unique to Japan,¹⁵ and encourage the industry to make improvements.

Additionally, the JFSA will promote competition through expanding support for new entries in collaboration with local governments, etc., by such means as strengthening the functions and systems of the Financial Market Entry Office.¹⁶

(iv) Diversification of investment assets

The JFSA will develop an environment necessary for promoting the diversification of investment assets, including the activation of alternative investments,¹⁷ such as startup investments, and sustainable investments,¹⁸ with the aim of building a solid capital market in Japan and also contributing to the enhancement of the portfolio management capabilities of asset management companies and asset owners.

(v) Strengthening of information communication and environmental improvement for making Japan an international financial center

The JFSA will increase contact and communications with foreign financial institutions, etc. to grasp their needs and challenges toward entering Japanese markets and provide finely tuned information concerning the attractiveness of Japanese markets and the Japanese government's support measures. More specifically, the JFSA holds the "Japan Weeks"¹⁹ to intensively invite foreign financial business operators to Japan and expands PR channels to foreign major media and provides information to foreign authorities,²⁰ taking advantage of those opportunities.

In addition, the JFSA will understand the various taxation issues involved in becoming an "international financial hub" and take measures to make the necessary revisions.

(2) Promoting dissemination and use of the new NISA system

In preparation for the launch of the new NISA system²¹ (January 2024), the JFSA will

¹⁵ For example, Japan has a unique practice in which asset management companies and trust banks respectively calculate constant values of investment trusts and cross-check the calculation results every day (double calculation). Double calculation is rare in western countries, where trust banks and special agencies often conduct calculations.

¹⁶ A single point of services in English for newly entering foreign asset management companies regarding pre-application consultation, registration examination, supervision after registration, etc.

Refer to a notice, "Financial Market Entry Office."

<https://www.fsa.go.jp/en/policy/marketentry/index.html>

¹⁷ Investments in private equities including startups, and real estate, infrastructure, etc.

¹⁸ Including impact investments aiming to positively solve environmental and social problems

¹⁹ Scheduled to be held from September 25 to October 6, 2023

²⁰ See **Column 4** "Measures relating to the International Financial Center."

²¹ In order to enable people to continuously build assets through long-term, installment-type, and diversified investment from their youth to old age, the NISA system was fundamentally expanded and made permanent under the Act for Partially



endeavor to disseminate the purport and the details of the program to encourage people to appropriately utilize it based on their individual life cycles. For that purpose, the JFSA will fundamentally update the website dedicated for the NISA system from users' point of view, prepare an easy-to-understand guidebook, etc. targeting a broad range of people, and hold events and seminars jointly with Local Finance Bureaus and industrial organizations.²²

Under the Council on Strategies for Promoting NISA²³ in public-private collaboration, relevant parties will endeavor to project a positive image that the NISA system is convenient and reliable by accumulating examples of successful use of the NISA system (efforts for branding). Additionally, in light of the purport of the NISA system, that is, to support customers' stable asset formation, the JFSA will conduct monitoring of financial institutions regarding whether they have developed frameworks for providing explanations to customers, whether they provide financial products based on the principle of suitability, and whether they take measures to prevent solicitation for churning, etc.

Furthermore, the National Tax Agency and financial institutions will steadily develop a management system for tax-exempt holding limits. From the perspective of increasing convenience for users, including those with no investment experience, and reducing the burden on the financial institutions that provide services and service users, the JFSA will also utilize digital technology to simplify and rationalize procedures related to NISA.

(3) Enhancing financial and economic education

In order to broadly spread the importance of stable asset formation, it is important to improve people's financial literacy through the enhancement of financial and economic education.²⁴ While eliminating duplication of activities by various public and private entities, the JFSA will aggregate know-how that has been accumulated respectively by those entities and develop a national system from a neutral standpoint to promote efforts for providing people with opportunities for financial and economic education. From this perspective, the JFSA aims to establish the new public organization to accelerate financial and economic

Amending the Income Tax Act, etc. (Act No. 3 of 2023). Major revisions are as follows: (i) the tax-exempt holding period was made indefinite; (ii) the account valid period was made permanent; (iii) the annual investment limit was expanded; and (iv) both Installment-type Investment and Growth Investment can be used together. The Doubling Asset-based Income Plan (formulated in November 2022) states that the national government aims to "double the total number of NISA accounts (ordinary and installment-type accounts) from the current 17 million to 34 million in five years" and "double the amount of NISA account purchases from the current 28 trillion yen to 56 trillion yen in five years."

²² See **Column 5** "Dissemination and PR Activities for NISA System, etc."

²³ A consultative body consisting of related industrial bodies for which the Japan Securities Dealers Association serves as the secretariat (the JFSA participates in as an observer); The council is working to disseminate and promote the use of the NISA system so that the NISA system is broadly used as a means for individuals' medium- to long-term asset formation.

²⁴ Financial and economic education is to be enhanced from a broad range of perspective based on the content of the Financial Literacy Map (Committee for the Promotion of Financial Education; revised in June 2023), such as family budget management, life planning, asset formation, basics of consumer life, social security system and taxation system, financial troubles, etc.



education in the spring of 2024 and commence the full-scale operation thereof in the summer of 2024, on the premise of enactment and enforcement of related Acts.^{25, 26}

The Organization will fundamentally expand education activities by even more broadly supporting and promoting companies' seminars for their employees through collaboration with diverse stakeholders, and will endeavor to improve the quality of education by such means as introducing training programs for lecturers. The Organization will also meticulously provide private consultations and endeavor to develop an environment to enable individuals to make consultations without worries through certifying appropriate advisors and offering support from customers' point of view. Through these efforts, the Organization will contribute to creating a society in which all people can achieve their own financial well-being²⁷ and can have an independent and sustainable life.

2. Revitalization of the Financial and Capital Markets

(1) Strengthening the functions of capital markets to encourage the growth of startups, etc.

In order to facilitate fund procurement by startups and cashing and new investment by holders of unlisted stocks, the JFSA will develop an environment to vitalize the trading of unlisted stocks in both the primary market and the secondary market.²⁸

Regarding the primary market, the JFSA will deliberate on measures to expand the upper limit for unlisted companies' total amount of issuance and make the upper limit for investors' investments differ depending on individuals' annual income and assets, in addition to required measures for protecting investors, for vitalizing equity crowdfunding. The JFSA will also deliberate on systems pertaining to fund procurement by startups, such as private placement with professional investors²⁹ and small amount public offering.

Regarding the secondary market, the JFSA will consider the easing of the requirements for authorization to encourage new entries of businesses operating Proprietary Trading Systems (PTSs) for unlisted stocks targeting professional investors.

²⁵ The draft Act for Partially Amending the Financial Instruments and Exchange Act, etc. was submitted to the ordinary session of the Diet in 2023 and is now under continued examination at the House of Councillors.

²⁶ See [Column 6](#) "Interim Report from the Customer-Oriented Business Conduct Task Force of the Working Group on Capital Market Regulations under the Financial System Council."

²⁷ The "Recommendation of the Council on High-Level Principles on Financial Consumer Protection," which was published by the OECD in April 2023, defines individual financial well-being as "being in control, feeling secure and having freedom about one's own current and future finances, based on objective and subjective factors."

²⁸ See [Column 7](#) "Second Interim Summary Report of the Working Group on Capital Market Regulations."

²⁹ Solicitation for acquiring securities only targeting professional investors; In the case of private placement with professional investors, the submission of a securities registration statement is not required if the private placement is conducted via a financial instrument business operator after providing certain disclosed information.



Furthermore, the Tokyo Stock Exchange will deliberate on the continued listing criteria for the Growth Market and will endeavor to vitalize listed venture funds.

The JFSA will flexibly check and follow up the status of fund provision to startups, including loans, and other support through the monitoring of banks, etc. In particular, venture debt³⁰ is important from the perspective of encouraging later-stage startups to grow further and leading them to launch large-scale IPOs in which institutional investors can also participate. Therefore, the JFSA will promote and support financial institutions' efforts for introducing new viewpoints in examination practices, and will ease requirements for expanding the scope of startups to which bank groups can make investments in consideration of startups that require time for growth.

From the perspective of promoting financial institutions' efforts for strengthening financial functions, such as making it easier to provide financial instruments and services meeting customer needs, the JFSA will deliberate on the firewall regulations concerning the prohibition of double registration of sales representatives and required responses, while appropriately checking financial institutions' status of user protection, for example, whether they substantially ensure customer information management, conflict of interest management, and prevention of abuse of superior bargaining position.

(2) Accelerating corporate governance reform and enhancing disclosure of corporate information

Based on the "Action Program for Accelerating Corporate Governance Reform: From Form to Substance" (published in April 2023), the JFSA will take measures to encourage the management with an awareness of profit-making and growth based on the cost of capital, to encourage the management with an awareness of sustainability issues, including improving the diversity of the board, etc. such as increasing the percentage of female executives, and to improve the effectiveness of independent directors through educational activities, in order to ensure sustainable corporate growth and increased corporate value over the mid-to long-term.³¹

From the perspective of promoting constructive dialogue between investors and companies and supporting corporate governance reform initiatives, the JFSA will take measures to "visualize" companies that respond to the expectations of global investors, and to enhance the disclosure of non-financial information.

Additionally, for increasing efficiency in information disclosure, on the premise of the

³⁰ Loans for startups, focusing on relevant companies' future cash flow, etc., generally provided at higher interest rates compared to cases of loans for ordinary companies

³¹ See [Column 8](#) "Accelerating Corporate Governance Reform"

enactment of relevant Acts,³² the JFSA and the Tokyo Stock Exchange will review Quarterly Earnings Reports in collaboration, develop relevant Cabinet Orders and revise the Quarterly Review Standards toward the enforcement of those Acts in April 2024.³³

(3) Securing trust in the market

In light of the enforcement of the amended Certified Public Accountants Act (April 2023), which incorporates the introduction of a registration system for auditors of listed companies, the JFSA will endeavor to ensure the audit quality of all entities in charge of audits of listed companies. As the registration of audit firms currently auditing listed companies will expire at the end of September 2024, the JFSA will back up the Japanese Institute of Certified Public Accountants with its registration screening for auditors, review of audit quality management, and support for small and medium-sized audit firms' development of their systems.

In consideration of the fact that the amended Certified Public Accountants Act was enforced under circumstances where the roles of small and medium-sized audit firms are increasing as auditors of listed companies, the Certified Public Accountants and Auditing Oversight Board (CPAAOB) will conduct monitoring by placing more of an emphasis on small and medium-sized audit firms.³⁴ Additionally, as the host country of the International Forum of Independent Audit Regulators (IFIAR), the JFSA and CPAAOB will continue to offer support for its secretariat and will contribute to the enhancement of global audit quality in light of the increasing interest in non-financial information and the advancement of technological innovation, while leveraging the position as a country with the IFIAR Chair.³⁵ Furthermore, the JFSA and CPAAOB will prepare for the 24th IFIAR Plenary meeting, which is scheduled to be held in Osaka in April 2024.

The Securities and Exchange Surveillance Commission (SESC) will perform proper and appropriate market oversight based on the "Strategy & Policy of the SESC 2023-2025"³⁶ (published in January 2023) in order to ensure the integrity and transparency of the market while protecting investors.

³² See Footnote 26.

³³ See **Column 9** "Report of the Working Group on Corporate Disclosure under the Financial System Council."

³⁴ For an overview of the audit industry and the status of monitoring, etc., see "2023 Monitoring Report" (July 14, 2023).

<https://www.fsa.go.jp/cpaob/shinsakensa/kouhyou/20230714/20230714-1.html> (Available in Japanese)

For the monitoring of audit firms, etc. in PY2023, see "Basic Plan for Monitoring Audit Firms in Program Year 2023" (July 14, 2023).

<https://www.fsa.go.jp/cpaob/shinsakensa/kihonkeikaku/20230714/20230714.html> (Available in Japanese)

³⁵ See **Column 10** "Contribution to International Discussions on Financial Supervision."

³⁶ https://www.fsa.go.jp/sesc/news/c_2023/2023/20230127-1/01_english.pdf

The SESC positively seeks collaboration with foreign authorities, with the aim of achieving a virtuous cycle consisting of three pillars: "Information Gathering and Analysis for Comprehensive Market Oversight," "Effective and Efficient Investigations and Inspections" and "Effective Initiatives to Enhance Market Discipline," and also endeavors to address non-traditional and new types of violations, while paying attention to the gathering of useful information.



Regarding market misconduct and violations of disclosure regulations, the SESC will reveal the reality of such behavior by conducting investigations and inspections promptly in view of making recommendations for an administrative monetary penalty payment order. Against serious and malicious violations, the SESC will take rigorous enforcement actions by exercising its powers for criminal investigation. With regard to financial instruments business operators, etc., in consideration of their expected roles at each stage of the composition, sale, management, etc. of financial instruments, the SESC will verify the development of internal control environments and the sales operations from the perspective of the principle of suitability based on industry-wide viewpoints.³⁷ For unregistered business operators and those conducting a public offering of securities without submitting any disclosure statements, the SESC will take actions to prevent the expansion of damage to investors, including filing petitions with the courts to issue a prohibition and stay order.

The SESC will also endeavor to achieve more advanced and efficient market oversight with digitalized technologies to enhance its capability as a professional market oversight agency.

3. Promotion of sustainable finance³⁸

With the increasing importance of social issues, such as climate change as well as the declining birthrate and aging population, it has become increasingly essential to promote sustainable finance to encourage a transition to new industrial and social structures and to realize a sustainable society.

In light of the spread of relevant efforts by domestic and foreign related parties, the JFSA will strengthen the transformation and growth of economy and society, including GX³⁹, through broad financial support for such initiatives. Additionally, taking the opportunity of the Japan Weeks,⁴⁰ etc., the JFSA will actively communicate information internationally regarding Japan's diverse initiatives and contributions, in collaboration with relevant ministries and agencies, local governments, and companies.

³⁷ For details, see "Monitoring Priorities for Securities Businesses (July 2023 - June 2024)" (August 1, 2023).
https://www.fsa.go.jp/sesc/news/c_2023/2023/20230801-2.html (Available in Japanese)

³⁸ See **Column 11** "Promotion of Sustainable Finance."

³⁹ Green transformation (GX) means a transition to a decarbonized growth-oriented economic structure, such as achieving a shift from the current fossil energy-based industrial and social structure to a new clean energy-based structure.

⁴⁰ See "II. 1. (1) (v) Strengthening of information communication and environmental development for making Japan an international financial center."



(1) Enhancing companies' disclosure of sustainability-related information

In recent years, sustainability-related initiatives have become a central challenge for corporate management, and investors' needs for sustainability-related information are increasing in terms of evaluating medium- to long-term corporate value. In consideration of such circumstances, the JFSA will encourage companies to continue making efforts to enhance the content of the sustainability-related information they disclose.

The Amended Cabinet Office Order on Disclosure of Corporate Affairs (enforced in January 2023) introduced the description column "Approach to Sustainability and Sustainability-Related Efforts" in the securities report. Accordingly, the JFSA will compile and publish good practices of disclosure of sustainability-related information.

While the disclosure of sustainability-related information is rapidly advancing in each jurisdiction, it is important to ensure international comparability of the information. In response to the finalization of the International Sustainability Standards Board (ISSB)'s inaugural standards in June 2023, the general requirements for disclosures of sustainability-related financial information (S1) and climate-related disclosures (S2), the JFSA will collaborate with the Sustainability Standards Board of Japan (SSBJ) and other stakeholders, and take appropriate measures to achieve international comparability of sustainability-related information of Japanese companies and to obtain trust from global capital market participants. Furthermore, the JFSA will actively participate in and contribute to discussions on the international standards setting on sustainability disclosure related to human capital and third-party assurance on sustainability-related information. In addition, the JFSA will also deliberate on assurance on sustainability-related information with the aim of ensuring the reliability of the information, on the basis of relevant international discussions.⁴¹

(2) Promoting dialogue between industry and financial institutions for achieving GX

In order to encourage financial institutions and investors to engage in dialogue and offer support effectively in accordance with the actual conditions of investee companies, the JFSA, collaborating with GFANZ's country branch in Japan,⁴² will promote discussions and actively communicate information internationally on practical issues on the formulation and implementation of transition plans, including various indicators such as financed emissions,⁴³

⁴¹ See **Column 9** "Report of the Working Group on Corporate Disclosure under the Financial System Council."

⁴² Refer to the country branch in Japan of the Glasgow Financial Alliance for Net Zero (commenced operations in June 2023)

⁴³ Financed emissions: Scope 3 Category 15 (emissions from investments and loans) for financial institutions and investors, etc.



and avoided emissions.⁴⁴

For encouraging GX investments and loans in regional areas, including those for the decarbonization of SMEs, the JFSA will support area-wide cooperative efforts by diverse stakeholders, including regional financial institutions, local governments, and local companies.

Furthermore, in order to promote GX in Asia, which is geographically close to Japan, toward the achievement of GX as the whole world, the JFSA will establish a consultative body, in which diverse stakeholders both from the public and private sectors participate, to compile practical issues and communicate regarding information, and will contribute to the promotion of GX in Asia through supporting to Japanese financial institutions' initiatives for GX investments in Asia.

(3) Aggregating sustainability-related data

As challenges in effective and efficient aggregation of sustainability-related data⁴⁵ are pointed out, the JFSA will promote easily accessible information provision by the use of XBRL,⁴⁶ etc. cooperating with the Japan Exchange Group (JPX). Also, the JFSA will cooperate with NZDPU⁴⁷ and other international initiatives for data development as necessary. In addition, the JFSA will also support the development of data, such as Scope 3 emissions,⁴⁸ in the supply chain, in collaboration with relevant ministries and agencies.

(4) Promoting impact investment

The JFSA will have active and in-depth dialogue with stakeholders regarding the Draft Basic Guidelines⁴⁹ on impact investment⁵⁰ (published in June 2023), with the aim of finalizing the guidelines within FY2023. From the perspective of encouraging support for impact startups,⁵¹ local companies, and other companies, the JFSA will establish Japan's Impact Consortium, in

⁴⁴ The World Business Council for Sustainable Development (WBCSD) defines avoided emissions as the difference between GHG emissions that occur or will occur with a specific GHG reduction solution and GHG emissions that would have occurred without the solution.

⁴⁵ Data pertaining to companies' sustainability-related efforts, such as data on their emissions.

⁴⁶ extensible Business Reporting Language: An internationally standardized computer language which enables efficient acquisition of information by attaching electronic tags to financial reports and other disclosed documents

⁴⁷ Net-Zero Data Public Utility

⁴⁸ Scope 1 emissions refer to direct emissions of the relevant company, Scope 2 emissions refer to indirect emissions, such as electricity supplied by another company, and Scope 3 emissions refer to all indirect emissions, including emissions of other companies relating to business activities, such as from the production of raw materials to the use and disposal of products, and employees' business trips and commuting.

⁴⁹ "Invitation for Public Comments regarding ""Draft Basic Guidelines on Impact Investment"" (June 30, 2023) https://www.fsa.go.jp/en/news/2023/20230731_4.html

⁵⁰ Investment and loans with the aim of achieving both social and environmental impact and profitability

⁵¹ Startup companies and other companies aiming to achieve business growth through solving social issues



which entities, such as investors, financial institutions, companies, and local support organizations participate, to discuss and share impact indicators, case studies, and methods for supporting companies, etc.

(5) Developing the infrastructures of the ESG investment market and human resources

From the perspective of enhancing the transparency and objectiveness of ESG evaluation, the JFSA will encourage ESG Evaluation and Data Providers, which bridge companies and investors, to endorse the Code of Conduct⁵² (published in December 2022),⁵³ and interact with evaluation and data providers regarding status of their information disclosure and discuss on further issues.

The JFSA will also endeavor to disseminate the Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc. regarding ESG Investment Trusts⁵⁴ (published in March 2023).

Furthermore, in order to enhance the development of human resources with expertise in sustainable finance, the JFSA will promote the dissemination of a qualification examination in the private sector and encourage universities and other educational institutions to establish relevant global-level courses.

4. Achievement of a digital society

The JFSA will strengthen support for financial institutions and Fintech firms through promoting the digitalization of financial services and financial institutions' DX⁵⁵ so that financial services fulfil characteristic functions, while ensuring user protection and the safety of the financial system, and sustainably develop in a manner to contribute to economic growth by increasing convenience for individuals and companies. The JFSA will also exchange

⁵² "The Code of Conduct for ESG Evaluation and Data Providers" (December 15, 2022)
<https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>

⁵³ The status of endorsement regarding ESG Evaluation Organizations as of the end of June 2023 was published in July 2023, and the relevant data regarding ESG Data Providers as of the end of June 2024 will be compiled.

⁵⁴ "Response to the FSA's Consultation on the Proposed Amendment of the 'Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc. regarding ESG Investment Trusts'" (March 31, 2023)
<https://www.fsa.go.jp/en/news/2023/20230331/20230331.html>

⁵⁵ Digitalization here means to automatize existing paper-based processes or otherwise transform physical information into digital formats. Digital transformation (DX) means that a company builds a competitive advantage by creating value through leading the transformation of its internal ecosystem (its organization, culture and employees), while responding to drastic changes in the external ecosystem (customers and markets), and by aiming to transform customers' experience both on the internet and in real life by providing new products and services and via a new business model by the use of the third platform (crowd, mobility, big data/analytics, and social technologies) (2021 White Paper on Information and Communications in Japan).



opinions closely with diverse startup companies, financial institutions, business companies, and industry groups to identify challenges to cope with and endeavor to solve them.

(1) Initiative for promoting FinTech

For further promoting entries of domestic and foreign businesses, the JFSA will strengthen the functions and structures of the FinTech Support Desk,⁵⁶ and will endeavor to further internationalize the Fintech Summit (FIN/SUM)⁵⁷ for the purpose of communicating the attractiveness of Japanese FinTech companies and creating opportunities for networking for domestic and foreign businesses. Additionally, the JFSA will launch Japan Fintech Week, consisting of the FIN/SUM and multiple side events, in March 2024.

With the aim of supporting financial institutions' further efforts for digitalization and DX, the JFSA will hold meetups for strengthening collaboration between financial institutions and domestic and foreign FinTech companies, as well as dialogue for improving IT governance, and will provide information on best practices concerning digitalization and DX.

With regard to the legal framework of the digital payment of wages (payment of wages into accounts of funds transfer service providers), which came into effect in April 2023, the JFSA will collaborate with the Ministry of Health, Labor and Welfare to ensure proper operation thereof.

(2) Carrying out measures relating to digital money and crypto-assets for promoting Web3.0, etc.

For the smooth issuance and distribution of stablecoins,⁵⁸ the JFSA will take a measure for prompt registration screening for stablecoin intermediaries, and will encourage the establishment of the self-regulatory organization. Regarding crypto-assets other than portions held by issuers, which are subject to taxation on term-end mark-to-market value,⁵⁹ the JFSA will deliberate on treatment under taxation systems, including their position under laws and regulations and under accounting standards and practices, and will back up initiatives of the Japanese Institute of Certified Public Accountants to secure audit opportunities for crypto-asset issuers, etc. In addition, the JFSA will continue deliberations on the distribution framework (ideal approval for PTSs, etc.) and treatment under taxation systems of security tokens, while giving due consideration to investor protection.

At the time of the bankruptcy of a large crypto exchange in November 2022, assets of its Japanese

⁵⁶ A one-stop service office for consultations and information exchange regarding FinTech

⁵⁷ An international symposium on FinTech, etc. that the JFSA has co-hosted with Nikkei Inc. since 2016

⁵⁸ In June 2022, the Payment Services Act, etc. were amended and a system concerning stablecoins was put into effect in June 2023.

⁵⁹ Regarding portions of crypto-assets held by issuers, treatment under taxation systems was reviewed.



subsidiary were returned at an early stage. Our regulation and monitoring thus functioned effectively. By leveraging such experience, the JFSA will continue to contribute to international policy discussion on crypto-assets, etc., and will endeavor to further strengthen collaboration with foreign authorities given the cross-border nature of crypto-asset activities and markets. Domestically, the JFSA will review points to note in monitoring for ensuring further user protection.

With regard to Central Bank Digital Currencies (CBDCs), the Bank of Japan has conducted a pilot experiment and discussions are underway at the expert panel under the Ministry of Finance. The JFSA will continue making contributions to these activities in terms of the impact of CBDCs on the financial system.

(3) Promoting enhancement and efficiency improvement of payment infrastructure

Considering socioeconomic and technological changes in the environment surrounding payments and international trends, the JFSA will promote the enhancement and improvement of efficiency in funds settlement. Regarding the next Zengin System (interbank payment system), the JFSA will continuously participate in deliberations by a wide range of related parties and contribute to discussions toward the embodiment of the Basic Policy for the Next Zengin System, which includes the ensuring of the safety, flexibility, and convenience of the system. Additionally, the JFSA will follow up the status of expansion of businesses participating in frequent and small-amount payment services, including the Zengin System, for which the scope of eligibility for participation was expanded to include funds transfer service providers in 2022, and the new infrastructure for money transfers between individuals which commenced the operation in 2022, as well as the status of use of these services, and will continue dialogue with related parties so that the convenience and the safety thereof can be both secured.

Furthermore, toward the full digitalization of the functions of bills and checks, the JFSA will support steady progress in the implementation of a voluntary action plan⁶⁰ announced by the financial industry, and will promote, as a public-private initiative, efforts for data-linkage in the invoices and payment field, such as the development and dissemination of accounting software, etc. corresponding to DI-ZEDI⁶¹ and financial GIF (Government Interoperability Framework), from the perspective of promoting DX and improving the productivity of financial institutions' partner companies. The JFSA will support the dissemination of DI-ZEDI, in

⁶⁰ The voluntary action plan was formulated by the Panel on "Full Digitalization" of the Functions of Bills and Checks (secretariat: Japanese Bankers Association) in July 2021 (revised in June 2022). In this plan, to completely eliminate the exchange of bills and checks at clearing houses nationwide by the end of FY2026 is set up as the final goal.

⁶¹ Financial EDI information standards corresponding to the domestic standard specifications for digital invoices that were formulated by the Japanese Banks' Payment Clearing Network (Zengin-Net)



particular, as it is expected to significantly contribute to SMEs' DX.



III. Ensure Stability and Confidence in the Financial System

Financial institutions must perform their financial intermediary functions sufficiently while maintaining their soundness even as the environment surrounding them is changing.

Therefore, the JFSA will accurately identify the financial, economic, and global situations and also conduct in-depth monitoring of financial institutions through data analysis and dialogue with them.

1. Cross-sectoral monitoring policies

(1) Strengthening business bases and ensuring soundness

To ensure that financial institutions develop sustainable business models, the JFSA will review their business strategies,⁶² conduct monitoring of their business infrastructure, financial bases, governance, arrangements for managing various risks, including credit, market, and liquidity risks (including the process of response at times of stress), and internal audit through dialogue, and encourage them to strengthen their business bases in accordance with their respective situations.

In particular, while paying attention to global interest rate rises and the banking-sector turmoil in the United States and Europe in the spring of 2023, in light of the global interconnections of markets and economies, the JFSA will keep a close watch over the trends in global financial and economic situations,⁶³ including domestic and foreign monetary policy and interest rate developments, and analyze the impact of those trends on financial system stability.⁶⁴

When holding dialogue with financial institutions, the JFSA will strive to ensure the mental security of financial institutions' officers and employees. In addition, in response to inquiries from financial institutions and persons planning new entry into financial business about interpretations of laws and regulations, the JFSA will strive to give as clear replies as possible at the earliest possible time.

Following the banking turmoil in the United States and Europe, the JFSA will continuously make active contributions to discussions being held at the Financial Stability Board (FSB),

⁶² Business strategy includes human resource investment and development initiatives and measures to explore new businesses, increase user convenience, and reduce cost through the promotion of digital transformation (DX) and utilization of advanced banking service companies. See [Column 12](#) "Issues of Discussion Concerning Financial Institutions' IT Governance."

⁶³ See [Column 13](#) "Current Financial and Economic Situations"

⁶⁴ See [Column 14](#) "Assessment of Financial Institutions' Soundness."

etc.⁶⁵ and, if necessary, take appropriate domestic measures.⁶⁶

In Japan, a range of financial institutions have opted to apply the rules based on the finalized Basel III standards since March 2023. The JFSA will engage with the stakeholders and steadily make progress in the implementation of the rules toward March 2025 when all relevant financial institutions will be required to apply the rules.

(2) Disseminating customer-oriented financial services

(i) Customer-oriented business conduct

To ensure that financial institutions engage in customer-oriented business conduct, the JFSA will conduct monitoring as to whether they have established arrangements for developing, marketing, and managing products that contribute to the best interests of customers.

In particular, in light of problems related to marketing and management arrangements,⁶⁷ the JFSA will conduct intensive monitoring regarding the following points: (A) top management's involvement in retail business, (B) the development of a sustainable business model based on a customer-oriented approach, (C) improvement of the quality of the policy for customer-oriented business conduct,⁶⁸ (D) handling of structured bonds based on industry regulations and sales and management arrangements regarding high-risk financial instruments⁶⁹ to which attention should be paid in light of sales results and customer complaints, and (E) implementation of the PDCA cycle, including effective review and checks-and-balances arrangements.

In addition, in order to ensure that initiatives related to customer-oriented business conduct further take hold and are enhanced, the JFSA has introduced the obligation for financial business operators to conduct business operations in a conscientious and fair manner while taking into consideration customers' best interests and submitted a relevant bill⁷⁰ providing for the addition of corporate pension funds, which play an important role in households' asset

⁶⁵ The Financial Stability Board (FSB), and other organizations, have drawn lessons from the banking turmoil in the United States and Europe in the spring of 2023 and reprioritized their work program in order to enhance the resilience of the financial system.

⁶⁶ See [Column 15](#) "Response to the U.S. Banking-sector Turmoil This Spring."

⁶⁷ For example, the JFSA observed cases where financial institutions failed to conduct a rational review as to whether the contents of financial products were suited to customers' attributes or where financial institutions placed priority on sales promotion over customers' interests and proposed and sold financial instruments that were unlikely to deliver a return commensurate with the risks and costs without providing sufficient explanations. See [Column 16](#) "Status of Sales Companies' Efforts Concerning Customer-Oriented Business Conduct."

⁶⁸ Clear policy for realizing customer-oriented business conduct ("Principle 1" of the Principles for Customer-Oriented Business Conduct).

⁶⁹ Examples include structured bonds and foreign currency denominated single-premium insurance.

⁷⁰ See Footnote 26.



building, to the scope of the obligation.⁷¹ The JFSA will consider how to conduct monitoring so as to ensure customers' best interests on the premise of the enactment of the relevant bill.

(ii) User-friendly financial services

To respond to rapid economic and social changes in Japan, including the aging of population and the advance of globalization, the JFSA will encourage financial institutions and trade associations to implement user-friendly business conduct.⁷²

Regarding responses to various issues and needs for elderly customers, the JFSA will engage in dialogues with financial institutions and trade associations on the basis of the Results of the Survey on Introduction of the Guardianship Support Deposits and Guardianship Support Trusts, in order to support their further efforts to improve customer convenience and prevent troubles concerning the handling of transactions for elderly customers with reduced cognitive abilities that are conducted by their family members.

To enable disabled people to use safe and convenient financial services, in light of the purpose of the amended Act for Eliminating Discrimination against Persons with Disabilities, the JFSA will promote financial institutions' and trade associations' further efforts to remove social barriers, including developing facilities friendly to people with disabilities and holding seminars for frontline employees about how to write and read on behalf of disabled people and utilize telephone relay services.

Given that the number of foreign nationals staying in Japan is expected to increase, the JFSA will provide foreign nationals with useful information and precautions in order to ensure their smooth use of financial services, such as opening an account. The JFSA will also further promote efforts by financial institutions and trade associations to make their services more appropriate and convenient, such as facilitating and streamlining procedures, and considering how best to provide financial services to customers who are judged to be non-residents under the Foreign Exchange and Foreign Trade Act.

In light of the results of examination of the status of acceptance of opening accounts in birth name or original family name (as opposed to the married name), the JFSA will cooperate with relevant ministries and agencies to encourage acceptance by financial institutions in order to make services more convenient for users who wish to open and maintain their accounts in their birth name or original family name.

⁷¹ See **Column 6** "Interim Report from the Customer-Oriented Business Conduct Task Force of the Working Group on Capital Market Regulations under the Financial System Council."

⁷² See **Column 17** "Balancing the Increasing of User Convenience and Enhancement of AML/CFT/CPF Measures and Crime Damage Prevention."



(iii) Handling multiple debts

To prevent individual persons from facing multiple debt problems, the JFSA will cooperate with relevant organizations to issue warnings about multiple debts and encourage financial institutions to make prevention efforts, including carefully handling young customers in view of the lowering of the age of adulthood. In this respect, the JFSA will keep a close watch on the post-COVID-19 situation, including the economic environment and the impact of individuals' consumption behavior on the borrowing behavior of people who need funds.

The JFSA will issue further warnings about new loan shark methods, such as peer-to-peer lending using SNS and loans disguised as product sales or factoring and deal with those methods strictly in cooperation with the investigative authorities.

(iv) Prevention of specialized fraud, unlawful money transfers and investment fraud

As the number of cases of damage caused by specialized fraud, including “furikome” fraud, still remains high, the JFSA will encourage financial institutions to implement further measures to prevent damage and review the effectiveness of the measures. In light of the rapid increase since 2022 in cases of damage caused in internet banking by unlawful money transfers that are presumed to be attributable to phishing, the JFSA, in collaboration with the National Police Agency and other relevant organizations, will work to encourage financial institutions to implement measures taking account of the actual circumstances of unlawful money transfers and user damage, including the use of new methods of fraud, and engage in initiatives such as providing information and raising awareness about security measures among customers. At the same time, the JFSA will strengthen the monitoring of financial institutions.

Furthermore, the JFSA will strengthen cooperation with relevant organizations in dealing with cases of new techniques of fraudulent investment solicitation using SNS that involve unregistered business operators. In order to prevent the expansion of damage, the JFSA will send letters of inquiry and issue written warnings to and file complaints against persons who engage in financial instrument business without obtaining registration. The JFSA will also use SNS and other media to widely call for investors' attention to the risks involved in transactions with unregistered business operators, including the risk posed by fraudulent investment solicitation.

(3) Handling various risks in view of the global situations

(i) Enhancing measures for Anti-Money Laundering, Countering Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF)⁷³

Given the growing tension in global affairs and the sophistication of criminal methods, enhancing AML/CFT/CPF measures is internationally recognized as an important task,⁷⁴ and foreign financial institutions are strengthening AML/CFT/CPF measures. There have been many recognized cases where financial services were misused for specialized fraud and other types of crime in Japan as well. Once again, Japanese financial institutions should be keenly aware that the ensuring thorough implementation of AML/CFT/CPF measures is a prerequisite for conducting financial business and that not only their own trust but also Japan's trust as a whole from international society could be undermined, if criminals and their associates frequently take advantage of them.⁷⁵ Bearing those points in mind, they should promptly implement AML/CFT/CPF measures, taking into consideration the trends and typology in Japan and international requirements.⁷⁶ To this end, the JFSA will cooperate with the financial industry and follow up to ensure that financial institutions complete, by March 2024, the establishment of an effective AML/CFT/CPF framework required under the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism"⁷⁷ (The current version is a result of revision made in November 2021). In particular, JFSA will intensively monitor financial institutions that are lagging behind in the initial stage of effective measures, including the development of internal rules/procedures/policies, and encourage them to take steady action with due consideration of the deadline. The JFSA will also consider how to develop the frameworks of inspection and supervision in order to monitor and examine the effectiveness of the AML/CFT/CPF framework implemented by financial institutions after April 2024.

In addition, regarding the Funds Transfer Transactions Analysis Service,⁷⁸ the JFSA will implement appropriate license screening and supervision.

While taking account of the "plan for emergency measures against robbery and special

⁷³ Hereinafter referred to as "AML/CFT/CPF measures."

⁷⁴ The statement issued by the G7 Finance Ministers and Central Bank Governors Meeting in May 2023, which Japan chaired, recognizes the enhancement of AML/CFT/CPF measures related to virtual-assets as an internationally important task. Since the JFSA serves as co-chair of FATF's Virtual Asset Contact Group, which deals with virtual asset-related matters and as co-chair of its upper positioned working group, "Policy Development Group," it will contribute to discussions on strengthening those measures by taking advantage of that position.

⁷⁵ See **Column 18** "Current Status of and Challenges for AML/CFT/CPF" (June 2023).

⁷⁶ It is internationally required to implement the international standards developed by the Financial Action Task Force (FATF) (FATF Recommendations).

⁷⁷ Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism (November 22, 2021) https://www.fsa.go.jp/common/law/amlcft/211122_en_amlcft_guidelines.pdf

⁷⁸ This refers to engaging in any of the business activities indicated in each of the items under Article 2, Paragraph 18 of the Payment Services Act, which was revised in June 2022, with the revised act put into force in June 2023



fraud cases involving the recruitment of perpetrators on social media and other matters⁷⁹ (published in March 2023), the JFSA will cooperate with other ministries and agencies in considering enhancement of crime prevention measures taken by and revisions to the identity verification procedures used at financial institutions.

(ii) Enhancing cybersecurity

As cyberattacks have become more sophisticated in recent years, financial institutions have suffered damage.⁸⁰ In addition, inspections found cases where the cybersecurity measures taken were insufficient.⁸¹ Cyberattacks in which North Korea is considered to be involved⁸² have been observed around the world, and it is strongly presumed that over the past several years, Japanese crypto-asset exchange service providers have become targets of attack.

Therefore, the JFSA will review the effectiveness of financial institutions' cybersecurity management frameworks, including top management's exercise of leadership, and encourage them to strengthen their frameworks.

In particular, the JFSA will conduct intensive monitoring as to such points as whether financial institutions appropriately review their own measures through periodic vulnerability assessments and penetration testing⁸³ and their own incident response capacity through exercises, and whether they systematically implement measures to deal with the problems identified.

The JFSA will also encourage regional financial institutions, insurance companies and securities companies to conduct self-assessment based on a checklist for assessing the maturity of cybersecurity management frameworks (Cybersecurity Self-Assessment)⁸⁴ and encourage them to make voluntary efforts to strengthen their management frameworks.

Furthermore, the JFSA will encourage the financial industry as a whole to enhance the incident response capacity through a financial industry-wide cybersecurity exercise (Delta

⁷⁹ Plan for emergency measures against robbery and special fraud cases involving the recruitment of perpetrators on social media and other matters (March 17, 2023).
<https://www.npa.go.jp/safetylife/seianki31/tokushusagi/honbun-1.pdf> (Available in Japanese)

⁸⁰ There have been cases where a massive volume of customer information was leaked due to unauthorized access to the systems of third-party service providers serving financial institutions and their subcontractors or where data were maliciously encoded through malware infections.

⁸¹ There have been cases where financial institutions failed to conduct a sufficient review because of overconfidence in perimeter defense or where top management's exercise of leadership was inadequate.

⁸² Examples include attacks by a group called Lazarus, which is considered to be a subordinate organization of a North Korean authority.

⁸³ Penetration testing is intended to review organizations' resilience/vulnerability to the risks of intrusion from the outside and data falsification and the promptness and appropriateness of response to malware infections by launching mock attacks using mock malware or by exploiting system vulnerabilities and faulty system settings.

⁸⁴ The Cybersecurity Self-Assessment was developed jointly by the JFSA, the Bank of Japan, and the Center for Financial Industry Information Systems. This initiative has been conducted since 2022. As for the results in 2022, see "Results of the Cybersecurity Self-Assessment for Regional Financial Institutions (FY2022)."
https://www.fsa.go.jp/en/news/2023/20231019/cssa_en.html

Wall VIII), which is organized by the JFSA.⁸⁵

(iii) Economic security responses

Given that the financial industry constitutes essential infrastructure to support the people's economic activities, when financial institutions introduce critical systems or entrust system maintenance and management to third-party service providers, they must take steps to prevent their systems from being misused as a means of various obstructive and harmful activities originating from outside Japan, in order to ensure the security of and trust in the infrastructure functions.

For this purpose, in preparation for the smooth launch of the regulatory framework under the Economic Security Promotion Act⁸⁶ (spring 2024), the JFSA will engage in developing regulations (Cabinet Order etc.), cooperating with relevant organizations, and engage in considerate dialogue with relevant business operators through the consultation counter concerning systems for ensuring the stable provision of essential infrastructure services.⁸⁷

(iv) Enhancing IT risk management

In view of the recent heightening of IT system risk,⁸⁸ when serious damage has been caused to customers or there is a risk of such damage being caused by malfunctions of financial institutions' IT systems, the JFSA will flexibly review financial institutions' IT system risk management frameworks (including management frameworks regarding third-party service providers) and encourage them to make improvements as necessary.

Regarding IT system integration or renewal works with high risks, in order to ensure stable IT system operation, the JFSA will review the effectiveness of project management by financial institutions in advance through monitoring. The JFSA will also identify the actual status of IT resilience⁸⁹ and hold dialogues, mainly with major financial institutions.⁹⁰

⁸⁵ This exercise has been conducted annually since 2016. As for information on the exercise conducted in 2022, see "Financial Industry-Wide Cybersecurity Exercise (VII)." <https://www.fsa.go.jp/en/news/2022/20221223/deltawall.html>

⁸⁶ The Economic Security Promotion Act was enacted in May 2022, putting in place systems for ensuring the stable provision of essential infrastructure services.

⁸⁷ Established in April 2023. For detailed information, see the webpage on the consultation counter concerning systems for ensuring the stable provision of essential infrastructure services. <https://www.fsa.go.jp/receipt/infrastructure.html> (Available in Japanese)

⁸⁸ Amid financial institutions' growing dependence on third-party service providers for system development and maintenance, there have been cases where system failure at a third-party service provider entrusted with system-related works affected multiple financial institutions. There have also been cases of very challenging, critical system integration and renewal works. See **Column 19** "Reports on Analysis of System Failures in the Financial Sector."

⁸⁹ IT resilience refers to the capacity to ensure recovery and restoration after system failure. It includes the capacity not only to prevent failure but also to quickly restore normal business operations after failure and mitigate the impact on customers.

⁹⁰ When identifying the status of IT resilience and holding dialogues, the JFSA will keep in mind international developments, including discussions at the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB), and give considerations to the "Discussion Paper on Ensuring Operational Resilience" (<https://www.fsa.go.jp/news/r4/ginkou/20230427/04.pdf>) and "Comprehensive Guidelines for Supervision of Major Banks" (<https://www.fsa.go.jp/news/r4/ginkou/20230623-2/02.pdf>) (available in Japanese), which was revised in June 2023.



2. Monitoring policies by business type

(1) Major banks, etc.

Major banks have a significant presence in Japan's economy and are expected to stably provide quality financial services. Therefore, the JFSA will conduct monitoring as to whether major banks have developed high-level arrangements for addressing each of the items in 1. above in accordance with the scale and complexity of their services and operations.

Regarding credit risks, the JFSA will engage with major banks in processes related to the internal ratings, loan charge-offs and provisions, and lending practices in areas where loan needs are strong, such as business restructuring, and encourage the banks to take necessary actions. As for market and liquidity risks, the JFSA will review their investment and funding strategies, with a greater focus on risk management arrangements regarding securities investment and foreign currency liquidity, including overall asset-liability management, and encourage the banks to sophisticate those arrangements. The JFSA will also monitor liquidity risk management arrangements developed by specialized internet banks.

Furthermore, the JFSA will conduct, jointly with the BOJ, a stress testing exercise based on common scenarios, and in doing so encourage banks to improve stress testing methodologies. The JFSA will examine the purposes of their cross-shareholdings and keep track of the progress in their plans for reducing cross-shareholdings.

As major banks pursue cross-border and cross-sectoral business expansion, the JFSA will engage with the banks on their strategies and encourage them to sophisticate their group and global governance. When doing that, the JFSA will hold dialogue about risk management frameworks, efforts toward the sophistication of internal audits and the utilization of IT technology and systems.

The JFSA will encourage the Japan Post group to steadily implement measures to ensure customer-oriented business conduct in consideration of the provision of new services and products. The JFSA will also hold dialogue with the group on initiatives to secure group-wide earnings infrastructure in the medium to long term from the perspective of providing stable universal services through the post office network.

(2) Regional financial institutions

For regional financial institutions to perform their expected role, it is important to strengthen their business foundations and establish a sustainable business model. Regional financial institutions' top management should promote bold business reforms in consideration of the very rapid pace of change in their surrounding environment while keeping



time limits in mind. While regional financial institutions face various challenges, there are some constraints on their business resources in many cases. If they are to promote business reforms by making efficient and effective use of their own business resources, it is essential for individual regional financial institutions to give consideration to their business environment,⁹¹ the whole of the challenges that they face, and the nature and relative significance of those challenges and consider how to allocate business resources so that the challenges can be resolved. The JFSA and Local Finance Bureaus will hold various sorts of dialogue with regional financial institutions while paying sufficient attention to those points.

The key for regional financial institutions to promote business reforms is governance, which underpins decision-making based on medium- and long-term visions, and human capital, which supports the exercise of governance and the creation of value. In future monitoring of regional banks, the JFSA and Local Finance Bureaus will make intensive use of the supervisory approach of focusing on individual banks' governance and human capital. Specifically, the JFSA will hold dialogue with regional financial institutions' top management, various other officers, and outside directors on the exercise of governance by shareholders and the board of directors and human resource investment and development initiatives. As for regional banks that use bank holding companies to sophisticate the business management function, the JFSA and Local Finance Bureaus will monitor the progress in their efforts.

The JFSA and Local Finance Bureaus will identify the impact of the financial and economic situations in and outside Japan, particularly monetary policy and interest rate developments and the situation of large-lot borrowers in Japan, on individual banks and the banks' responses. Furthermore, while taking account of individual banks' business policies and risk taking, the JFSA and Local Finance Bureaus will conduct monitoring—using inspections as necessary—regarding not only the status of securities investments and market risk and liquidity risk management arrangements but also screening and management arrangements for loans to real estate businesses, including LBO loans and non-recourse loans, which some financial institutions are increasing, as well as large-lot loans and cross-prefectural loans. Regarding sales of risk-involving financial instruments by regional banks and regional bank groups, the JFSA and Local Finance Bureaus will hold dialogue with regional banks on issues related to customer-oriented business conduct based on the principle of suitability, such as appropriate investment solicitation, and also on the significance of sales of those products for their business strategies.

As for cooperative financial institutions, it is important to strengthen their business foundations and achieve sustainable business management by contributing to resolving regional challenges through support activities that meet the diverse needs of SMEs and micro

⁹¹ See **Colum 20** "Business Conditions of Regional Banks."



businesses under the spirit of mutual aid. Therefore, the JFSA will hold dialogue with cooperative financial institutions on the exercise of the financial intermediary function and the status of human resource investment and development, and encourage them to make various resourceful efforts to improve profitability. The JFSA will also conduct monitoring regarding their risk taking and development of necessary risk management arrangements as appropriate while taking account of the financial and economic situations in and outside Japan. The JFSA will hold dialogue with the central organizations of cooperative financial institutions in order to encourage them to serve as contacts between cooperative financial institutions and with other support organizations, and support cooperative financial institutions' initiatives to resolve regional challenges and strengthen their business foundations.

(3) Securities companies

Securities companies are required to make proactive contributions to securing market fairness as a market gatekeeper. They are also required to support fundraising by companies with growth potential through the sufficient performance of the financial intermediary function and also play a major role in implementing the Doubling Asset-Based Income Plan as the main promoter of households' stable asset building.

From that perspective, the JFSA will monitor securities companies' arrangements for the development, sale, and solicitation of high-risk financial instruments, such as structured bonds, in order to check whether the companies are complying with laws, regulations, and voluntary rules. Through dialogue, the JFSA will also encourage securities companies to deepen their customer-oriented business conduct initiatives, including enhancement of product governance⁹² and continue efforts to grasp customers' true needs. In addition, the JFSA will conduct monitoring as to whether securities companies have developed effective compliance and internal control arrangements, including arrangements for detecting and preventing market misconduct.

In view of changes in the competitive environment, such as the shift to online transactions, the reduction of transaction cost, and the diversification of products and services, the JFSA will hold in-depth dialogue with securities companies' top management on sustainable business models and encourage the development of risk management arrangements suited

⁹² Product governance refers to the implementation of the following quality control processes by financial institutions with regard to individual products that they develop and sell: (i) conduct a review at the time of product development and sales as to whether the expected return is commensurate with the cost and risks incurred by investors; and (ii) conduct a periodic review after product development and sales as to whether a return commensurate with the costs and risks is delivered. For example, through those quality control processes, financial institutions may integrate funds whose investment performance has remained sluggish over an extended period of time or take appropriate redemption measures with respect to such funds.



to their business operations.

Regarding major securities companies operating globally, the JFSA will conduct monitoring with respect to their concrete strategies and measures to secure stable profitability in foreign businesses and the development of effective governance and risk management arrangements suited to business strategies.

(4) Insurance companies

Insurance companies are strictly required to comply with laws and regulations and protect policyholders. It goes without saying that it is necessary to develop appropriate relationships with and conduct appropriate management of insurance agents. Regarding the recent cases of misconduct, the JFSA will make thorough efforts to grasp the full picture of those cases and identify the causes, and if policyholder protection has been found to be deficient, the JFSA will take strict actions based on laws and regulations, and it will also develop and implement effective measures to prevent the recurrence of similar cases of misconduct.

In anticipation of medium- and long-term changes in the business environment, such as the falling birthrate, aging population, the increasing severity and frequency of natural disasters, and the shrinking auto insurance market, insurance companies are also required to develop sustainable business models through efficient business management using digital technology and the development of products adapted to changes in customers' needs.

As insurance companies are expanding their overseas operations and establishing subsidiaries, it is important to sophisticate their group and global governance. In cooperation with foreign authorities, the JFSA will encourage insurance companies through dialogues to make steady progress in relevant efforts.

Regarding financial soundness, including the status of asset management, the JFSA will conduct monitoring in light of financial market developments. In preparation for the smooth introduction of the Economic value-based Solvency Regulation, the JFSA will conduct a study on the specifics.

Because of the increase in insurance money payments amid the increasing frequency and severity of natural disasters in recent years, property insurance premium rates have followed an uptrend. In this situation, in order to ensure that non-life insurance companies more appropriately exercise the function of guarding against natural disasters, the JFSA will encourage them to develop more advanced enterprise risk management (ERM), review and revise the insurance coverage and premium rates in consideration of customers' needs and the risk situation, and provide services useful for disaster risk reduction. The JFSA will also cooperate with Local Finance Bureaus to encourage the non-life insurance industry to further



promote customer-oriented business conduct.

Regarding life insurance companies, given that cases of misconduct by salespersons have continued to occur, the JFSA, in cooperation with the Life Insurance Association of Japan, will conduct a follow-up review to promote the sophistication of arrangements for the management of salespersons. The JFSA will also promote insurance solicitation based on an understanding of public insurance systems.

As for small-amount and short-term insurers, the JFSA will cooperate with Local Finance Bureaus to promote the sophistication of monitoring in consideration of the revision of the supervisory guidelines.⁹³ The JFSA will also continue to encourage small-amount and short-term insurers to ensure financial soundness and business adequacy.

⁹³ Regarding the Results of the Public Comment Procedure Concerning the Partial Revision (Draft) of the “Comprehensive Guidelines for Supervision of Insurance Companies (Additional Volume) (Guidelines for Supervision of Small-amount and Short-term Insurers)” (March 31, 2023).
<https://www.fsa.go.jp/news/r4/hoken/20230331-2/20230331-2.html> (Available in Japanese)

IV. Constantly Evolve and Deepen JFSA's Financial Administration

As people's needs have diversified amid significant changes in the domestic and international financial environments, the roles and functions that the JFSA is required to fulfill have changed from time to time. The JFSA has so far continued to reform itself, but it is necessary to constantly evolve and deepen its financial administration further to appropriately fulfil its expected roles.

From this viewpoint, the JFSA will endeavor to further enhance financial administration by working to enhance data utilization and strengthening the ability to advocate its policies as well as public relations both domestically and internationally, and to maximize its capabilities as a financial administration organization by enabling all its staff members to exercise their abilities to the extent possible.

1. Enhancement of financial administration

(1) Understanding realities in a multifaceted manner by data utilization

From the perspective of accurately identifying the resilience and vulnerabilities of individual financial institutions' business conditions and the entire financial system, the JFSA will deepen and enhance its analyses of, for example, companies' financial conditions, the status and behavior of financial institutions, and the trends of stock markets and futures markets. The JFSA will visualize and introduce tools to utilize such analysis results so that monitoring divisions who engage in dialogue with financial institutions could effectively make use of such results.

Based on the results of a joint experiment on a new data collection and management framework (Common Data Platform), which the JFSA conducted in collaboration with the Bank of Japan in PY2022,⁹⁴ the JFSA will start to collect granular data on corporate loans in a phased manner and consider expanding the coverage of banks subject to the data submission.

In addition, the JFSA will proceed with the multifaceted analysis of information received at the counseling offices⁹⁵ and utilize the analysis results in monitoring in a timely manner.

⁹⁴ See **Column 21** "Initiatives for Data Integration by the JFSA and the BOJ."

⁹⁵ Counseling Office for Financial Services Users (<https://www.fsa.go.jp/receipt/soudansitu/index.html>) (Available in Japanese), and Office for Collecting Information on Financial Monitoring (https://www.fsa.go.jp/receipt/k_jyouhou/index.html) (Available in Japanese), etc.



The JFSA will also further strengthen collaboration with academia through joint research with researchers to utilize cutting-edge research on financial administration in the field of public administration.⁹⁶

(2) Promoting cooperation and collaboration with Local Finance Bureaus

Regarding cooperation and collaboration between the JFSA and Local Finance Bureaus, which are indispensable for realizing financial administration policies, the JFSA will further deliberate streamlining and efficiency improvement and will enhance the content of communications. In particular, the JFSA will deepen relevant cooperation and collaboration in conducting monitoring to promote integrated and effective administration,⁹⁷ and will endeavor to enhance the quality of the supervisory authority as a whole through frank opinion exchange between the JFSA and Local Finance Bureaus. In addition, the JFSA will also seek cooperation and collaboration with Local Finance Bureaus in the field of market oversight.

Furthermore, the JFSA will have in-depth dialogues on material challenges, such as those relating to regional financial institutions' support for companies and their governance and human capital, etc., in consideration of the circumstances surrounding regional financial institutions, including the conditions and structures of local economies, and will further promote sharing of the knowledge and outcomes obtained through such dialogues between the JFSA and Local Finance Bureaus.

(3) Strengthening the ability to advocate JFSA's policies as well as public relations at home and abroad

The JFSA will continue to contribute to international discussions on major issues⁹⁸ that were highlighted in the G7 Finance Ministers and Central Bank Governors Meeting Communiqué released in May 2023, under the Japanese G7 Presidency.

Regarding the 2023 IAIS⁹⁹ annual meetings to be held in Tokyo from November 6 to November 10, Japan will positively lead discussions as the host country on such agendas as the Insurance Capital Standard (ICS) and protection gap for natural disasters, considering this event as an occasion for improving the international presence of the Japanese financial market and financial policies.

⁹⁶ See [Column 22](#) "Collaboration with Academia."

⁹⁷ For example, in supervising regional financial institutions, small amount and short-term insurers, trust companies, etc., the JFSA, Local Finance Bureaus, and Local Finance Offices are to be united, from the early stage of consultations, to deal with prior consultations and approval requests from regional financial institutions on their new services, as well as their inquiries about laws and regulations, in an effort to make prompt and clear responses to the extent possible, thereby endeavoring to streamline the supervisory work.

⁹⁸ Such as crypto-assets and stablecoins, sustainability disclosure, transition finance, natural disaster risk financing

⁹⁹ International Association of Insurance Supervisors

See [Column 10](#) "Contribution to International Discussions on Financial Supervision."



Taking advantage of such opportunities as meetings for the GLOPAC¹⁰⁰ programs and bilateral international cooperation, the JFSA will further enhance international networks, and will reinforce its power to implement policies internationally through promoting policy dialogues with Asian countries by the use of those networks. As one of such efforts, the JFSA will strengthen collaboration with Asian countries regarding transition finance.¹⁰¹

The JFSA will also endeavor to strategically disseminate policy information in a timely, effective, and efficient manner, making effective use of various information communication tools, including websites and social networking services. Specifically, the JFSA will improve its staff members' knowledge about public relations activities and deliberate the possibility of utilizing external services, while incorporating relevant knowledge from outside. Furthermore, the JFSA will continue efforts for strengthening its ability to communicate information at home and abroad, such as increasing English language information on its website and devising effective means of information dissemination that may also reach overseas stakeholders.

2. Enhancing organizational capabilities as the financial authority

(1) Enhancing staff members' capacity and quality

In order to enhance staff members' expertise, the JFSA will have dialogues with its personnel in charge of personnel affairs and human resources development with regard to individual staff members' career plans, and will provide training programs in accordance with fields that are to be the core of career paths determined through dialogues.¹⁰² In addition, the JFSA will take measures to have staff members acquire and develop skills and knowledge that are considered to be insufficient in the JFSA at present or are likely to be required in the future, and will continue discussions on fields that require further deliberations. As a basis for enhancing the expertise of staff members, the JFSA will consider the expansion of the content and the improvement of operation methods for its training programs, which it has reviewed so as to have staff members learn the basics as governmental officials of the JFSA.

Additionally, in order to strengthen data collection and analysis capabilities required for financial administration and enhance data utilization, the JFSA will steadily upgrade the

¹⁰⁰ Global Financial Partnership Center

¹⁰¹ Means of financing for the purpose of supporting the efforts of companies that are endeavoring to reduce GHG emissions steadily based on a long-term strategy for achieving a decarbonized society

¹⁰² For example, the JFSA provides training programs combining personal development (correspondence training, e-learning, etc.), in-house training (training using videos created internally, etc.), and OJT for fostering staff members in charge of monitoring for the JFSA and Local Finance Bureaus. For details, see **Column 23** "Initiatives for Enhancing JFSA Staff Members' Capacity."



relevant arrangements and skills of its staff members¹⁰³ by such means as providing training in accordance with their needs, challenges, levels, etc. and offering support by experts through data analysis projects.

(2) Placing priority on self-motivated initiatives

The JFSA will review the operations of the Open Policy Lab¹⁰⁴ (a framework fostering voluntary policy proposals by staff members irrespective of their job specifications), public solicitation of policy proposals on financial administration from young staff members, a framework to support staff members who independently and voluntarily undertake study and publish academic papers and columns, and develop a working environment where staff members can engage in free and vigorous discussions.

The JFSA will organize, so as to contribute to policy planning, lunchtime lectures¹⁰⁵ and study meetings¹⁰⁶ throughout the year on a wide range of issues, not limited to the financial field. These lectures and meetings provide opportunities for staff members to gain valuable knowledge and information from leading experts in academia and business in a broad range of fields, and also from foreign authorities.

Furthermore, the JFSA will accept applications for specific posts from its staff members so that they can autonomously choose their career paths.

(3) Creating a workplace where everyone can work actively

The JFSA will support its staff members' efforts to balance work and childcare and family care or otherwise promote working styles in accordance with their life stages, and will positively outsource formulaic operations, continuously provide an environment to facilitate teleworking and online conferences, and promote robotic process automation (RPA). These initiatives are designed to strongly back up flexible and efficient ways of working.¹⁰⁷ Additionally, the JFSA will develop its information system, such as by updating the network system, for safe and efficient business operations.

High-quality management capabilities are required to maximize the capacity of all JFSA

¹⁰³ See **Column 24** "Data Analysis by the JFSA."

¹⁰⁴ See **Column 25** "Major 'Open Policy Lab' activities."

¹⁰⁵ See "International Conferences, Panels, etc.: Luncheon Lectures."
<https://www.fsa.go.jp/frtc/kenkyu/luncheon.html> (Available in Japanese)

¹⁰⁶ See "International Conferences, Panels, etc.: Monetary Economics Study Sessions."
<https://www.fsa.go.jp/frtc/kenkyu/studymeeting.html> (Available in Japanese)

¹⁰⁷ "JFSA's Principles for Promoting Active Participation of Female Staff Members and All Staff Members' Work-Life Balance" (June 30, 2023)
https://www.fsa.go.jp/common/about/sonota/woman_wlb.html (Available in Japanese)



staff members with diverse backgrounds.¹⁰⁸ In this respect, the JFSA will visualize top management and directors' management policies to their subordinates and conduct a 360-degree evaluation and satisfaction surveys. In addition, the JFSA will enhance the management capabilities of its staff members by sharing each JFSA bureaus' initiatives to vitalize the entire organization within the JFSA on an ongoing basis, and providing management officials with management clues.

The JFSA will also promote internal and external dialogues on how to develop a workplace where young and other JFSA staff members feel more satisfied with their jobs and more motivated to work and how a desirable organizational culture should be, and will continue to reform itself, while finding new challenges and solutions therefor.

¹⁰⁸ The "Principles for Promoting Female Government Officials' Participation and Work-Life Balance" (decision of the Council on Promotion of Female Workers' Participation and Work-Life Balance on October 17, 2014; partially revised on January 29, 2021) states as follows: "The viewpoint of diversity management, that is, to respect individuals' personality and diversity and provide them with opportunities to fully exercise their abilities and experience, thereby generating innovation and creating value, is also indispensable in workplaces where staff members engage in public duties to ascertain diversifying people's needs and accurately respond to them with policy measures."

The JFSA Strategic Priorities

July 2023 - June 2024

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I. Support the Economy and People's Lives for Future Growth

Column 1: Progress Report on the Efficiency of Financial Intermediation¹⁰⁹

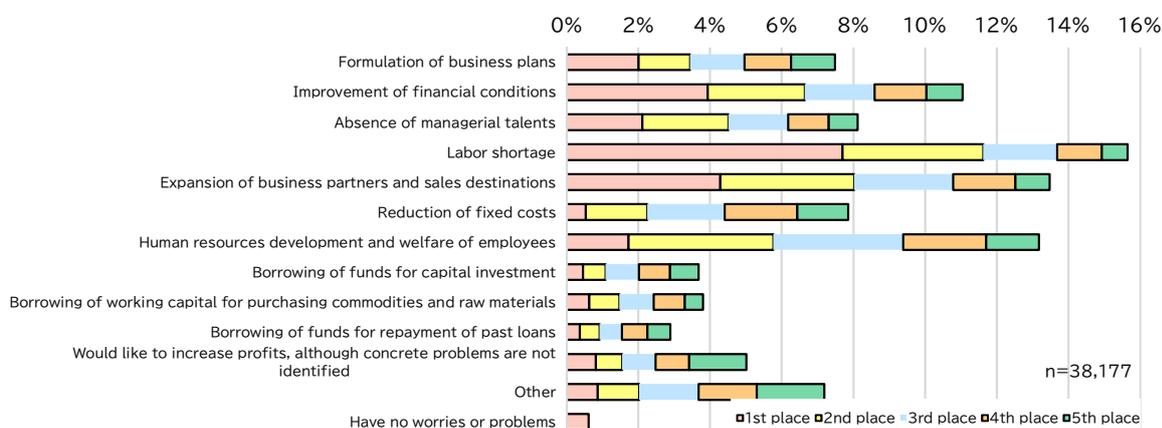
Since PY2019, the JFSA has compiled its initiatives for facilitating regional financial institutions' exercise of financial intermediation functions and has published them as "Progress Report on the Efficiency of Financial Intermediation."

(1) Efforts for ascertaining the circumstances of companies and providing business support

(i) Expectations of local companies - Business Questionnaire Survey -

In order to check customers' evaluation of regional financial institutions' initiatives regarding financial intermediation, etc., the JFSA conducts the Business Questionnaire Survey targeting SMEs and small businesses that use regional financial institutions as their main financing banks. According to the survey in PY2022, the labor shortage was cited as a problem regarding business and management by many respondents (Figure 1). As more and more companies have come to face such problem, the services they expect from financial institutions are expanding to include the introduction of managerial talents, not limited to financial services.

(Figure 1) Problems regarding business and management faced by companies



(Source) JFSA

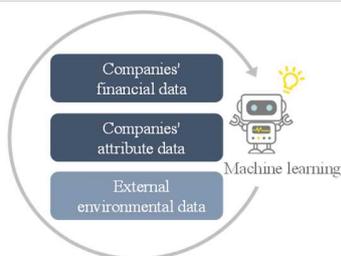
(ii) Enhancement of financial institutions' business support capabilities

In order to back up financial institutions' efforts for the enhancement of their business support capabilities, the JFSA conducted studies on the development of an AI model that can be utilized by financial institutions' front-line staff members in prioritizing client companies for business improvement support (Figure 2). Additionally, the JFSA compiled the "Business Support Viewpoints Appropriate for Respective Industries" so that front-line staff members can smoothly launch support for companies regardless of their experience.

¹⁰⁹See the main text in I. 1. (2) Enhancing business support capabilities.

(Figure 2) Development of an AI model that contributes to efficient and effective business improvement support

① Development of the AI model (prototype)



② Output of the results (Prioritization of companies to which business improvement support is to be provided)

NO	Company name	Area	Business type	Points
1	●● Kogyo Co., Ltd.	○○ City, ○○ Prefecture	Manufacturing	12
2	△△ Shokuhin Co., Ltd.	○○ City, △△ Prefecture	Manufacturing	25
3	○○ Shoten Co., Ltd.	△△ City, □□ Prefecture	Retailing	64

(e.g.) A financial institution had considered a certain company as having no problem in the current business conditions, but had a talk with the top of the company at an early stage regarding its business conditions as the company had many points.

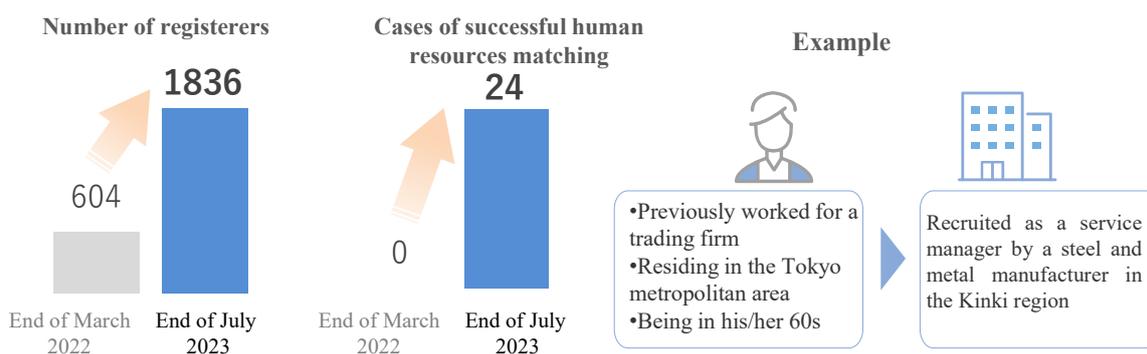
(Source) JFSA

(2) Efforts in response to new support needs, such as those for human resources matching

In 2021, the JFSA established a human resources platform, "REVICareer," in REVIC for linking human resources at large companies to local companies via the intermediation of regional financial institutions, and has held training sessions and workshops for workers of large companies who have registered with REVICareer.

In PY2022, requirements for registration were eased to allow workers of large companies to directly register with REVICareer without the involvement of their companies' personnel affairs departments. Through these efforts to facilitate the utilization of REVICareer, the registration of workers of large companies and registration of job-opening information of local companies by regional financial institutions are steadily expanding and cases of successful human resources matching are gradually increasing (Figure 3).

(Figure 3) Utilization of REVICareer



(Source) JFSA

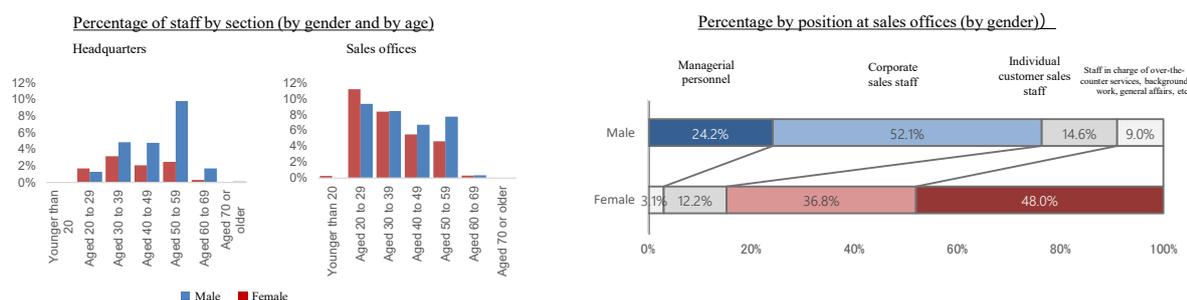
(3) Regional financial institutions' governance and human capital

With the awareness that governance and human capital constitute regional financial institutions' base that supports their sustainable value creation, the JFSA and Local Finance Bureaus ascertained the actual status of regional financial institutions' governance and human capital in PY2022 (Figure 4).

With regard to governance, there was a case where a regional bank invited outside personnel as lecturers of in-house workshops to check their abilities and willingness before calling on them as outside directors who will consider banking as their own issue and positively participate in deliberations. However, there were also cases where outside directors had been appointed conventionally from specific organizations or where the eligibility and the adequate number of directors might not have been discussed sufficiently.

Regarding human capital, as a result of a questionnaire survey on human capital, it was found that the percentages of female workers are higher in sales offices than in the headquarters, and gender-based differences were also observed in managerial personnel in sales offices (Figure 4).

(Figure 4) Staffing at regional banks



(Note 1) The survey covered all workers recruited and managed by 100 regional banks (or their holding companies) (as of October 1, 2022). The left-hand figure shows percentages among all workers, and the right-hand figure shows percentages among all staff of sales offices. The managerial personnel in the right-hand figure include branch managers, submanagers, and assistant managers.

(Note 2) Those in charge of multiple sections or duties are counted based on the sections or duties of which they are mainly in charge. There are cases where the number of staff is allocated among multiple sections and duties due to such reasons as the difficulty in identifying relevant staff's major sections or duties.

(Source) JFSA

Column 2: Report of the Working Group on Legal Institutions for Cash-flow-focused Lending Practices, Financial System Council¹¹⁰

On February 10, 2023, the JFSA published a report of the Financial System Council's "Working Group on Legal Institutions for Cash-flow-focused Lending Practices" (the Report).

(1) Background

In recent years, there has been a growing number of cases where companies achieve growth by utilizing intangible assets, such as technologies and brands. However it is pointed out that startups and companies at the stage of business succession or revitalization often face difficulties in raising funds unless they have real estate or other tangible assets as collateral or business owners provide personal guarantees.

Financial institutions are expected to focus on the entirety of the business, including intangible assets, not limited to tangible assets, and provide companies with necessary loans. Even among SMEs using loans based on guarantees or collateral, many wish to get a loan based on an evaluation of their business feasibility, not on guarantees or collateral (Figure 1).

(Figure 1) Loan methods that companies currently use and loan methods that they wish to use in the future



(Note 1) Only aggregating companies with loans from financial institutions

(Note 2) The total is not necessarily 100% as multiple answers are allowed.

(Source) Prepared by the JFSA based on materials of the Small and Medium Enterprise Agency

A new collateral system over the entirety of the business' assets, which was recommended by the Working Group on Legal Institutions for Cash-flow-focused Lending Practices, is positioned as one of the measures to back up cash-flow-focused lending practices that are not easily dependent on real estate collateral or personal guarantee.

¹¹⁰See the main text in I. 2. (2) Early institutionalizing security interests over all assets.

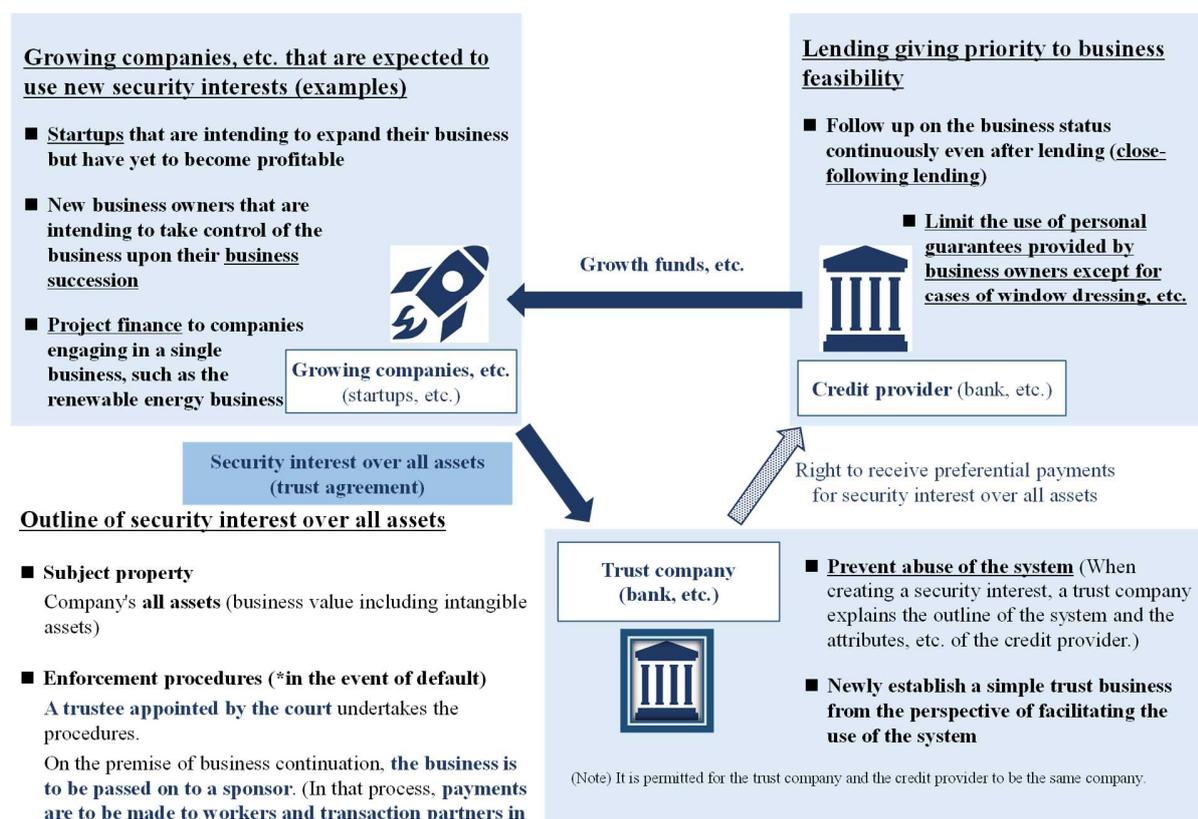
(2) Outline of a new collateral system

The Working Group on Legal Institutions for Cash-flow-focused Lending Practices deliberated on basic legal institutions for creating security interests over all assets, and made the following recommendations.

- The system of security interests over all assets enables companies to make all assets, including goodwill and future cash flows to be generated from business activities, as property that is the subject matter of a security interest.
- For entities which provide loans using a security interest over all assets, the use of personal guarantees provided by business owners should be limited except for a case where there was window-dressing, etc. by a business owner.
- In order to prevent security interests over all assets from being abusively obtained or exercised against companies that do not understand the details thereof, holders of security interests over all assets should be limited to trust companies that are subject to a licensing examination and conduct control.

The outline of security interests over all assets based on the above is as shown in [Figure 2](#).

(Figure 2) Outline of security interests over all assets (provisional) stated in the Report



(Source) JFSA

(3) Future measures

Based the Report, in order to develop new lending practices, the JFSA is required to take appropriate actions and foster understanding, which includes considering frameworks on financial institutions' investment on human resource and establishment of internal foundations, to develop new lending practices using security interests over all assets.

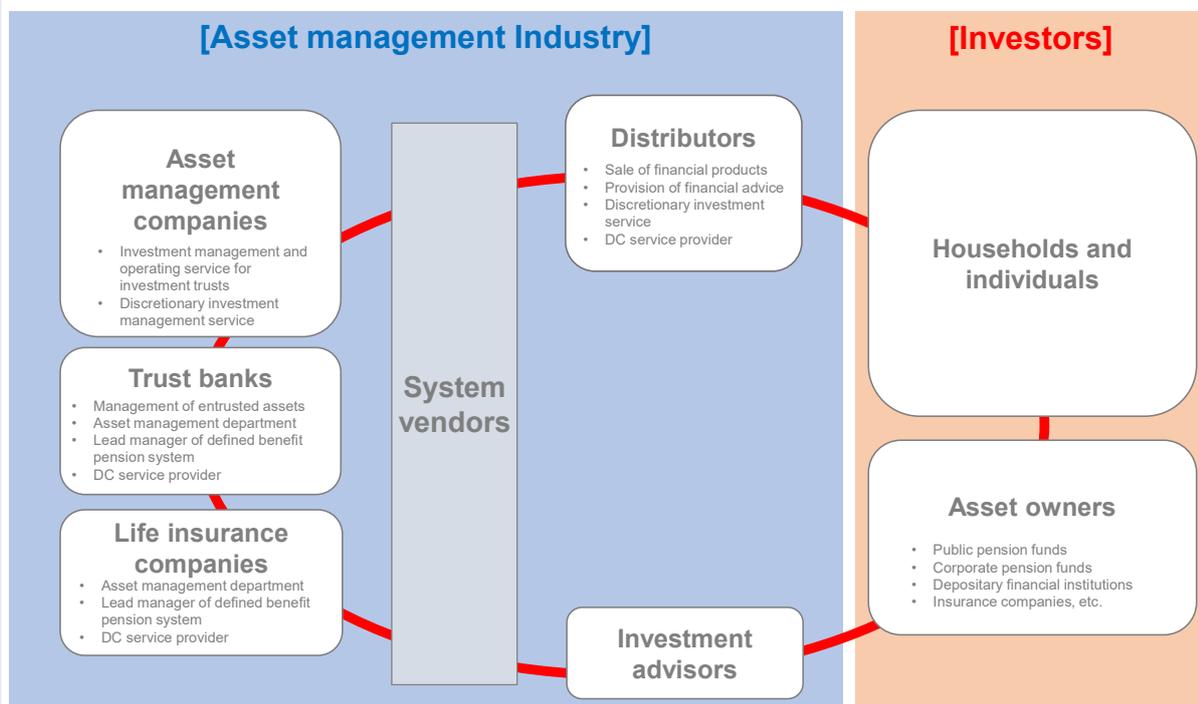
II. Build the Financial System for Achieving Economic Growth and Resolving Social Issues

Column 3: Progress Report on Enhancing Asset Management Business 2023¹¹¹

In April 2023, the JFSA published the "Progress Report on Enhancing Asset Management Business 2023"¹¹² for the purpose of promoting efforts for enhancing the asset management business.

The report compiles matters considered to be necessary for the asset management business in Japan to achieve growth as an important industry which has the public trust, while improving the expertise and transparency in their business operations and services. In the report, the asset management business is defined broadly, while covering trust banks, life insurance companies, distributors, and system vendors, etc., in addition to asset management companies, and as investors, asset owners are included. The report broadly analyzes challenges for each of those entities (Figure 1). Here, major five points are explained below.

(Figure 1) Whole picture of the asset management business in Japan



(Source) JFSA

¹¹¹See the main text in II. 1. (1) Promoting initiatives for achieving a leading asset management center.

¹¹²Publication of "Progress Report 2023 for Enhancing Asset Management Business in Japan" (April 21, 2023) <https://www.fsa.go.jp/en/news/2023/20230620.html>

(1) To ensure transparency in the business operations of asset management companies

Many of the large asset management companies in Japan are affiliated with banks or securities companies, and it has long been pointed out that there is a risk that short-term profits of distributors may be given preference over the long-term profits of asset management companies, depending on circumstances. As a result of comparison between 11 large Japanese asset management companies and 30 large global asset management companies, it was found that top executives of Japanese asset management companies have served for shorter terms, have had less experience of working for asset management companies, and were more likely to be appointed from other companies within the same group.

Accordingly, the JFSA pointed out that in order for Japanese asset management companies to obtain the trust of customers and expand assets under management on a long-term basis, they need to eliminate concerns over conflict of interest through ensuring the independence and transparency in their business management and have top management well-versed in the asset management business remain in their leadership positions.

(2) To ensure transparency in investment management structures

According to a survey by a US company, Morningstar,¹¹³ disclosure of names of fund managers for mutual funds is becoming common in many countries and regions. On the contrary, in Japan, publicly offered investment trusts for which the names of fund managers are disclosed only account for around 2% of the total, which is the lowest among major 26 countries.

Accordingly, the JFSA pointed out that it is preferable that individual asset management companies make efforts on a voluntary basis so that customers understand the actual status of management structures for investment trusts.

(3) To promote new entries of asset management companies

In Japan, the number of investment trust management companies has remained unchanged for recent years and new entries have been limited. Causes therefor include a practice unique to Japan in which asset management companies and trust banks respectively calculate constant values of investment trusts and cross-check the calculation results every day (double calculation), the delay in the separation of clerical work and investment management, and higher costs due to insufficient competition among system vendors.

Accordingly, the JFSA pointed out that it is necessary to review such unique practice in Japan and develop an environment to make it easier for asset management companies to newly enter the Japanese market for vitalizing Japan's asset management business.

(4) Challenges in sophisticating asset owners' investment management

Many Japanese corporate pension funds are small and it is said that some funds have problems such as lack of expertise of personnel in charge of investment, labor shortage, or failure in appropriately managing risks relating to investment management. On the other hand, with the prolonged low-interest rate environment in recent years, Japanese corporate pension funds have tended to make high-returning alternative investments.

¹¹³Morningstar, "Global Investor Experience Study: Disclosure" (December 14, 2020)



Accordingly, the JFSA pointed out that pension funds need to raise their awareness regarding the development of investment management structures in a manner corresponding to their asset size and the details of their investment management services.

(5) Challenges in asset formation utilizing defined contribution (DC) pension plans

The percentage of investment trusts in assets of participants of corporate-type DC pension plans in Japan is 58% (on the basis of balance) as of the end of March 2022. This percentage is increasing in recent years, but principal protection funds still account for high percentages in Japan compared with US 401(k) plans, in which the percentage of mutual funds (investment trusts) is 84% among all assets.

The JFSA pointed out that while an increasing number of companies are considering a shift to a DC pension plan in recent years, companies are expected to provide education continuously to participants who have yet to fully utilize such opportunities for asset formation and to also increase the use of the default investment method, etc.

Column 4: Measures relating to the International Financial Center¹¹⁴

In order to make Japan an international financial center open to the whole world, the JFSA has been vigorously working for the environmental improvement to attract foreign businesses and highly skilled professionals. Here, two characteristic measures are introduced.

(1) Strengthening of information communication

In order to make Japan an international financial center, it is important not only to steadily implement measures for environmental improvement as mentioned above but to effectively communicate information on these measures while taking into account the opinions of foreign businesses.

The dedicated website for the international financial center, which was launched in March 2021, has been providing comprehensive information in Japanese and in English, targeting foreign asset management firms that are considering newly entering Japanese markets. Information being provided includes procedures for registration for asset management business, the Japanese government's policies on taxation and status of residence, and helpful information for starting business and life in Japan.

Based on needs having been presented by foreign asset management firms since its launch, the website was renewed in full in March 2023. Specifically, a new webpage introducing the attractiveness of Japan (Figure 1) was created to communicate information regarding affluent business opportunities in Japan backed by world-leading exchanges and sufficient personal financial assets, and high-quality living and business environments, as well as the national government's related policy measures. Furthermore, FAQs compiling questions frequently asked by foreign asset management firms upon registration were newly added (Figure 2), and the entire design was updated.

In addition to online information communication, the JFSA restarted overseas business trips, which had been suspended due to COVID-19, for face-to-face PR activities, such as meeting local financial business operators and participating in local events. Specifically, we visited New York, Los Angeles, London, Singapore, and Hong Kong to directly have contact with and generate interest among foreign asset management firms that have yet to enter Japanese markets.

(Figure 1) Webpage introducing Japan's attractiveness¹¹⁵



¹¹⁴See the main text in II. 1. (1) (iii) Promotion of competition through expanding support for new entries, and (v) Strengthening of information communication and environmental improvement for making Japan an international financial center.

¹¹⁵Official Website of International Financial Center "Why Japan?"
<https://www.fsa.go.jp/internationalfinancialcenter/en/why-japan/>

(Figure 2) Webpage of FAQs¹¹⁶

Frequently Asked Questions

Financial Instruments and Exchange Act	Support with Business Set Up and Life in Japan
Tax	Status of Residence

Q2. Does the representative have to reside in Japan? +

Q3. Can the compliance officer of an overseas financial group company be registered as the compliance officer in Japan? +

Q4. Is it possible to outsource compliance work instead of hiring an in-house compliance officer at the applying company (registration applicant)? +

Q5. Can a shared office be used as the domestic business office of the financial instruments business? +

Q6. Under which country's notarial system should the affidavit to be used in place of the extract of the certificate of residence or ID of the overseas officer be drawn up? +

Financial Instruments and Exchange Act -

This section contains frequently asked questions pertaining to the registration of a financial instruments business in Japan. The answers here are intended only as an initial guide and were written to answer questions asked by foreign asset management companies that are entering the Japan market on a small scale targeting Professional Investors, such as its group companies. Please be aware that answers may differ depending on the actual conditions of the financial instruments business in question, such as the type of business and the nature and methods of work being carried out.

Q1. What is the minimum number of personnel required to register as a financial instruments business, and what is the minimum number of those personnel that should be assigned to the Japan office? +

Support with Business Set Up and Life in Japan +

Tax +

Status of Residence +

(Source) JFSA

(2) Expansion of services in English for foreign asset management firms newly entering Japanese markets

In order to promote foreign asset management firms' new entries into Japanese markets, the JFSA started to offer one-stop services in English in 2021, covering pre-application consultation, registration examination, and supervision after registration, etc., for the investment management business, the investment advisory and agency business, and part of the type II financial instruments business. Furthermore, in March 2022, the coverage was expanded to include part of the type I financial instruments business, and in October 2022, the covered range of the type II financial instruments business was partially expanded (Figure 3).

(Figure 3) Typical schemes for new entries employed by foreign asset management firms and availability of services in English

	Investment management business				Investment advisory and agency business
	Partnership-type funds	Trust-type funds	Company-type funds	Discretionary investment management business	
(i) Investment management in Japan	Registration in English ○				
(i)' Sale, etc. of one's own funds	Registration in English ○				
(ii) Sale of funds managed by overseas group companies in Japan	Added in the coverage of services in English in October 2022 (part of the type II financial instruments business)	Added in the coverage of services in English in March 2022 (part of the type I financial instruments business)	Registration in English ○		
(iii) Provision of overseas group companies' investment management strategies via the intermediation of discretionary investment contracts					Registration in English ○
(iv) Provision of investment advice regarding Japanese markets to overseas group companies					Registration in English ○

(Source) JFSA

¹¹⁶Official Website of International Financial Center "FAQ and Contact Information"
<https://www.fsa.go.jp/internationalfinancialcenter/en/faq-contact-us>

Column 5: Dissemination and PR Activities for NISA System, etc.¹¹⁷

(1) Dissemination and promotion of new NISA system

From the perspective of accelerating the shift from savings to investment and developing an environment that enables households, particularly the middle class, to enjoy the fruits of growth through broad participation in the capital market, and with a view to implementing the Doubling Asset-based Income Plan, the NISA system was fundamentally expanded and made permanent under the Act for Partially Amending the Income Tax Act, etc. (Act No. 3 of 2023). The new program will be launched in January 2024 (Figure 1).

Looking at the status of use of the Nippon Individual Savings Account (NISA) program as of the end of March 2023, the total number of NISA accounts (ordinary and installment-type accounts) is approx. 18.74 million and the amount of NISA account purchases are approx. 32 trillion yen (Figure 2). The Doubling Asset-based Income Plan states that the national government aims to "double the total number of NISA accounts (ordinary and installment-type accounts) from the current 17 million to 34 million in five years" and "double the amount of NISA account purchases from the current 28 trillion yen to 56 trillion yen in five years." The JFSA will proceed with the initiative to double people's asset-based income, including dissemination and PR activities for the new NISA system.

(Figure 1) NISA's major expansion and renewal as a permanent program (New NISA)

NISA's major expansion and renewal as a permanent program (New NISA)

(Applicable from January 2024)

	<i>Tsumitate</i> (Installment) investment quota	Growth investment quota
Annual investment quota	1.2 million yen	2.4 million yen
Period of tax-exempt holding ^(Note 1)	Change to an indefinite period	Change to an indefinite period
Upper limit on the value of tax-exempt holding (Total quota) ^(Note 2)	18 million yen	
	*Managed under a book value balance method (the quota can be reused)	12 million yen (part of the total quota)
Account valid period	Change to a permanent period	Change to a permanent period
Products eligible for investment	A prescribed scope of investment trusts suited for long-term, installment and diversified investment [the same as the scope of products eligible for the existing <i>Tsumitate</i> NISA]	Listed stocks, investment trusts, etc. ^(Note 3) (i) Stocks to be delisted and stocks under supervision and (ii) investment trusts with a trust period of less than 20 years, monthly dividend type, and certain investment trusts using derivative transactions are excluded
Eligible age	18 years or older	18 years or older
Relationship with the existing NISA	The products in which investment has been made under the existing General NISA and <i>Tsumitate</i> (installment-type) NISA before the end of 2023 are outside the framework of the new program and the existing tax exemption rules are applicable. *Rollovers from the existing NISA to the new program are not permissible.	

(Note 1) Following the change in the duration of tax-exempt holding to an indefinite period, appropriate operation of the program will be ensured by periodically checking on the address of users and other items, as in the case of the existing *Tsumitate* (installment-type) NISA.

(Note 2) Regarding the upper limit on the value of tax-exempt holding for each user, information provided by financial institutions using a cloud system will be managed by the National Tax Agency.

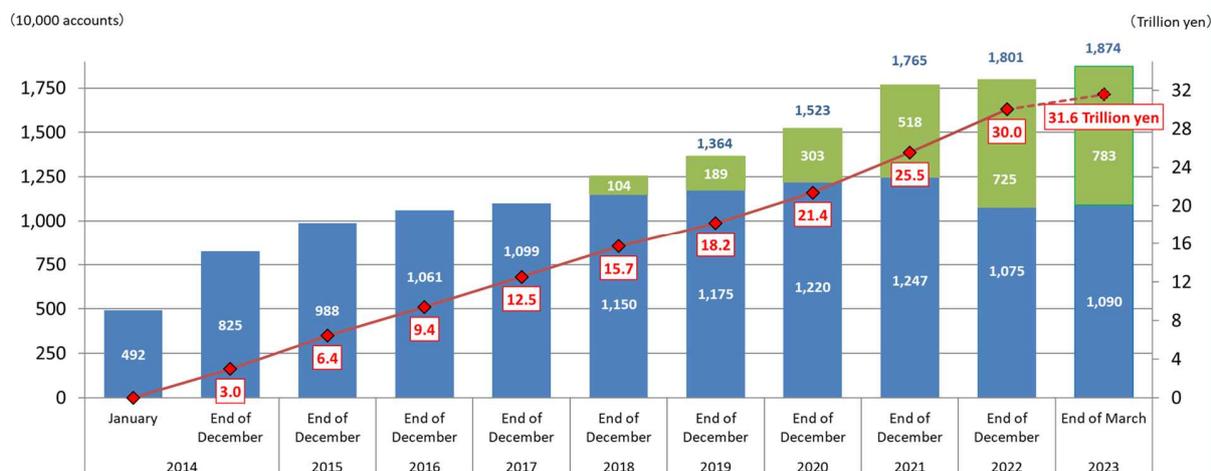
(Note 3) To prevent financial institutions from engaging in the act of soliciting customers into the practice of churning using the growth investment quota, the FSA will revise the supervisory guidelines to implement monitoring based on laws and regulations.

(Note 4) Regarding products in which investment has been made through Junior NISA before the end of 2023, those who made the investment continue to be eligible for tax-exemption until the age of 18 after the expiry of the period of tax-exempt holding if appropriate procedures are implemented. The need to implement those procedures is to be eliminated to improve user convenience.

(Source) JFSA

¹¹⁷See the main text in II. 1. (2) Promoting dissemination and use of the new NISA system.

(Figure 2) Changes in the numbers and the amounts of purchases of NISA accounts (ordinary and installment-type accounts)



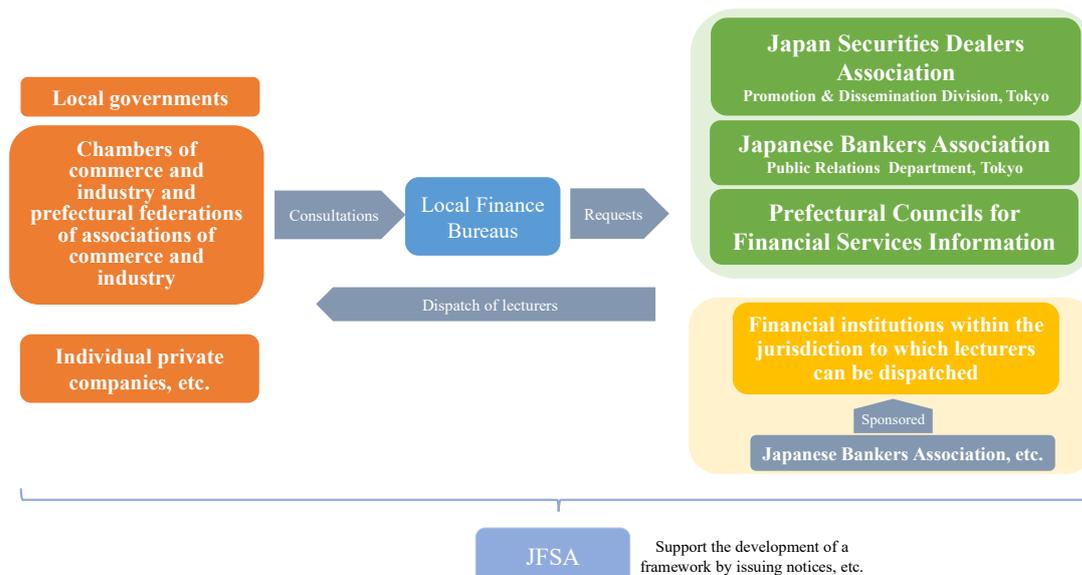
(Source) JFSA

(2) Efforts for asset formation in workplaces

In order to develop a thick middle-class layer for doubling people's asset-based income, efforts for assisting asset formation at workplaces are important, such as the holding of seminars by companies for their employees.

In collaboration with Local Finance Bureaus and local governments, commercial groups, and industrial organizations nationwide, the JFSA is supporting the development of a framework for dispatching lecturers to asset formation seminars targeting local government officers and member business owners.

(Figure 3) Flow of dispatching lecturers to asset formation seminars at workplaces (conceptual drawing)



(Source) JFSA

(3) Dissemination and PR activities using a website, SNS, etc.

The JFSA is providing information to disseminate the current NISA system and the new NISA system using its dedicated website, SNS, etc., while paying attention to ensure easy-to-understand explanations even for people who have not used the NISA system.

(Figure 4) JFSA's website dedicated to the NISA system



(Source) JFSA

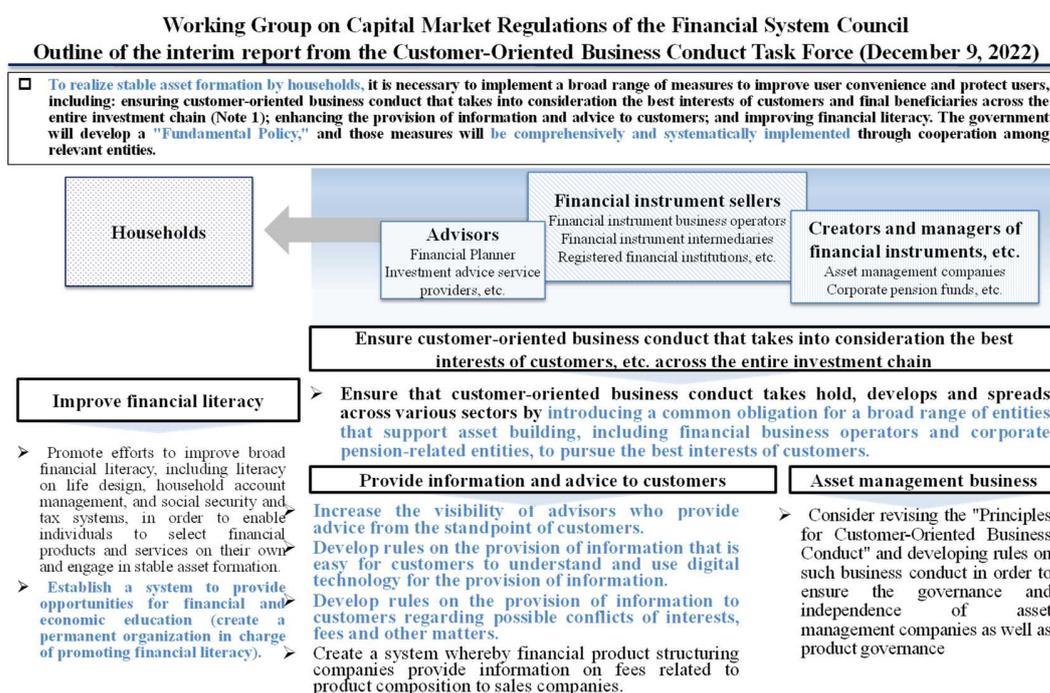
(Figure 5) JFSA's official YouTube channel, official X (Twitter) account of Tsumitate Wanisa



Column 6: Interim Report from the Customer-Oriented Business Conduct Task Force of the Working Group on Capital Market Regulations under the Financial System Council¹¹⁸

On December 9, 2022, the interim report of the Customer-Oriented Business Conduct Task Force of the Working Group on Capital Market Regulations under the Financial System Council was published (Figure 1).

(Figure 1) Outline of the interim report of the Customer-Oriented Business Conduct Task Force



(Note 1) The chain of processes from investment by customers and beneficiaries in investee companies to the return of profits to households in the form of dividends, etc. due to an increase in the value of investment

(Note 2) Clarifying target customers and structuring products that serve their interests; providing necessary information to financial business operators in order to ensure structured products are provided to target customers together with the necessary information; and continuously evaluating and examining the status of product composition and information provision.

(Source) Prepared by the JFSA

(1) Developments

In September 2022, the Customer-Oriented Business Conduct Task Force was established under the Working Group on Capital Market Regulations in order to discuss the issue of how to return the outcome of economic growth to households, out of the remaining issues in the Interim Summary Report of Working Group on Capital Market Regulations published in June 2022. In addition, at the 50th General Meeting of the Financial System Council in September 2022, the Minister of State for Financial Services requested to conduct deliberations broadly on customer-oriented business conduct and financial and economic education. After undergoing deliberations on five occasions in total, recommendations were compiled. Among the recommendations, the establishment of the new public organization to accelerate financial and economic education and ensuring of the best interests of customers, etc. were incorporated in the draft Act for Partially Amending the Financial Instruments and Exchange Act, etc. that was submitted to the ordinary session of the Diet in 2023 (now under continued examination at the House of Councilors).

¹¹⁸ See the main text in III. 1. (2) (i) Customer-oriented business conduct.

(2) Improvement of financial literacy

The improvement of financial literacy is also cited as an important policy challenge in the Doubling Asset-based Income Plan. Based on various surveys, the following are pointed out: (i) the number of people who have received financial and economic education is small; (ii) recipients of such education shun education providers, such as financial industry organizations; and (iii) efforts for financial and economic education so far are not adjusted and are inefficient.

Given these, the report recommended that at the national level, a permanent national organization responsible for promoting efforts to provide opportunities for financial and economic education from a neutral standpoint should be established.

(3) Ensuring of customer-oriented business conduct

(i) Ensuring of business conduct that takes into consideration the best interests of customers and final beneficiaries

In order to achieve households' stable asset formation, all entities participating in the investment chain,¹¹⁹ such as financial institutions and corporate pension-related entities and other asset owners, need to sufficiently exercise their functions.

It is recommended to introduce a common obligation for a broad range of entities that support asset formation, including financial business operators and corporate pension-related entities, to pursue the best interests of customers in order to ensure that customer-oriented business conduct takes hold, develops, and spreads across various sectors.

(ii) Development of rules on the provision of information to customers regarding possible conflicts of interests, etc.

It is recommended to develop rules regarding the provision of information on matters concerning conflicts of interests.

(iii) Use of digital technology for the provision of information

It is recommended to enable financial business operators to freely select information provision in writing or by electronic means from the customer-oriented perspective and to legally provide that financial business operators must provide substantial explanations by a required method at a required level in consideration of individual customers' levels of digital literacy.

(iv) Advisors who provide advice from the standpoint of customers

In order to develop an environment in which customers can receive advice from their standpoint regarding household account management, financial plans, *Tsumitate* NISA and other preferential tax systems and pension systems, and increasingly diversifying financial instruments and services, it is necessary to increase the visibility of advisors who provide advice from the standpoint of customers and at the same time to ensure that such advisory services are prospective as a sustainable business. Accordingly, it is recommended to examine the possibility of offering support for them.

¹¹⁹ The chain of processes from investment by customers and beneficiaries in investee companies to the return of profits to households in the form of dividends, etc. due to an increase in the value of investment

Column 7: Second Interim Report of the Working Group on Capital Market Regulations¹²⁰

On December 21, 2022, the Second Interim Report of the Working Group on Capital Market Regulations under the Financial System Council (the "Report") was published.

(Figure 1) Outline of the Second Interim Report of the Working Group on Capital Market Regulations, Financial System Council

Outline of the Second Interim Report of the Working Group on Capital Market Regulations, Financial System Council

Respond to environmental changes and endeavor to enhance user convenience and protect users in financial and capital markets, thereby creating a virtuous cycle of growth and distribution to achieve sustainable economic growth through smooth fund provision and have the outcome of the economic growth returned to households via their selection of appropriate financial instruments.

Strengthening the functioning of the market infrastructure

- Ease the upper limit for trading volumes pertaining to the auction method of PTSs (1% in contrast to exchanges for all issues handled).
- Ensure consistency in applying the 5% rule for take over bid (TOB)^(Note1) between "Market trades (off-floor trading)" and "PTSs trading similar thereto".
- Appropriately set tick sizes (smallest price increment in which the prices are quoted) of exchanges and PTSs.
- Promote the lowering of investment units for listed companies' stocks for which investment units are large.

Smooth fund provisions to startup companies, etc.

- Develop a system to make it possible to handle unlisted stocks of startups, etc. in PTSs targeting professional investors.
- Regarding unlisted stocks held by venture capital (VC) funds, promote a shift from evaluation based on acquisition cost to evaluation based on their fair value.
- Develop a stock transfer system for shortening the period required for initial public offering (IPO).
- Facilitate the use of direct listing^(Note2).

Other environmental developments

- Apply regulations on sales and solicitation under the Financial Instruments and Exchange Act to tokenized specified joint real estate venture contracts (contracts to conduct trade and lease of real estate by soliciting investments and distribute earnings therefrom).
- Oblige financial instruments business operators to publish the same information as that of the signs posted at their sales offices via the internet.
- ※ Continue deliberations on the firewall regulations separating banks and securities companies

(Note 1) The rule to require a TOB if the ownership ratio of share certificates, etc. exceeds 5% after purchasing share certificates, etc. outside the market from more than 10 people in 60 days

(Note 2) The method in which an issuer directly lists its stocks on an exchange without subscription by a securities company
(Source) JFSA

(1) Enhance user convenience and protect users in financial and capital markets for achieving a virtuous cycle of growth and distribution

The Working Group on Capital Market Regulations under the Financial System Council deliberated on measures, including the development of a system for enhancing user convenience and protecting users, centered on the strengthening of the functioning of the market infrastructure and smooth fund provisions to startups, etc. The Report compiles the results of the deliberations.

(2) Strengthening of the functioning of the market infrastructure

In Japan, efforts for strengthening the functioning of the market infrastructure have been made so far, but it is necessary to continue such efforts in a manner to ensure that entities providing the market infrastructure make the best use of inventiveness based on diverse users' needs, provide a stable, efficient, fair, and convenient trading platform, and appropriately fulfil the pricing function of the market, on the premise of user protection.

¹²⁰ See the main text in II. 2. (1) Strengthening the functions of capital markets to encourage the growth of startups, etc.

With such awareness, the following were recommended.

(i) Enhancement of the functions of Proprietary Trading Systems (PTSs)

- Ease the upper limit for trading volumes pertaining to the auction method of PTSs (1% in contrast to exchanges for all issues handled)
- Ensure consistency in applying the 5% rule for takeover bid (TOB)¹²¹ between "Market trades (off-floor trading)" and "PTSs trading similar thereto"

(ii) Appropriate tick sizes

- Appropriately set tick sizes (smallest price increment in which the prices are quoted) of exchanges and PTSs

(iii) Lowering of investment units for listed stocks for which investment units are large

- Promote further efforts by the Tokyo Stock Exchange, etc. to lower investment units for listed stocks for which investment units are large

(3) Smooth fund provisions to startup companies, etc.

Some point out that it is important to encourage the accumulation of knowledge and know-how on investments in unlisted companies and evaluation of their value by institutional investors and venture capital funds, etc. in Japan. In addition, from the perspective of developing an environment to enable owners and capital investors of startups to make initial investments more easily, the importance of ensuring diverse options for these people in recovering funds they have invested is also pointed out. With such awareness, the following were recommended.

(i) Vitalization of trading of unlisted stocks by institutional investors, etc.

- Develop a system to make it possible to handle unlisted stocks in PTSs targeting professional investors with the aim of vitalizing the trading of stocks of startups, etc.

(ii) Promotion of evaluation based on fair value

- Regarding unlisted stocks held by venture capital funds, promote a shift from evaluation based on acquisition cost to evaluation based on their fair value

(iii) Appropriate initial public offering (IPO) process

- Develop a stock transfer system for shortening the period required for IPO

(4) Other environmental developments

Amid drastic changes in social and economic circumstances due to the advancement in digitalization and other factors, changes across the existing business borders are occurring. Accordingly, it was recommended that systems relating to financial and capital markets also be reviewed for surely increasing convenience for users of financial services and protecting them.

¹²¹ The rule to require a TOB if the ownership ratio of share certificates, etc. exceeds 5% after purchasing share certificates, etc. outside the market from more than 10 people in 60 days

Column 8: Accelerating Corporate Governance Reform¹²²

(1) Developments of the corporate governance reform initiatives

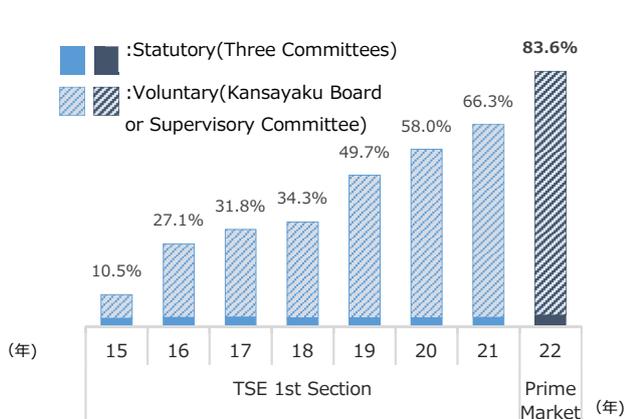
The JFSA has promoted corporate governance reform initiatives, including the formulation and revision of the Stewardship Code and the Corporate Governance Code, to realize sustainable corporate growth and increased corporate value over the mid-to-long-term. Through such initiatives, certain progress is observed in listed companies' corporate governance structures (Figures 1 to 3).

(Figure 1) Companies with 1/3 or more independent directors



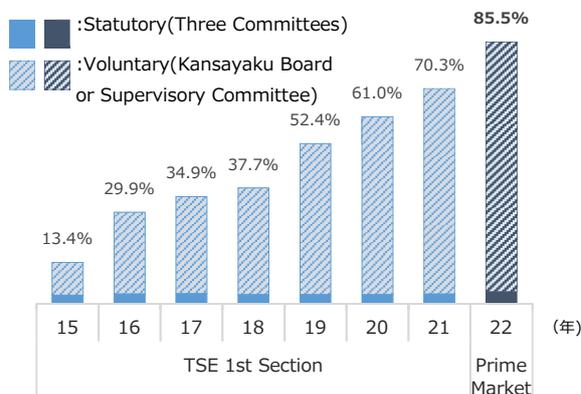
(Source) JFSA

(Figure 2) Companies with nomination committee



(Source) JFSA

(Figure 3) Companies with remuneration committee



(Source) JFSA

¹²² See the main text in II. 2. (2) Accelerating corporate governance reform and enhancing disclosure of corporate information.

The JFSA has assessed the effects of the reform initiatives based on the interim review conducted after the second revision of the Corporate Governance Code (2021) and the opinions collected via the Japan Corporate Governance Forum, which the JFSA established for the purpose of hearing opinions from a wide range of stakeholders, including foreign investors.

In this process, the following positive evaluations were presented.

- Many companies share the view that it is important to enhance the supervisory function of the board in order to improve corporate value.
- Dialogue between companies and institutional investors is gradually moving toward the larger goal of making the investment chain work.

On the other hand, the following issues are pointed out.

- Further revision of the Corporate Governance Code will contribute to developing a formal structure, but further detailed requirements, if introduced, may undermine the original purpose of the "comply or explain" approach¹²³ and that this may cause corporate governance reform in practice to lose its substance.
- The importance of capital efficiency is being recognized, but it is not recognized by all companies.
- As boards of directors with diversity generally encourage more vigorous discussions on companies' long-term business strategies, it is important to increase gender diversity in boards of directors. At present, the percentage of women in Japanese companies' boards of directors is lower than the levels in other developed countries.
- In terms of enhancing investor confidence and providing incentives to companies to improve their governance practices, it is beneficial to visualize companies with excellent corporate governance.
- The scopes of "act of material proposal" and "joint holders" under the large shareholding reporting rule are unclear, so this uncertainty has become an obstacle to constructive dialogue. Accordingly, it is necessary to review the legal system.

(2) Formulation of the Action Program

Based on such examination, and discussions at the meeting of the Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code held on April 19, 2023, the Action Program for Accelerating Corporate Governance Reform: From Form to Substance (the "Action Program") was published on April 26, 2023¹²⁴ (Figure 4).

¹²³ An approach to require companies to express their intention whether or not to comply with each of the principles of the Codes and to explain reasons for non-compliance if they do not comply

¹²⁴ "Publication of the 'Action Program for Accelerating Corporate Governance Reform: From Form to Substance'" <https://www.fsa.go.jp/en/news/2023/20230426.html>

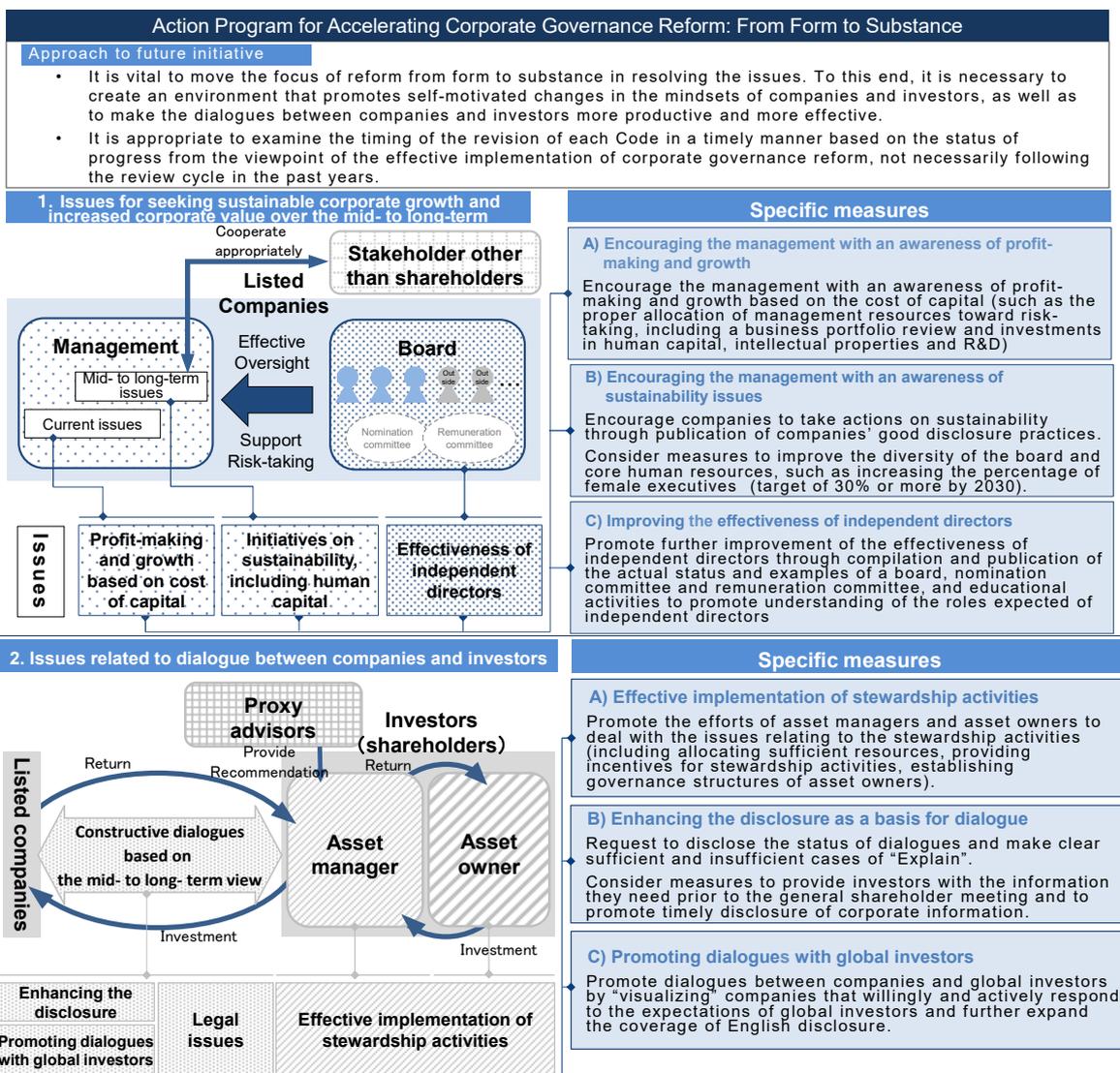
Measures in the Action Program are positively evaluated by investors, etc. via the Japan Corporate Governance Forum. The JFSA will continue proceeding with corporate governance reform by sequentially implementing and reviewing each measures in close cooperation with the Tokyo Stock Exchange and other related parties.

It is appropriate to examine the timing of the revision of each Code in a timely manner based on the status of progress from the viewpoint of the effective implementation of corporate governance reform, not necessarily following the review cycle in the past years.

(Figure 4) Outline of the Action Program for Accelerating Corporate Governance Reform: From Form to Substance

Action Program for Accelerating Corporate Governance Reform

- The Council published recommendations regarding "Action Program" as of April 26. The Council will review the implementation status from time to time and consider whether additional measures are needed.



(Source) JFSA

Column 9: Report of the Working Group on Corporate Disclosure under the Financial System Council¹²⁵

The Working Group on Corporate Disclosure under the Financial System Council (the "DWG") conducted deliberations on the revision of the quarterly disclosure system and on sustainability disclosure, based on the former report published in June 2022, and newly published a report in December 2022.

(1) Revision of the quarterly disclosure system (Figure 1)

The DWG's June 2022 report indicated the possible option of unifying two existing quarterly reports, the quarterly securities report required under the Financial Instruments and Exchange Act (the first and third quarters) and the quarterly earnings report required under exchanges' rules, from the viewpoints of cost reduction and improvement of disclosure efficiency. The report observed that it is considered to be appropriate to implement the unification by abolishing the obligation for submitting the quarterly securities report (the first and third quarters) and retaining the obligation for submitting the quarterly earnings report in light of the following points: that unifying the two reports into the quarterly securities report, whose disclosure timing is later, could create the risk that the usefulness and timeliness of information may decline; and that the quarterly earnings report, which is used for active information disclosure to investors, is used widely among investors.

In light of the above, the DWG started discussing specifically how to implement the unification in October 2022 and presented the following recommendations, among others, in December of the same year.

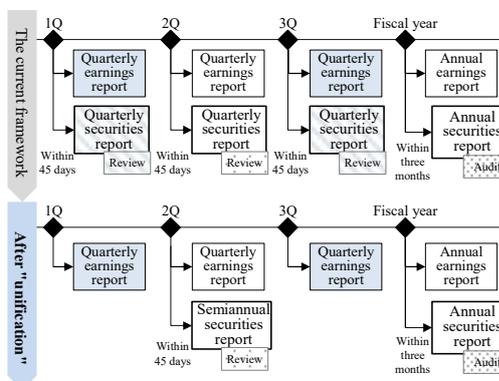
(Figure 1) Outline of the report of the DWG (quarterly disclosure)

Outline of the Report of the Working Group on Corporate Disclosure under the Financial System Council (quarterly disclosure) (published in December 2022)

□ The DWG conducted deliberations on quarterly disclosure and sustainability disclosure, both of which were proposed as items for study in the report published in June 2022. Regarding quarterly disclosure, the DWG adopted the following recommendations:

Quarterly disclosure (Matters requiring legal revisions)

- In light of the growing importance of information disseminated by companies as necessary, timely disclosure required by exchanges should be enhanced. In addition, in the future, discussions should be held on **reforming the disclosure framework into one that places emphasis on implementing timely information disclosure** during relevant business periods while ensuring information reliability.
- Regarding the quarterly securities report (the first and third quarters), a specific plan should be worked out to **abolish the obligation for disclosure under the Financial Instruments and Exchange Act** (a matter requiring a legal revision) and **unify quarterly reports into the quarterly earnings report** based on exchanges' rules.
 - For the moment, the obligation for submitting the quarterly earnings report should be universally applied. Going forward, deliberations should be continuously conducted on shifting to voluntary disclosure in light of the status of enhancement of timely disclosure.
 - Regarding the contents of disclosure, items of information for which investors have particularly strong needs (e.g., segment information) should be included in addition to the disclosure items for the quarterly earnings report.
 - Audit review should be voluntary, but the obligation for audit review should be applied for a certain period of time when a case of accounting irregularity has occurred.
 - Exchanges should implement enforcement against false statements in a more appropriate manner. However, intentional and malicious false statements may be subject to penalty.
 - Regarding the semiannual securities report, listed companies should be required to present an audit review that is similar in content to the one presented in the existing quarterly securities report for the second quarter, with the submission of the report required within 45 days from the account settlement. An unlisted company should be allowed to choose the same framework as the one applied to listed companies (a matter requiring a legal revision).
 - The periods of public viewing of the semiannual securities report and the extraordinary report (three years and one year, respectively) under the Financial Instruments and Exchange Act should be extended to five years (a matter requiring a legal revision).



(Source) JFSA

¹²⁵ See the main text in II. 2. (2) Accelerating corporate governance reform and enhancing disclosure of corporate information.

(2) Clarification of the SSBJ's role in Japan, etc. (Figure 2)

The DWG's June 2022 report stated that it is necessary to clarify the role of the domestic standard setting body for sustainability disclosure and to conduct a further study on a roadmap that contributes to practical preparations by companies and investors. Therefore, the DWG discussed the abovementioned points with respect to sustainability disclosure, starting in October 2022, and mainly presented the following recommendations in December of the same year.

- At a time when, internationally, discussions on setting standards for sustainability disclosure are proceeding at the International Sustainability Standards Board (ISSB) and other organizations, in Japan, it is important to steadily implement substantial sustainability disclosure on a nationwide basis based on private-sector activities while ensuring international consistency. From that viewpoint, it is necessary to conduct a study on domestic disclosure standards, to incorporate disclosure standards into the securities report, discuss a system of assurance and train personnel who support relevant activities.
- Regarding sustainability disclosure standards, in Japan, it is important to hold discussions with a view to developing domestic disclosure standards while keeping a watch on the direction of the development of standards at the ISSB. Going forward, one possible option will be to incorporate universal disclosure standards into the annual securities report, which is a legally mandated disclosure document. In that case, it will be important to incorporate the domestic standard-setting body and disclosure standards developed by the body into the legal framework.
- When incorporating the standard-setting body and disclosure standards related to sustainability information into the Financial Instruments and Exchange Act (FIEA), the fact that Japan's accounting standard-setting body and corporate accounting standards are incorporated into the framework of the FIEA serves as a useful reference case. The SSBJ, which has been established under the Financial Accounting Standards Foundation (FASF), is considered to meet the conditions for being incorporated into the framework of the FIEA. Going forward, it is important to develop necessary relevant laws, and regarding disclosure standards to be developed by the SSBJ, it is important to ensure comparability in terms of sustainability disclosure and provide information useful for investors by designating those standards as Japan's national standards for sustainability disclosure under a specific public notice.

In addition, discussion was held on third-party assurance regarding the contents of sustainability disclosure, and from the viewpoint of enhancing predictability concerning sustainability disclosure on behalf of companies and investors and steadily promoting practical preparations, a roadmap for implementation in Japan was presented.

(Figure 2) Outline of the report of the DWG (sustainability disclosure)

Outline of the report of the Working Group on Corporate Disclosure of the Financial System Council (sustainability disclosure) (published in December 2022)

- The DWG conducted deliberations on quarterly disclosure and sustainability disclosure, both of which were proposed as items for study in the June 2022 report. Regarding sustainability disclosure, the DWG adopted the following recommendations.

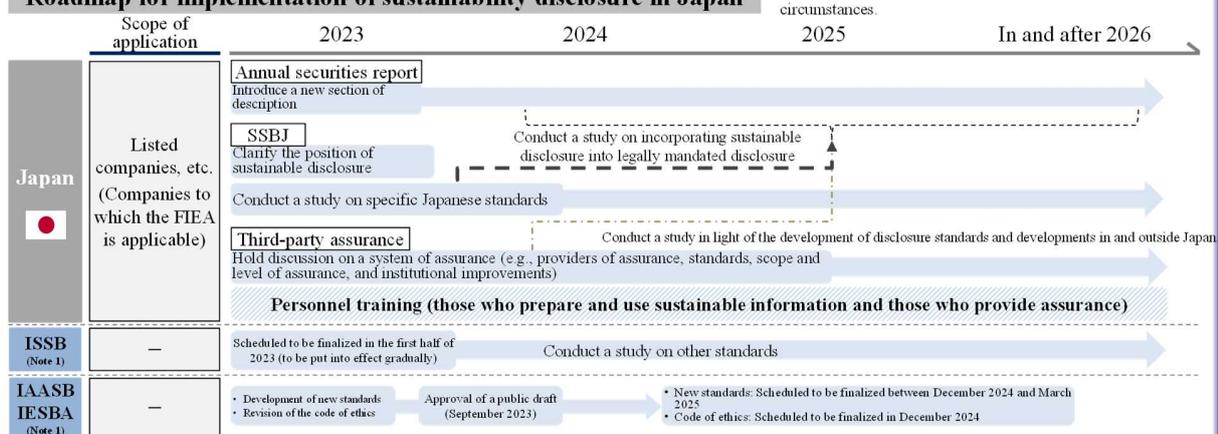
Sustainability disclosure

- The **Sustainability Standards Board of Japan (SSBJ)** and disclosure standards to be developed in the future should be **incorporated into the legal framework** (a matter requiring a cabinet order revision).
- Discussions should be held on the matters for future study (**sustainability disclosure standards** and **third-party assurance**^(*) regarding the contents of disclosure) and a **roadmap** for implementation.

*"Assurance" refers to a statement made by an independent third party as to whether the information provided is accurate in order to enhance information reliability.

Roadmap for implementation of sustainability disclosure in Japan

*May be revised as necessary subject to future changes in the circumstances.



(Note 1) ISSB: International Sustainability Standards Board; IAASB: International Auditing and Assurance Standards Board; IESBA: International Ethics Standards Board for Accountants

(Note 2) The United States is scheduled to start applying Scope 1 and 2 to large-size, early submission companies (companies that meet criteria such as a market capitalization of 700 million dollars or higher) in fiscal 2023 and to subsequently apply them to others gradually in accordance with company size.

Europe is scheduled to start applying the CSDR and the ESRS to companies with a workforce of 500 or more employees in fiscal 2024 and to subsequently apply them to others gradually in accordance with company size. In addition, application to non-EU companies with large net sales within the EU market is scheduled to start in fiscal 2028. Regarding third-party assurance, the United States and Europe are scheduled to first introduce limited assurance and then shift to reasonable assurance gradually in accordance with company size.

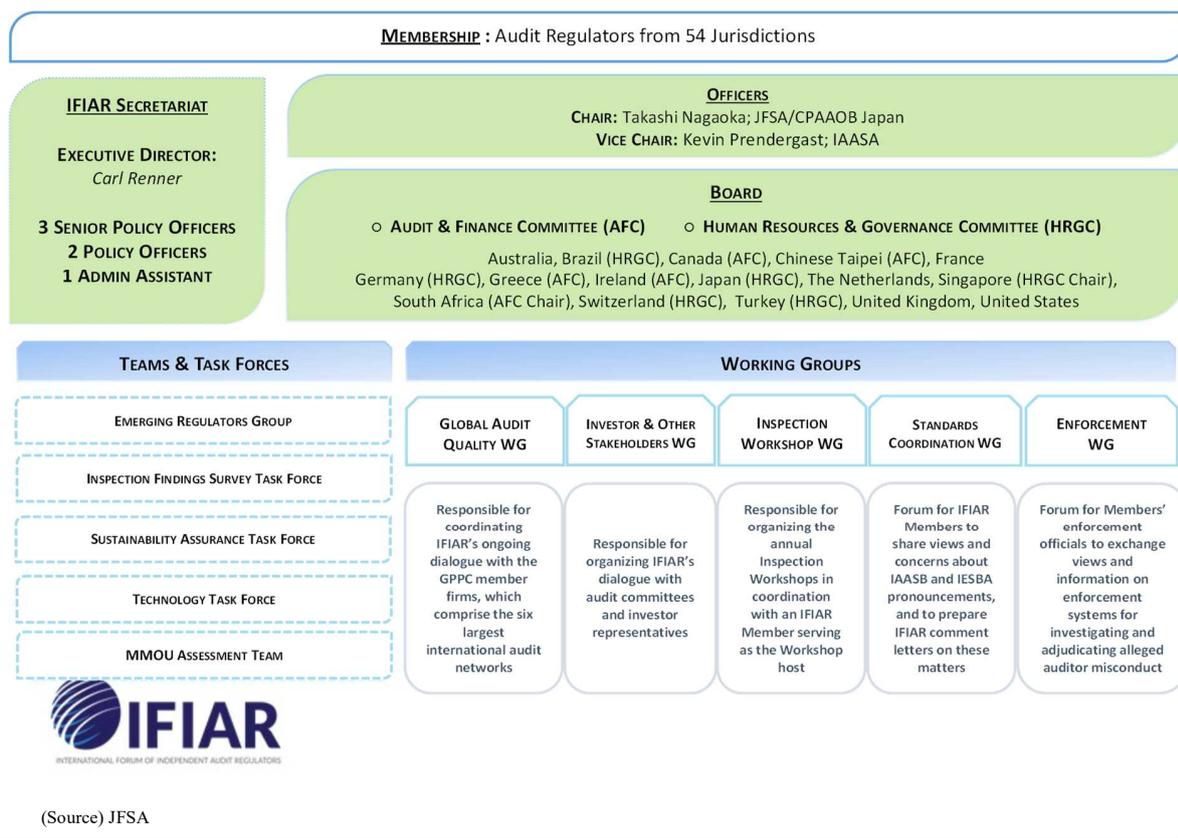
(Source) JFSA

Column 10: Contribution to International Discussions on Financial Supervision

(1) Appointment for New Chair of the International Forum of Independent Audit Regulators (IFIAR)¹²⁶

Audits ensure the reliability of companies' financial reports and constitute the basis that supports capital markets. The International Forum of Independent Audit Regulators (IFIAR),¹²⁷ which consists of audit regulators of individual jurisdictions, aims to enhance audit quality globally, and the importance of its activities is increasing from the perspective of sound development of global capital markets. Under such circumstances, at 2023 IFIAR Plenary meeting, which was held in Washington D.C. in the United States from April 25 to April 27, 2023, the incumbent Vice Chair, NAGAOKA Takashi, Deputy Commissioner for International Affairs at the JFSA and Secretary General of Certified Public Accountants and Auditing Oversight Board (CPAAB), was elected new Chair of IFIAR for a two-year term. This is the first time that the Chair was appointed from Asia since the establishment of IFIAR in 2006.

(Figure 1) Overview of IFIAR



¹²⁶ See the main text in II. 2. (3) Securing trust in the market.

¹²⁷ IFIAR is an international organization consisting of audit regulators of 54 jurisdictions and was established with the mission to serve the public interest, including investors, by enhancing audit oversight globally. It is the first international organization in the financial sector headquartered in Japan (the permanent secretariat was established in Tokyo in April 2017). IFIAR is endeavoring to enhance audit quality globally and eventually increase the fairness and transparency of capital markets through [i] sharing knowledge among the authorities and enhancing the capabilities of member jurisdictions and [ii] cooperating and having dialogue with internationally important parties related to audits. The JFSA and CPAAB are the foundation members of IFIAR and have also participated in the IFIAR Board, a decision-making body, since its establishment in 2017.

(i) Japan's past contributions to IFIAR

The JFSA established the IFIAR Strategy Planning Headquarters for the purpose of promoting strategic initiatives regarding IFIAR's activities. Together with the CPAAOB, the JFSA has continuously made active contributions to IFIAR's activities, as members of the Board and all WGs, through sharing knowledge among member authorities and having dialogue with parties related to audits. Mr. Nagaoka has supported the secretariat from the standpoint of the host country, and has assumed the offices of chair of a working group within IFIAR and Vice Chair of IFIAR. Those contributions made by Japan and Mr. Nagaoka to IFIAR's activities and organizational operations were highly evaluated, and thus, Mr. Nagaoka became the first IFIAR Chair appointed from an Asian jurisdiction.

(ii) Future policies

The JFSA will continue contributing to IFIAR's activities so that IFIAR can further grow as an international organization and can enhance audit quality globally. Also, the JFSA will endeavor to bring about concrete contributions so that IFIAR can further diversify the member composition through increasing members from emerging jurisdictions, including those in Asia. Squarely facing various challenges, such as the need to secure and foster auditors and provide ESG-related assurance, and aiming to enrich discussions on topics around audit quality by added member engagement and enhanced outreach as one of Mr. Nagaoka's focus during his chairmanship, the JFSA will take appropriate measures to emerging various challenges by seeking contributions and experiences from various members, including Japan.

(2) Hosting of the 2023 IAIS annual meetings¹²⁸

The 2023 annual meetings of the International Association of Insurance Supervisors (IAIS), which is a global standard-setting body for the supervision of the insurance sector, will be held in Tokyo from Monday, November 6 to Friday, November 10, 2023. It is the first time for Japan to host the annual meetings, which is the largest event for the IAIS. The outline of the Annual General Meeting and a series of associated meetings and major agenda are introduced below.

(i) Outline of the meetings during the event

Various committee meetings in charge of individual policy themes of the IAIS, the Executive Committee where major members deepen discussions on the IAIS's projects, and the Annual General Meeting where around 200 to 300 IAIS members gather from all over the world and make decisions on material issues are held.

¹²⁸ See the main text in IV. 1. (3) Strengthening the ability to advocate JFSA's policies as well as public relations at home and abroad.

As one of the characteristics of the IAIS Annual General Meeting, the Annual Conference with the participation of private sector stakeholders is also held. Every year, around 400 to 500 people, including private sector stakeholders, such as insurance companies, in addition to IAIS members, participate in the Annual Conference, which thus provides a valuable opportunity for participants to deepen discussions on challenges faced by the insurance sector across the world and trends to be noted (Figure 2).

(Figure 2) Annual Conference during the 2022 IAIS Annual General Meeting in Santiago



(ii) Major agenda

The IAIS's projects are diversified, including the formulation of the Insurance Capital Standard (ICS) targeting insurance groups that conduct business globally, the development of a policy framework for systemic risks in the insurance sector, and deliberations on ideal insurance supervision based on climate-related risks. The IAIS also discusses the expected roles of insurance supervisors in dealing with the protection gap for natural disasters, and plans to publish a report within this year. At the 2023 Annual Conference as well, these significant issues will be picked up as agenda.

(iii) Conclusion

Hosting the 2023 IAIS annual meetings will be of great significance to Japan, which has the world's leading insurance market. The JFSA, in cooperation with relevant organizations, will make its utmost effort in order to make this meeting an occasion for active exchange of opinions between insurance regulators and stakeholders from across the world and improve the international presence of Japanese insurance policies and insurance market.

Column 11: Promotion of Sustainable Finance¹²⁹

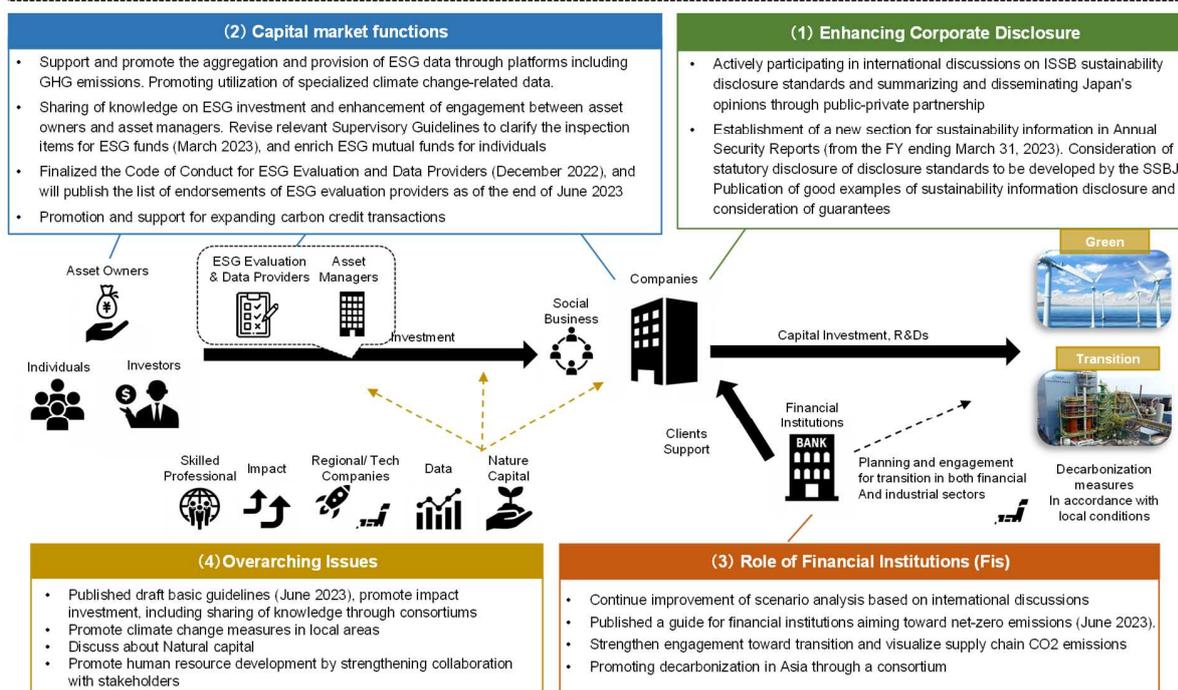
In order to promote sustainable finance, the JFSA established the Expert Panel on Sustainable Finance (EPSF) in December 2020. The EPSF has had discussions on three pillars—1) enhancement of corporate disclosure,¹³⁰ 2) demonstration of capital market functions, and 3) financial institutions' support for borrowers and investees and risk management—and further on the promotion of impact investment and skilled professionals as overarching issues. The EPSF had published reports twice so far,¹³¹ and compiled the third report subtitled "Enhancing Sustainable Finance" in June 2023¹³² (Figure 1).

Here, major outcomes concerning the three pillars and overarching issues are outlined.

(Figure 1) Whole picture of the JFSA's initiatives for sustainable finance

The 3rd Report by the Expert Panel on Sustainable Finance, Japan FSA

- Japan FSA's Expert Panel on Sustainable Finance is continuing discussions on measures to promote sustainable finance to encourage the transition to new industrial and social structures and to realize a sustainable society. In June 2023, the status of measures taken over the past year and future issues and measures were compiled and a report was published as follows:



(Source) JFSA

¹²⁹ See the main text in II. 3. Promotion of sustainable finance.

¹³⁰ See [Column 8](#) "Accelerating Corporate Governance Reform."

¹³¹ "'Report by the Expert Panel on Sustainable Finance' Announced" (published in June 2021)

<https://www.fsa.go.jp/en/news/2021/20210618.html>

"'The Second Report by the Expert Panel on Sustainable Finance' Announced" (published in July 2022)

<https://www.fsa.go.jp/en/news/2022/20220713.html>

¹³² "'The Third Panel Report by the Expert Panel on Sustainable Finance' Announced" (published in June 2023)

https://www.fsa.go.jp/en/news/2023/20230731_2.html

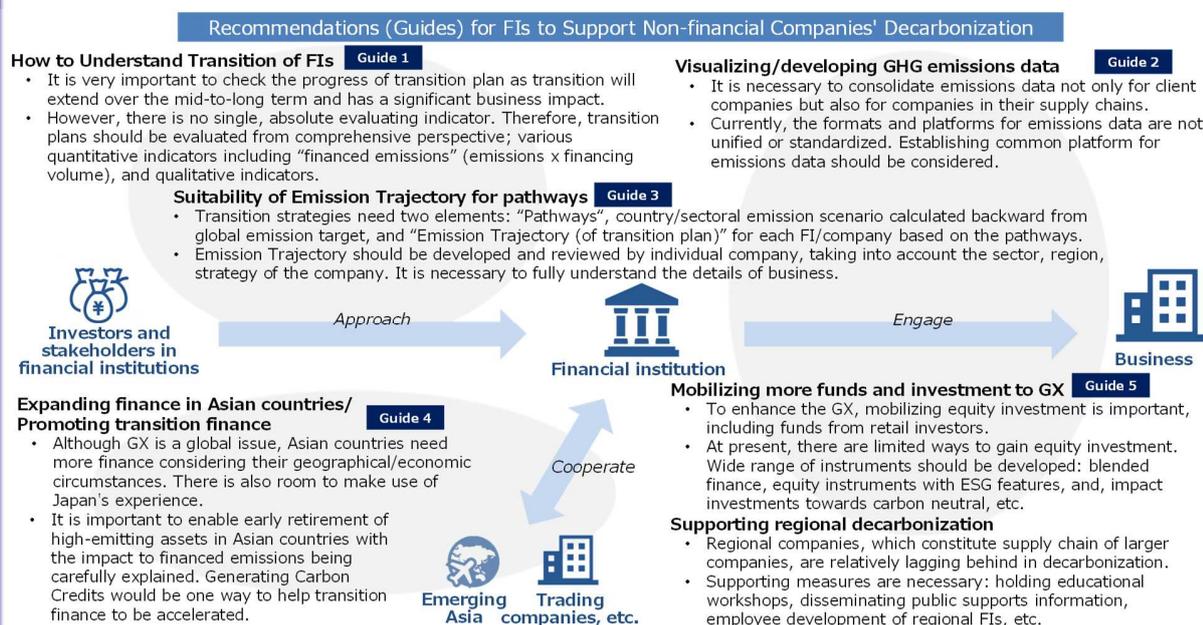
(1) Report of the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy

While moves for achieving carbon neutrality by 2050 are accelerating in and outside of Japan, the importance of financial institutions' efforts toward decarbonization is increasing. The JFSA published the "Supervisory Guidance on Climate-related Risk Management and Client Engagement" in July 2022. Based on the perspective that responses to climate change may have a significant impact future business growth and sustainability of both financial institutions and client companies, the Guidance points out that it is important for financial institutions to provide the support for their client companies through purposeful and constructive dialogue (engagement).

On the other hand, strategic considerations toward decarbonization for financial institutions are still in the process of trials. Based on the concepts incorporated in the Guidance, the JFSA established the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy in October 2022 from the perspective of promoting effective engagement between financial institutions and client companies.

The report of the Working Group published in June 2023¹³³ compiles points to be deliberated on by financial institutions that aim to achieve Net zero through dialogues with their clients as the Working Group's recommendations (guides) (Figure 2).

(Figure 2) Outline of the Report of the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy



¹³³ "The Third Report by the Expert Panel on Sustainable Finance' Announced" (published in June 2023) https://www.fsa.go.jp/en/news/2023/20230731_2.html

(2) Draft Basic Guidelines on Impact Investment

Impact investment is expected to encourage support for companies that are endeavoring toward implementation of new technologies and transformation of business models contributing to solving social and environmental issues and is attracting attention domestically and internationally.

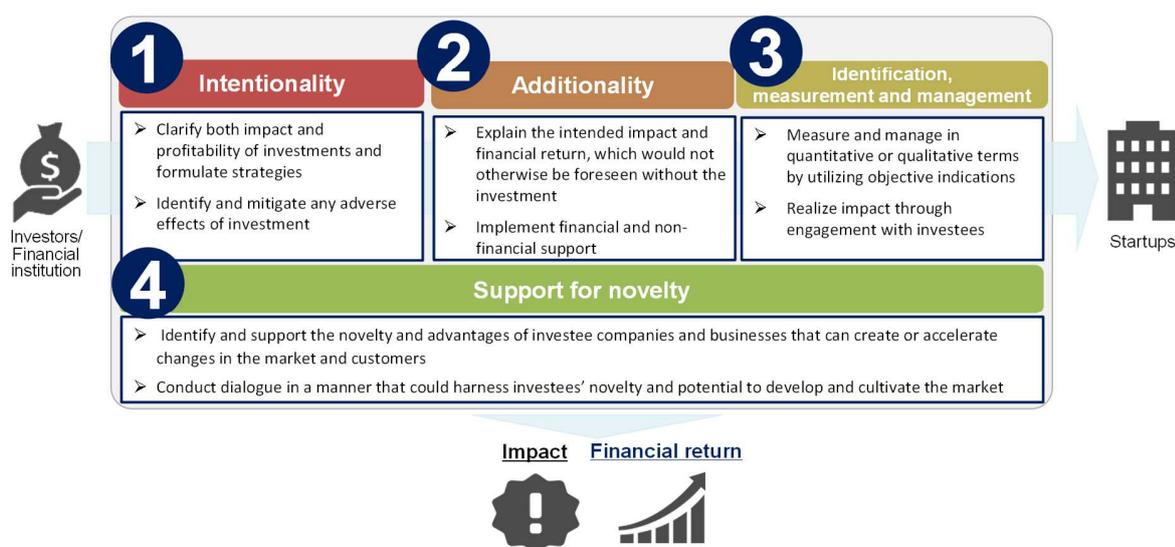
On the other hand, it is pointed out that in Japan, it is sometimes difficult for companies and businesses that have social or environmental impacts but require a longer period of time to achieve financial return to gain an understanding on their business potential and to receive financial and business supports. Accordingly, the JFSA established the Working Group on Impact Investment in October 2022 for the purpose of discussing the roles of impact investment and issues for its encouragement while referring to trends and examples regarding impact investment in and outside of Japan. The outcomes of the discussions were compiled and published as a report in June 2023.

From the perspective of fostering a common understanding regarding impact investment among market players and promoting practical investments, the report compiles the basic concept and principles of impact investment as the Draft Basic Guidelines (Figure 3).

Principles in the draft guidelines are to be flexibly and continuously improved and expanded in light of future market developments. Furthermore, Japan's Impact Consortium will be established as a platform for dialogue among diverse stakeholders to discuss, for example, on impact indicators, investment case studies, and methods for supporting companies.

(Figure 3) Outline of the Draft Basic Guidelines on Impact Investment

- Objective: To **foster a common understanding** of the basic concept and processes of impact investment
- Scope: Regardless of the types of investees, investors entity or asset classes
- Nature: **Principle-based**, to encourage a wide range of creativity and ingenuity, in light of developing nature of the market
- Principles: **(i) Intentionality (ii) Additionality (iii) Identification, measurement and management (iv) Support for novelty**



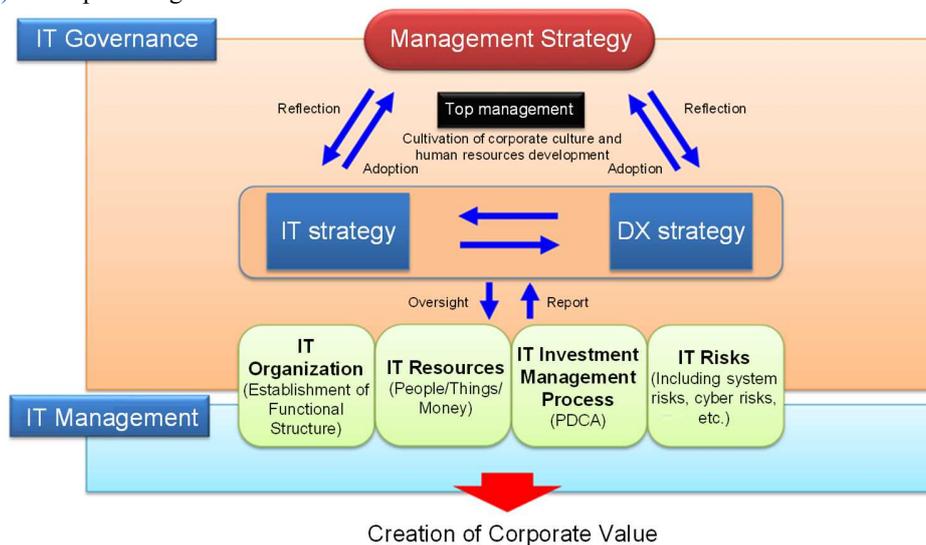
(Source) JFSA

III. Ensure Stability and Confidence in the Financial System

Column 12: Issues of Discussion Concerning Financial Institutions' IT Governance¹³⁴

To maintain a sustainable business model, it is increasingly necessary for financial institutions to consider business strategies and IT strategies in an integrated manner. It is also important to develop and enhance IT systems in accordance with users' needs. "IT governance" as defined by the JFSA refers to the whole of a framework to create corporate value through coordination between IT and business strategies under the leadership of the top management. IT governance includes not only internal controls but also the execution of a growth strategy to improve business profitability.

(Figure 1) Concept of IT governance



(Source) JFSA

In June 2019, the JFSA published a discussion paper (DP)¹³⁵ that summarized issues of discussion in dialogue with financial institutions about IT governance and presented example cases regarding the exercise of IT governance. Based on the approaches described in the DP, the JFSA has continued constructive dialogue with financial institutions. Through the dialogue, the JFSA found that there have been changes in the situation of IT governance, including the progress made in financial institutions' digital transformation (DX) initiatives. In light of the finding, in June 2023, the JFSA published the second version of the DP, which described approaches and viewpoints relating to DX.¹³⁶

Among the basic approaches and viewpoints for holding in-depth dialogue with financial institutions that are described by the second version of the DP are: (i) leadership of top management, (ii) IT strategy and DX strategy linked to management strategy, (iii) IT organization and DX promotion organization that implement IT strategy, (iv) optimized IT resources, (v), IT investment management process that leads to the creation of corporate value, and (vi) properly managed IT risks (Figure 2).

¹³⁴ See the main text in III. 1. (1) Strengthening business bases and ensuring soundness.

¹³⁵ "Publication of the finalized 'Discussion Paper on Dialogues and Practices Regarding Financial Institutions' IT Governance"
<https://www.fsa.go.jp/en/news/2019/20191028-3.html>

¹³⁶ "Publication of the results of the public comments on the revision (draft) of the 'Discussion Paper on Dialogues and Practices Regarding IT Governance at Financial Institutions'"
<https://www.fsa.go.jp/news/r4/sonota/20230630/20230630.html> (Available in Japanese)

(Figure 2) Approaches and viewpoints relating to IT governance



(Source) JFSA

For example, it is important for top management to provide leadership and enhance opportunities and motivation toward the achievement of DX strategy, while obtaining trust and understanding from stakeholders through such means as continuing to provide information on the strategy. Top management needs to give consideration to the reduction and management of information security risks (including cybersecurity risk), which is the very premise for enjoying the benefits of the utilization of digital technology.

The JFSA will continue to keep track of the actual status of financial institutions' IT governance through dialogues intended to pursue best practices and also promote financial institutions' voluntary efforts by reminding them of issues that may tend to create problems.

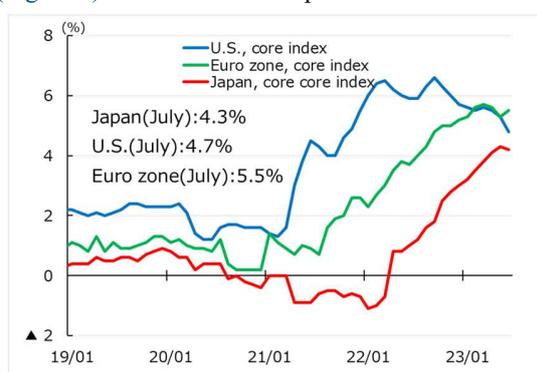
Column 13: Current Financial and Economic Situations¹³⁷

The global economy continues to experience underlying inflationary pressures due to factors such as tight labor supply-demand balance (Figure 1). Although the economic conditions remain resilient, uncertainty over the global economy outlook has been increasing as central banks abroad have rapidly tightened monetary policy in order to contain inflation.

As for financial market, interest rates have risen globally (Figure 2), while the Japanese yen has continued to depreciate against the dollar and the euro, affecting the rise in domestic prices (Figure 3). Japanese stock prices have stayed steady, with the Nikkei Stock Average and the Tokyo Stock Price Index (TOPIX) recently rising to their highest levels since 1990 (Figure 4). Furthermore, against the backdrop of monetary easing, domestic real estate prices have also been rising (Figure 5). The post-COVID-19 normalization of economic activity has progressed, and this led to an increase in corporate profits as a whole (Figure 6), while the number of bankruptcies has recently been increasing (Figure 7).

Under these circumstances, the JFSA will identify and analyze the impact of financial market fluctuations on the financial system and financial institutions while keeping a close watch over economic, price, and monetary policy developments inside and outside Japan.

(Figure 1) Core¹³⁸ consumer price index trends



(Note) Year-on-year change

(Source) Prepared by the JFSA from Bloomberg

(Figure 2) 10-year government bonds yield trends



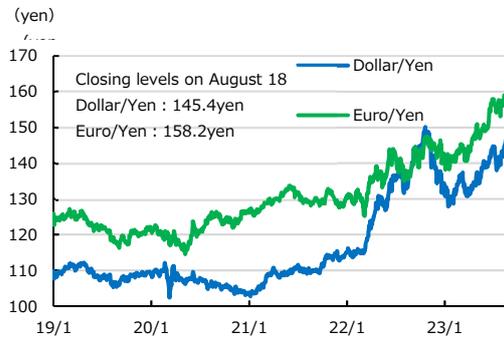
(Source) Prepared by the JFSA from Bloomberg

¹³⁷ See the main text in III. Ensure Stability and Confidence in the Financial System.

The description in this column is based on the data and information basically as of late August 2023.

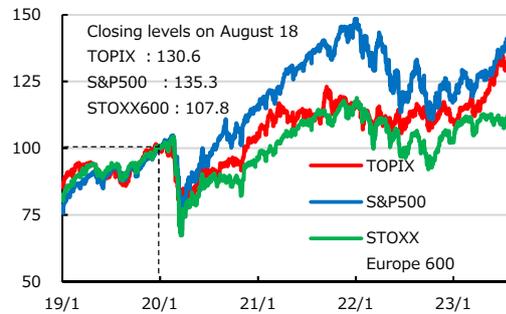
¹³⁸ Excluding food and energy. The figures for Japan represent the core-core index (excluding fresh food and energy)

(Figure 3) Foreign exchange market trends



(Source) Prepared by the JFSA from Bloomberg

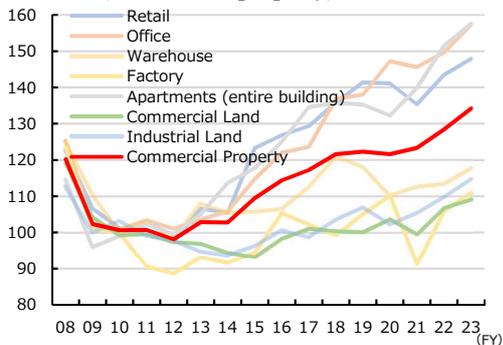
(Figure 4) Stock index trends in developed countries



(Note) 100 for January 1, 2020.

(Source) Prepared by the JFSA from Bloomberg

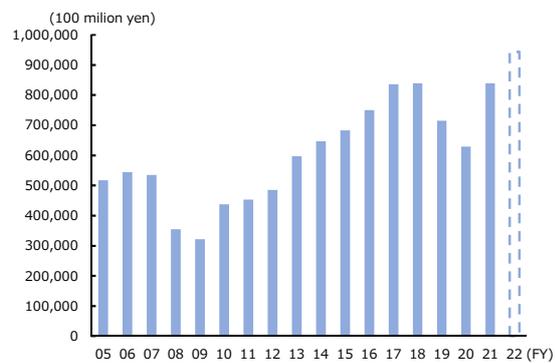
(Figure 5) Property price index trends (commercial property)



(Note) 100 for the average of 2010.

(Source) Prepared by the JFSA from "Property Price Index," Ministry of Land, Infrastructure, Transport and Tourism

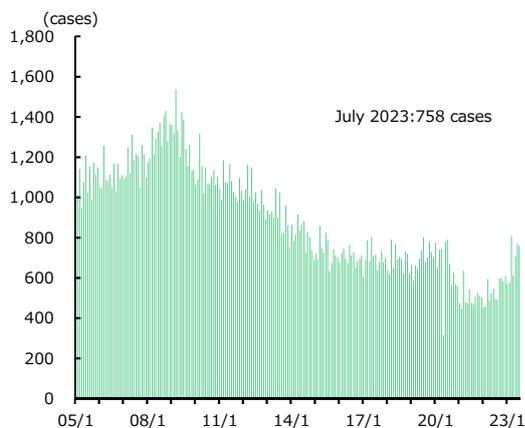
(Figure 6) Ordinary profits trends of non-financial corporations



(Note) The figures for the period until FY2021 are those based on annual surveys, while the figure for FY2022 represents the simple aggregation of figures based on quarterly surveys.

(Source) Prepared by the JFSA from "Financial Statements Statistics of Corporations by Industry," Policy Research Institute, Ministry of Finance, Japan

(Figure 7) Bankruptcies trends



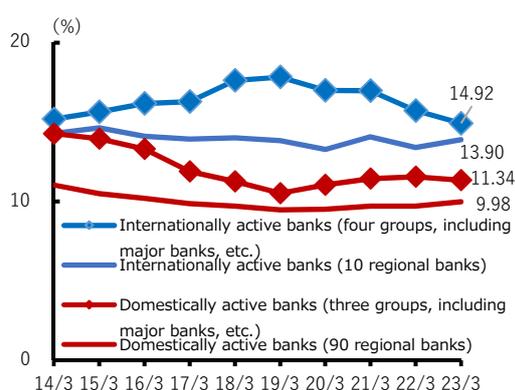
(Source): Prepared by the JFSA from Tokyo Shoko Research, "Corporate bankruptcies Nationwide."

Column 14: Assessment of Financial Institutions' Soundness¹³⁹

The capital adequacy ratios for banks—the center of Japan's financial system—have remained well above regulatory minimum levels (Figure 1). In addition, their non-performing loan ratios have stayed low (Figure 2). In this way, Japan's financial system is generally stable.

On the other hand, since the outlook of financial, economic, and global situations remains uncertain, the JFSA continuously needs to assess risks that may have impacts on the soundness of financial institutions.

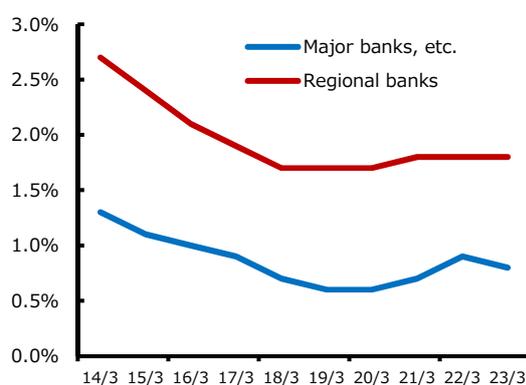
(Figure 1) Changes in the capital adequacy ratio



(Note) The capital adequacy ratios for major banks, etc. were calculated on a group consolidated basis and the capital adequacy ratios for regional banks were calculated on a non-consolidated basis. The current regulatory minimum level is 10.5% for internationally active banks and 4.0% for domestically active banks.

(Source) JFSA

(Figure 2) Changes in the non-performing loan ratio

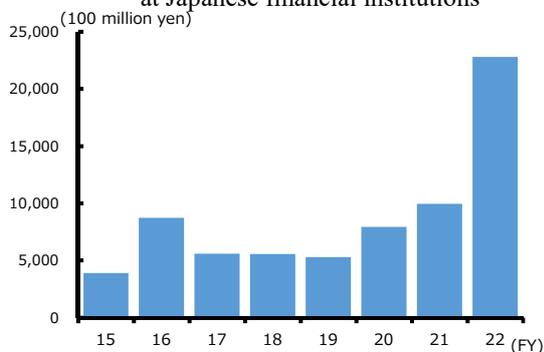


(Source) JFSA

(1) Market operation and funding risk

Global interest rate hikes have led to mark-to-market losses and losses on sales of bonds held by financial institutions (Figure 3). As for the foreign currency funding environment, funding costs have remained high (Figure 4). Under these circumstances, attention must be paid to the possibility that future monetary policy actions in each country could have an impact on financial institutions' market-based fundraising.

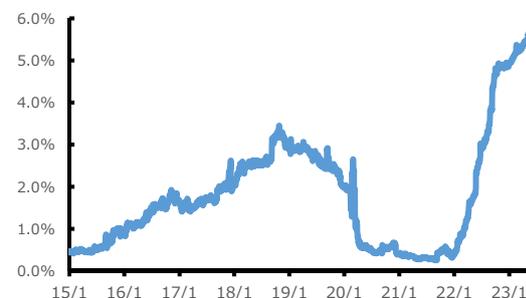
(Figure 3) Losses on sales of government bonds, etc. at Japanese financial institutions



(Note) The above data cover major banks, etc. and regional banks.

(Source) JFSA

(Figure 4) Changes in the 3-month dollar fundraising cost



(Note1) Due to the termination of Libor, the cost since January 2022 is computed on a risk-free rate basis.

(Note 2) The latest cost is for July 5, 2023.

(Source) Prepared by the JFSA from Bloomberg

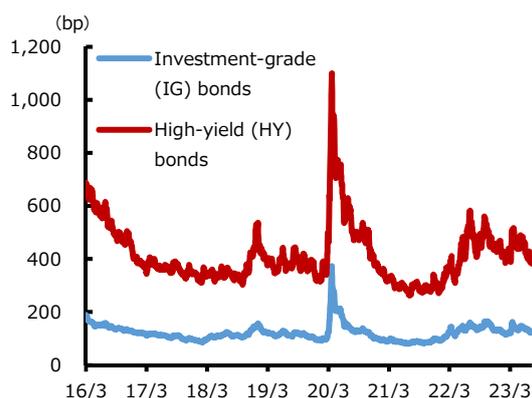
¹³⁹ See the main text in III. 1. (1) Strengthening business bases and ensuring soundness.

The widening of the credit spread and the downtrend in prices of collateralized loan obligations (CLOs) and leveraged loans in the first half of 2022 have subsided (Figures 5 and 6). On the other hand, investments in credit markets account for substantial portions of some financial institutions' portfolios, so if credit risk increases, that could affect their financial performance.

Major banks and some other financial institutions have secured sufficient liquidity for the moment. However, in light of the banking-sector turmoil that occurred in the spring of 2023 in Europe and the United States, it is important for financial institutions to take steps to verify the sufficiency of liquidity once again, including response to changes in the business environment that have not until now entered their consciousness.

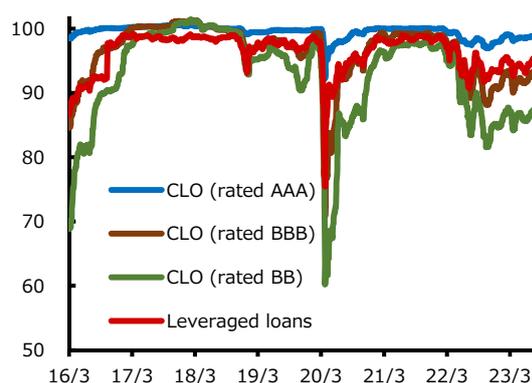
The JFSA will accurately identify the impact that changes in financial markets may have on financial institutions' soundness and foreign currency fundraising through the analysis of data. At the same time, it will hold dialogue with financial institutions across various sectors of the financial industry about their policies for market operation and fundraising as well as risk management and, as necessary, encourage them to develop more advanced risk management arrangements.

(Figure 5) U.S. corporate bond spread



(Note) The latest data are for July 12, 2023.
(Source) Prepared by the JFSA from Bloomberg

(Figure 6) CLOs/leveraged loan prices



(Note) The latest data are for July 12, 2023.
(Source) Prepared by the JFSA from Bloomberg

(2) Risk of rising credit costs

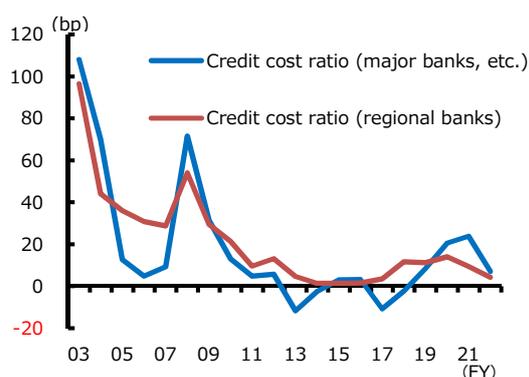
Credit cost ratios have been smaller than the long-term average as defaults in Japan have been limited to low levels (Figure 7). On the other hand, the debtor category downgrades of some large debtors have had some impact on financial institutions' earnings.

By credit type, the overall outstanding balance of domestic real estate loans is increasing. In addition, major banks have been proactively providing leveraged buyout (LBO) loans, reflecting growing demand for funds for business restructuring in Japan (Figure 8). Given the ongoing trends, such as the expansion of the LBO loan market and the increasing size of LBO loans, appropriate risk management and risk diversification have emerged as challenges.

The amount of loans provided by major banks to foreign borrowers is on an uptrend. In particular, regarding overseas project finance (Figure 9), in which Japanese banks have a significant presence, it is important to appropriately manage risks in consideration of the tendency to hold exposures over the long term. Furthermore, as major banks actively engage in financing for foreign investment funds and undertaking LBO loans using their relationships with foreign investment funds, it is important for them to formulate a policy for risk-taking in those fund-related businesses and develop risk management arrangements in line with that policy while giving consideration to the market environment.

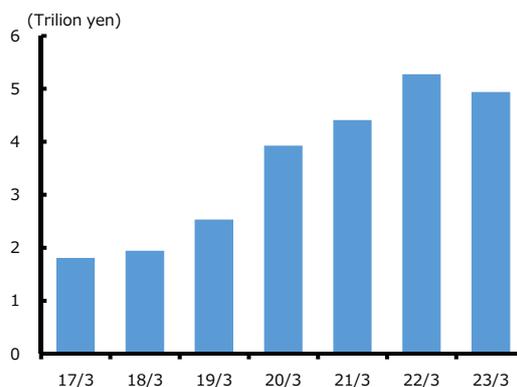
While monitoring the impacts of financial, economic, and global environments on companies' earnings, fund demand and debt repayments regarding financial institutions' domestic and overseas credits, the JFSA will engage with these financial institutions on their credit risk management and group-wide arrangements and encourage them to enhance such arrangements as necessary.

(Figure 7) Changes in the credit cost ratio



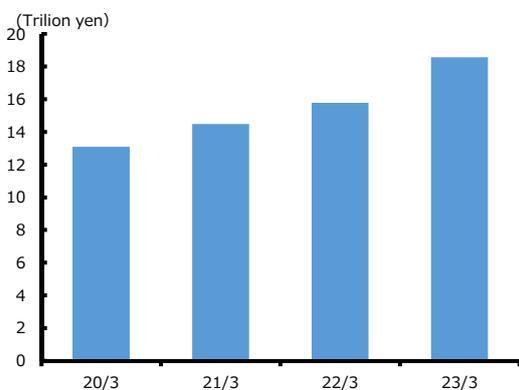
(Source) JFSA

(Figure 8) Outstanding balance of domestic LBO loans at major banks



(Source) JFSA

(Figure 9) Outstanding balance of overseas project finance at major banks



(Source) JFSA

Column 15: Response to the U.S. Banking-Sector Turmoil This Spring¹⁴⁰

Since March 2023, the failures of several banks occurred in the United States, causing turmoil in the banking sector. The announcement of asset sales by Silicon Valley Bank on March 8 triggered rapid deposit withdrawals and stock price plunges, mainly at the bank and other banks in a similar situation. Some banks subsequently failed. In financial markets, risk-aversion trend spreads worldwide.

(1) Analysis of the factors behind the banking failure

The factors behind the banking failure presumably differ from bank to bank. With regard to Silicon Valley Bank, which became the epicenter of the banking-sector turmoil, the following issues were pointed out in a report¹⁴¹ compiled by the U.S. authority.

- Amid growth in bank's size and complexity under the low interest rate environment following the COVID-19 crisis, the bank's board of directors and management teams failed to manage their risk and build effective governance.
- The supervisors also did not fully appreciate the extent of banks' vulnerabilities. In addition, when they identified the vulnerabilities, the supervisory did not take sufficient step to ensure that the bank fixed those problems quickly enough.
- The easing of U.S. financial regulations impeded effective supervision by the FRB.

The report also pointed out that the outflows of uninsured deposits (types of deposits which are not covered by deposit insurance)¹⁴² experienced by Silicon Valley Bank reflected fundamental concerns about the bank and appear to have been sparked by a number of interrelated factors:

- Heightened uncertainty and changing sentiment around the technology sector
- Potential of negative action from credit rating agencies
- Highly correlated withdrawals from the bank's concentrated network of VC investors and technology firms (withdrawals of uninsured deposits fueled by social media and implemented in a coordinated manner at an unprecedented rate).

The situation of Japanese financial institutions is considered to be different from that of the failed U.S. banks; small retail deposits are majority in general. Furthermore, Japanese financial institutions generally have ample liquidity and capital.

¹⁴⁰ See the main text in III. 1. (1) Strengthening business bases and ensuring soundness.

¹⁴¹ FRB "Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank" (published on April 28, 2023)

¹⁴² According to the report, on March 9, deposits totaling 40 billion dollars were withdrawn and additional deposits totaling more than 100 billion dollars were expected to be withdrawn on March 10. According to a document disclosed by the bank, its outstanding balance of deposits was 170 billion dollars as of the end of December 2022.

However, the great change of the environment surrounding the financial sector is not merely a problem of the failed banks but also a common challenge faced by countries including Japan. Bearing in mind various potential risks, the JFSA will keep a close watch on the financial and economic situations at home and overseas, and on the impact on the financial system. The JFSA will also continue to monitor financial institutions' risk management arrangements with a high level of vigilance.

(Figure 1) Comparison between the three failed U.S. banks and Japanese banks

	Silicon Valley Bank (as of the end of December 2022)	Signature Bank (as of the end of December 2022)	First Republic Bank (as of the end of December 2022)	Japanese banks as a whole (as of the end of December 2022)
Growth rate of deposit since December 2019	+180%	+119%	+96%	+17%
Cash to deposit ratio	8%	7%	2%	34%
Securities holding ratio	57%	24%	15%	17%
Retail deposit ratio	—	8%	37%	58%
Deposit insurance coverage ratio	12%	10%	32%	60%

(Note 1) The data of the retail deposit ratio and the deposit insurance coverage ratio of Japanese banks are as of the end of March 2023.

(Note 2) The outstanding balance of deposits of Japanese banks includes certificates of deposit.

(Note 3) Retail deposit: The figure for "personal deposits" was used for Signature Bank and the figure for "consumer deposits" was used for First Republic Bank. The official figure for Silicon Valley Bank could not be confirmed.

(Note 4) The formula for calculating the deposit insurance coverage ratios of Japanese banks is shown below (for the formula for the U.S. banks, disclosures by them were referred to).

The deposit insurance coverage ratio = (the outstanding balance of deposit accounts for settlement + the outstanding balance of deposit accounts with 10 million yen or less per depositor after collation of accounts held by the same person + the number of deposit accounts with the outstanding deposit balance of more than 10 million yen after collation of accounts held by the same person x 10 million yen)/the total outstanding balance of deposits

(Source) U.S. banks: Disclosures by each bank; Retail deposit ratio and Deposit insurance coverage ratio of Japanese banks: JFSA; other items of Japanese banks: prepared by the JFSA from "Financial Institutions Accounts," Bank of Japan.

(2) Trends in international discussions

The Financial Stability Board (FSB), which is under the G20, and other organizations, have drawn lessons from the recent banking turmoil and reprioritized their work program in order to enhance the resilience of the financial system.

Specifically, the Basel Committee on Banking Supervision (BCBS) announced in June that it would continue to examine the supervisory and regulatory implications stemming from the recent turmoil, including those regarding the strengthening of supervisory effectiveness, liquidity risk management, and interest rate risk in the banking book.

Furthermore, the FSB announced in July that it had reprioritized its work program in order to draw out lessons and policy implications from the recent series of incidents. The FSB indicated that going forward, it will focus on the interaction between interest rate and liquidity risk across the financial system, the role of technology and social media in deposit runs, and drawing out initial lessons for the resolution framework.

The JFSA will actively contribute to international discussions and also, if necessary, take appropriate actions based on the results of discussions.

Column 16: Status of Sales Companies' Efforts Concerning Customer-Oriented Business Conduct¹⁴³

In order to promote customer-oriented business conduct by financial institutions, the JFSA published "Results of Monitoring of Customer-Oriented Business Conduct by Sales Companies Handling Risk-involving Financial Instruments"¹⁴⁴ in June 2023. This report set forth the challenges faced by sales companies that have been recognized through monitoring. The following is a summary of the major challenges recognized.

(1) Product governance arrangements

Sales companies need to introduce risk-involving financial instruments and identify their target customer base. At the same time, they need to develop robust product governance arrangements, such as modifying or abolishing products as necessary after conducting an ex-post review of the characteristics of introduced products based on sales results. Regarding internet trading in particular, it is important to develop a framework that enables customers to choose products that suit their true needs.

However, as was typically observed in the case of structured bonds, many intensively monitored sales companies¹⁴⁵ failed to conduct an adequate review with respect to the following points:

- (i) The level of risk involved in financial products introduced
- (ii) The rationality of the risk involved relative to the return expected by the customer
- (iii) The relationship between the whole of costs incurred by the customer and the expected return

When sales companies plan to introduce products whose risk profiles are different from the profiles of products that they currently handle, their management teams need to involve themselves in decision-making as to whether or not those products should be introduced in light of their customer bases and their policies for customer-oriented business conduct.

(2) Sales and management arrangements regarding risk-involving financial instruments

(i) Structured bonds

Sales companies need to review the risk-return relationship from the viewpoint of securing the best interests for customers and revise the characteristics of products so as to enable customers to earn a return commensurate with the risk involved. Furthermore, they need to make proposals to customers while providing information necessary for making investment decisions, such as the risk, return, and cost, in comparison with other risk-involving financial instruments and carefully explain the risk profiles and other characteristics.

¹⁴³ See the main text in III. 1. (2) (i) Customer-oriented business conduct.

¹⁴⁴ "Results of Monitoring of Customer-Oriented Business Conduct by Sales Companies Handling Risk-involving Financial Instruments (PY2022)"(published in June 2023)
https://www.fsa.go.jp/news/r4/kokyakuhoni/fdreport/fd_202306.html (Available in Japanese)

¹⁴⁵ Sales companies that were subjected to risk-based intensive monitoring based on sector-by-sector sales trends of risk-involving financial instruments and the amount of sales of such products by individual companies relative to their company size.

However, many intensively monitored sales companies focused on securing profits and sold structured bonds even to asset-building investors whose risk tolerance level was low without sufficiently reviewing their target customer base and product characteristics. As a result, some of those companies received many complaints.

(ii) Foreign currency-denominated single-premium insurance

Sales companies need to accurately identify customers' needs, such as investment, insurance coverage, and inheritance, conduct a review as to whether single premium insurance is the product best suited to the needs and carefully explain to customer's product characteristics and risk profiles. In the case of customers who can sufficiently understand product characteristics, it is also necessary to make proposals and sell products on the premise of long-term holding. However, at many intensively monitored sales companies, the following problems were recognized with respect to sales activities classified by purpose.

Sales purpose	Problems related to sales arrangements
Investment	Failed to explain products in comparison with other financial products with respect to the risk, return, cost, etc.
Insurance coverage	Caused the coverage periods of target-type insurance products to expire prematurely by having the contracts cancelled after the achievement of the targets.
Inheritance	Set the insurance payout amount at a level far higher than the non-taxable threshold at the time of contracting

(3) Appropriate motivation for employees

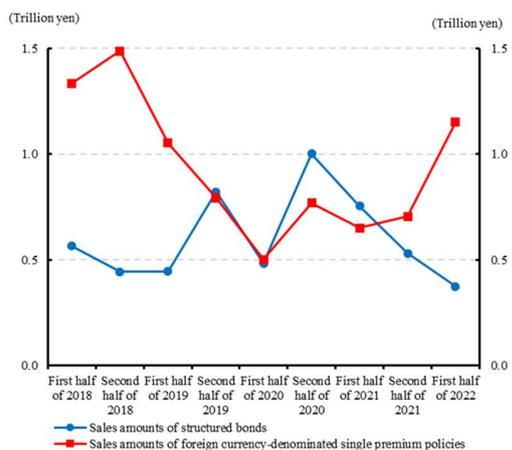
For sales companies to promote customer-oriented business conduct, top management and the second and third lines of defense, not to mention the first line, need to continuously conduct a review as to whether the employee performance evaluation system is designed to encourage sales personnel to behave in line with the policy for customer-oriented business conduct and how the behavior of sales personnel changes as a result of the revision of the performance evaluation system.

However, at many intensively monitored sales companies, sales personnel devoted efforts to sales of foreign currency-denominated single-premium insurance products and structured bonds with high sales commissions because the sale of those products was given a high weighting in the evaluation of individual employees, although the companies were upholding the principle of providing customer-oriented consulting by adopting a performance evaluation system that does not place excessive emphasis on profit under the policy for customer-oriented business conduct (Figures 1 and 2).

In addition, to propose financial products suited to customers' true needs, sales companies need to develop training programs and personnel management systems that enable sales personnel to acquire the professional skills necessary for making such proposals. If that cannot be done, it is necessary to take account of sales personnel's experiences and limit the scope of financial products handled by sales personnel to products that they can explain with their existing skills.

However, at many intensively monitored sales companies, training was provided only as a matter of formality. In addition, at some intensively monitored sales companies, sales personnel appeared not to have a sufficient understanding of product characteristics because of the excessively broad product lineup.

(Figure 1) Changes in the sales amounts of structured bonds and foreign currency-denominated single-premium policies



(Note) Total of sales amounts for "major banks, etc." and "regional banks"
 (Source) JFSA

(Figure 2) Correlation between percentage of sales of foreign currency-denominated single premium policies and performance evaluation

Distributors where the percentage of sales of foreign currency-denominated single premium policies is high			
Item	Bank A	Bank B	Bank C
Percentage of sales	Nearly 100%	Nearly 100%	More than 90%
Performance evaluation (Revenue goal)	2.5 to 4 times for foreign currency-denominated ones compared to yen-denominated ones	Sales fees	3 times for foreign currency-denominated ones compared to yen-denominated ones

⇓

Distributors that sell yen-denominated insurance policies and foreign currency-denominated insurance policies in a relatively well-balanced manner			
Item	Bank D	Bank E	Bank F
Percentage of sales	More than 40%	60%	Nearly 70%
Performance evaluation (Revenue goal)	No difference between foreign currency-denominated ones and yen-denominated ones	No difference between foreign currency-denominated ones and yen-denominated ones	No setting

(Note) The percentage of sales refers to the percentage accounted for by the sales of foreign currency-denominated single premium policies among the total insurance sales for the first half of FY2022.

The JFSA expects that sales companies will exercise resourcefulness and compete with each other in providing high-quality financial products and services under a customer-oriented approach in pursuit of their respective best practices. In the current program year as well, the JFSA will encourage sales companies to make such efforts and also conduct monitoring as to whether they have developed sales and management arrangements that pursue the best interests for customers.

Column 17: Balancing the Increasing of User Convenience and Enhancement of AML/CFT/CPF Measures and Crime Damage Prevention¹⁴⁶

Financial institutions are required to provide highly convenient financial services to all users in accordance with their respective needs.

On the other hand, in order to prevent crime damage, it is necessary to implement measures for anti-money laundering, counter financing of terrorism and counter-proliferation financing (AML/CFT/CPF), and countermeasures against specialized fraud and illegal remittances. Therefore, when opening accounts or making money transfers, some users may be unable to receive financial services smoothly in some cases because additional procedures and authentication take time.

Balancing the increasing of user convenience and enhancement of AML/CFT/CPF measures and crime damage prevention poses a challenge to financial institutions.

It is important for financial institutions to make further resourceful efforts when addressing this challenge. In particular, with respect to the handling of such customers as foreign nationals and elderly people, although the current status of handling is as described below, efforts should be continued to provide careful explanations and otherwise handle them in an appropriate manner.

(1) Handling of foreign customers

From the viewpoint of increasing convenience for foreign customers, financial institutions have continued to engage in resourceful initiatives related to the provision of multilingual services and the development of necessary organizational systems. "Example Cases of Initiatives Related to Handling of Foreign Customers," which was published by the JFSA in June 2021, cited the following specific initiatives:

- Make it possible to fill in and print applications for account opening through a website providing multilingual information, thereby enabling foreign customers to smoothly implement procedures when they visit a branch
- Implement procedures for groups of foreign students and technical intern trainees at the same time in cooperation with host universities and companies
- Use SNS to widely disseminate easy-to-understand information on the specifics of services

On the other hand, in the case of foreign customers whose account transactions are expected to be terminated in the future for reasons such as their return to home countries, there is the risk that their accounts could be sold and misused for financial crime. Therefore, from the viewpoint of crime damage prevention, financial institutions implement additional procedures, such as continual checks on foreign customers' current residency status and the scheduled expiry date of their residency. The implementation of additional procedures may prevent the smooth provision of financial services to foreign customers in some cases.

¹⁴⁶ See the main text in III. 1. (2) (ii) User-friendly financial services.

(Figure 1) A flier providing explanations about the documentation requirements at the time of account opening (prepared in 14 languages)



(Source) Japanese Bankers Association

(Figure 2) A communication board for use at counters of financial institutions



(2) Handling of elderly customers

With respect to the handling of elderly customers, financial institutions conduct customer-oriented business conduct in accordance with the various challenges and the needs faced by those customers, including day-to-day asset administration, inheritance, and dementia assistance.

On the other hand, as cases of damage caused to elderly people by specialized fraud, such as "furikome" fraud, are increasing as a trend,¹⁴⁷ protecting elderly customers against that risk is an urgent challenge. From the viewpoint of protecting elderly customers, financial institutions impose some restrictions on financial services for elderly customers¹⁴⁸ as follows, in addition to making basic efforts, such as routinely communicating with visiting elderly customers, including calling for refraining from using a mobile phone near ATM booths.

- Impose restrictions on withdrawals and money transfers that may be made via ATM in accordance with the status of crime damage
- Detect accounts through which unnatural patterns of money transfer that raise suspicions that damage may be caused by specialized fraud and impose restrictions on transactions

Implementation of measures to prevent crime damage may undermine convenience for elderly customers in some cases.

(Figure 3) Status of recognized damage caused to elderly people (those who are aged 65 or older) in specialized fraud cases

Percentage of elderly people as fraud victims by fraud type	Total		"It's me fraud"		Deposit and saving fraud		Billing fraud		Refund fraud		Cash card theft by fraud		Other special fraud	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
	3,555	11,559	798	3,412	209	2,124	830	764	1,262	2,623	417	2,621	39	15
	20.4%	66.2%	18.6%	79.6%	8.8%	89.9%	28.4%	26.2%	27.5%	57.2%	13.6%	85.3%	17.4%	6.7%
	86.6%		98.2%		98.7%		54.6%		84.8%		98.8%		24.1%	

(Source) National Police Agency: Status of Specialized Fraud Cases Recognized and Arrests Made in 2022

¹⁴⁷ Although cases of damage caused by specialized fraud, such as "furikome" fraud, temporarily decreased under the COVID-19 crisis, they started to increase again in 2022. Most of the victims in those cases are people aged 65 or older.

¹⁴⁸ See "Current status of and challenges for AML/CFT/CPF" (published in June 2023). <https://www.fsa.go.jp/news/r4/20230630/20230630.html> (Available in Japanese)

Column 18: Current Status of and Challenges for AML/CFT/CPF¹⁴⁹

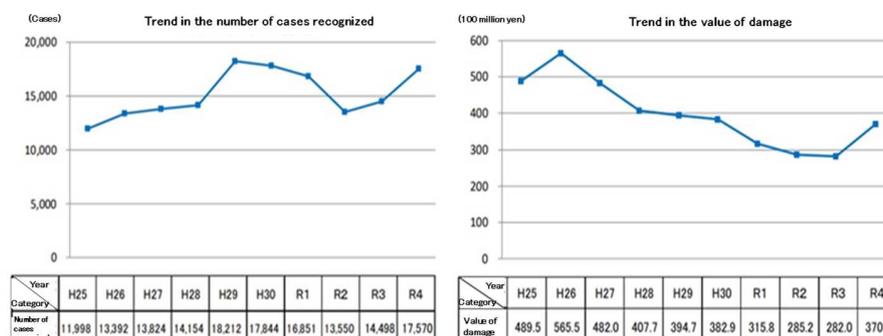
The "Anti-Money Laundering, Counter Financing of Terrorism, and Counter-Proliferation Financing" Current Status and Challenges (June 2023)", the fourth such report since 2018, summarizes common challenges for financial institutions identified through monitoring, including inspections, excellent practices, and discussions at the FATF regarding Japanese financial institutions' AML/CFT/CPF initiatives.

(1) Types of crimes and risks to which attention should be paid in relation AML/CFT/CPF

(i) Specialized fraud

The value of damage caused in specialized fraud¹⁵⁰ cases, which temporarily declined due to the COVID-19 pandemic, started to increase again in 2022, and the number specialized fraud cases recognized is also increasing as a trend in line with the diversification of techniques of fraud. In light of this situation, in March 2023, the Ministerial Meeting Concerning Measures against Crime was held and a "plan for emergency measures against robbery and special fraud cases involving the recruitment of perpetrators on social media and other matters"¹⁵¹ was worked out and published. The JFSA will hold discussions with other ministries and agencies, including the National Police Agency, and industry associations and implement stepped-up measures.

(Figure 1) Changes in the number of specialized fraud cases recognized and the value of damage



(Source) National Police Agency: Specialized Fraud Cases (Recognition and Arrest)

(ii) Phishing fraud

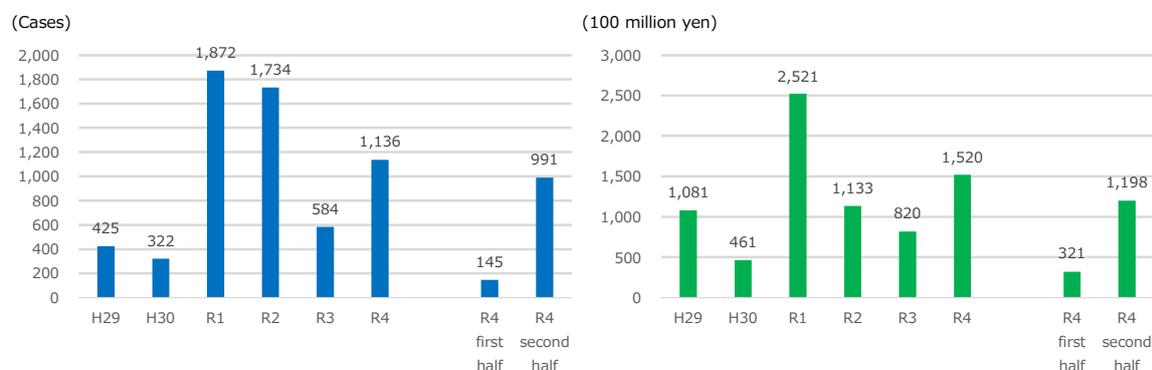
In the second half of 2022, the number of cases of illegal money transfers related to internet banking increased steeply. In the same period, a large number of emails directing users to fraudulent log-in sites disguised as the sites of financial institutions were found, and much of the damage caused in cases of illegal money transfers are considered to be attributable to phishing fraud. At a time when serious threats like this exist in cyberspace, the JFSA will continue to cooperate with relevant ministries and agencies in raising alerts and promoting measures to deal with such threats.

¹⁴⁹ See the main text in III. 1. (3) (i) Enhancing measures for Anti-Money Laundering, Countering Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF).

¹⁵⁰ The collective name for crime whereby criminals defraud a large number of unspecified people by placing phone calls to them and winning their trust without meeting with them in person and by inducing them to make money transfers to designated deposit and saving accounts, among other means

¹⁵¹ The plan was worked out in light of the occurrence of a series of armed robbery cases known as "yami baito" armed robberies and an increase in the number of specialized fraud cases. In relation to the JFSA, the plan includes measures to strengthen the prevention of illegal use and sales of deposit and saving accounts.
<https://www.npa.go.jp/safetylife/seianki31/tokushusagi/honbun-1.pdf> (Available in Japanese)

(Figure 2) Changes in the number of cases of illegal money transfer related to internet banking and in the value of damage



(Source) National Police Agency: Situation of Threats related to Cyberspace, etc. in 2022

(iii) Money laundering using crypto assets and financial settlement (collection or payment agent service)

Crypto assets could be abused as a means to evade economic sanctions because it enables transactions to be completed without going through a financial institution. In addition, the use of financial settlement and collection or payment agent service could create a lack of clarity over information regarding senders and receivers of money by enabling the settlement of multiple money transfers at a time. It is important for relevant business operators to implement measures suited to those risks.

(2) Analysis of the challenges related to the development of the AML/CFT/CPF framework by financial institutions

With respect to the matters over which response is required under the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, the following challenges have so far been identified in onsite inspections of financial institutions.

- Risks have not been sufficiently identified.
- Risk evaluation methods have not been developed or standardized.
- Customer due diligence is focusing mainly on complying with the letter of the Act on Punishment of Organized Crimes and Control of Proceeds of Crime and is failing to ensure that actions are taken in accordance with specific risks.
- The PDCA cycle is not functioning, as policies, procedures, and plans are not reviewed and revised.
- Sufficient review and revision are not conducted with respect to scenarios and threshold values related to the transaction monitoring system.

As financial institutions are making progress toward the goal of developing advanced AML/CFT/CPF framework by the end of March 2024, the level of framework is generally becoming more and more advanced. However, some financial institutions have been found to still remain unable to sufficiently develop AML/CFT/CPF framework under a risk-based approach. Therefore, in addition to promoting efforts to develop advanced framework by the target deadline, the JFSA will continue to consider how to conduct monitoring activity, including inspection, in April 2024 and beyond.

Column 19: Reports on Analysis of System Failures in the Financial Sector¹⁵²

Based on the supervisory guidelines, the JFSA receives from financial institutions reports on IT system failures that have occurred within their IT systems.¹⁵³ Since 2019, the JFSA has annually published the Analysis Report on IT System Failures in Financial Institutions, which summarizes the results of the analysis of system failures based on submitted reports and example cases of failure that may serve as a reference for other financial institutions.

The most recent version of the Analysis Report, published in June 2023, also described good practices regarding the smooth handling of customers in the event of ATM malfunction and regarding smooth response to failures, such as prompt system recovery based on a contingency plan, in order to provide information useful for enhancing IT resilience.¹⁵⁴

The Analysis Report classifies cases of IT system failures, including actual cases that occurred in the past, by the type of triggers of IT system failures, and analyzes the causes of failures and the tasks that must be performed as follows (Figure 1). It is desirable that financial institutions review and reform their own organizational systems and measures to deal with failures in reference to various standards, guidelines and other documents concerning management of IT system risks, including cybersecurity risk, as well as the Analysis Report, and identify and resolve the differences between the required level of IT security and IT resilience and their own level.

(1) IT system failures caused by intentional factors, including cyberattacks and unauthorized access

There have been cases of information leakage due to unauthorized access associated with operational mistakes on the part of third-party service providers and cases of blockage of access to websites due to malware infections on equipment for which the security support period has expired and DDoS attacks¹⁵⁵.

It is essential to strengthen security measures, including ones taken by critical third-party service providers, and to enhance resilience against incidents.

(2) IT system failures occurring during routine operations and maintenance checks

There have been cases of malfunction where a redundancy mechanism did not work as intended at the time of a system failure and where system recovery was delayed due to insufficient verification of recovery procedures on the part of a third-party service provider.

It is essential to develop recovery procedures and arrangements, including those related to third-party service providers, at the time of system failures and to secure the effectiveness of the procedures and arrangements through joint training with third-party service providers.

¹⁵² See the main text in III. 1. (3) (iv) Enhancing IT risk management.

¹⁵³ Based on the supervisory guidelines and other regulatory documents, the JFSA not only receives the "report on occurrence of system failure, etc." from financial institutions but also checks individually with them on the status of recovery from failure and holds hearings and receives information on the causes of failures as analyzed and examined by financial institutions and improvement measures worked out after the occurrence of failure.

¹⁵⁴ IT resilience refers to the capacity to ensure recovery and restoration after system failure. It includes the capacity not only to prevent failure but also to quickly restore normal business operations after failure and mitigate the impact on customers.

¹⁵⁵ DDoS stands for "distributed denial of service." It is an attack on online services launched from distributed sources.

(3) IT system failures triggered by IT system integration and renewal

There have been cases where system failures occurred due to a lack of understanding of the specifications of existing IT systems and the underdevelopment of review frameworks, affecting customers' financial settlements.

When implementing IT system integration or renewal, it is essential to prepare system specifications and other documents related to system development and to develop review frameworks by employing experts as reviewers.

(4) IT system failures triggered by program renewal or any other non-routine special operations

There have been cases where ATMs have malfunctioned due to operational mistakes and other errors when a third-party service provider carried out program renewal work.

It is essential for financial institutions to develop manuals for operation procedures and verify the effectiveness of the procedures through collaboration between relevant divisions and departments and to enhance the management of third-party service providers, for example by conducting an ex-ante verification of operation procedures developed by third-party service providers.

(Figure 1) "Overview of trends and challenges in IT system failures"

Triggers of IT system failures	Trends of IT system failures	Problems and solutions
(1) Failures caused by intentional factors, including cyberattacks and unauthorized access	(i) Leakage of customer information through third-party service providers	<ul style="list-style-type: none"> ✓ Enhancement of resilience through measures such as identification of the status of development of cybersecurity measures, including measures by critical third-party service providers, and verification of the effectiveness of the measures ➢ Strengthen frameworks for verifying information security management by third-party service providers. ➢ Strengthen IT asset management and frameworks for implementing basic measures to deal with suspicious emails. ➢ Strengthen measures to deal with malware and frameworks for responding to DDoS attacks, including frameworks by third-party service providers. ➢ Secure the effectiveness of the abovementioned cybersecurity measures under top management's leadership, through training involving third-party service providers.
	(ii) Malware infections (ransomware and Emotet)	
	(iii) DDoS attacks	
(2) Failures occurring during routine operations and maintenance checks	(i) Malfunctioning of redundancy configurations* <small>*System configurations designed to secure continuous operation in the event of partial failures by keeping multiple facilities and devices ready for incidents.</small>	<ul style="list-style-type: none"> ✓ Enhancement of IT resilience. ➢ Strengthen frameworks for minimizing the impact of system failures and achieve quick recovery of critical operations, including those related to third-party service providers, under top management's leadership. ➢ Develop failure response frameworks from customers' viewpoint (develop frameworks for handling customers at the time of ATM malfunctions, such as quick notification, prompt dispatch of personnel, and retrieval of passbooks from malfunctioning ATMs).
	(ii) Defective recovery procedures	
(3) Failures triggered by IT system integration and renewal, or addition of functions	(i) A lack of understanding about specifications of old IT systems	<ul style="list-style-type: none"> ✓ Response to a shortage of experts knowledgeable about legacy systems ➢ Develop IT assets, including system specifications, and develop and retain IT-literate human resources. ✓ Development of frameworks for review ✓ Secure reviewers and develop frameworks for review through collaboration between relevant divisions and departments.
	(ii) Failure to secure a sufficient number of reviewers and a lack of collaboration between relevant divisions and departments	
(4) Failures triggered by program renewal or any other nonroutine special operations	(i) Mistakes in system renewal work (including mistakes by third-party service providers)	<ul style="list-style-type: none"> ✓ Improvement of operational quality ➢ Develop frameworks for verifying procedures related to IT system changes made by third-party service providers and implement tests to meet production environments.

(Source) JFSA

Column 20: Business Conditions of Regional Banks¹⁵⁶

Not only are regional banks confronted with structural economic and social changes, including the shrinking population, but they have also recently been facing growing uncertainties over the outlook on the economy and markets, including steep interest rate rises abroad, the banking-sector turmoil in the United States and Europe, and concerns over global recession. Under these circumstances, it is important for regional banks to maintain a robust foundation of profit and financial soundness into the future and fully exercise their financial intermediary function in their regions. Below, an overview of the management status of regional banks will be provided.

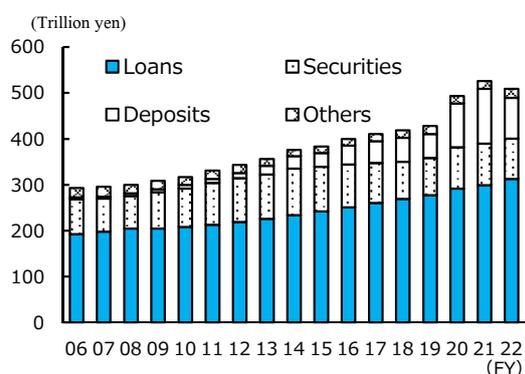
As domestic loans have been increasing as a trend, the outstanding balance of loans as of the end of FY2022 stood at 313 trillion yen, an increase of 14 trillion yen (4.6%) compared with the end of the previous fiscal year, due to factors such as an increase in lending to small and medium-size enterprises (Figure 1). On the other hand, although interest rates on new loans have until recently been falling, the fall has come to a halt for the moment in response to a rise in market interest rates, with loan interest rates on a stock basis staying flat (Figure 2). While the spread between deposit and loan interest rates continues to decline, the margin of decline has become small compared with the middle of the 2010s.

Deposits are increasing as a trend as accommodative fiscal and monetary policies continue. In addition, as described in Column 15,¹⁵⁷ the individual deposit ratio and the insurance deposit coverage ratio are high. At all regional banks, those two ratios are much higher than the ratios at the failed U.S. banks (Figure 3).

Against that backdrop, Japanese regional banks are generally sound and stable. Their capital adequacy ratios, which indicate the loss-absorbing capacity, have stayed well above the minimum regulatory level (Figure 4). Moreover, regional banks' core net business profits, which indicate their basic profitability, have been increasing since FY2020 due to factors such as an increase in the outstanding balance of loans, reduction of expenditure, and the expansion of profits from service transactions, etc. (Figure 5).

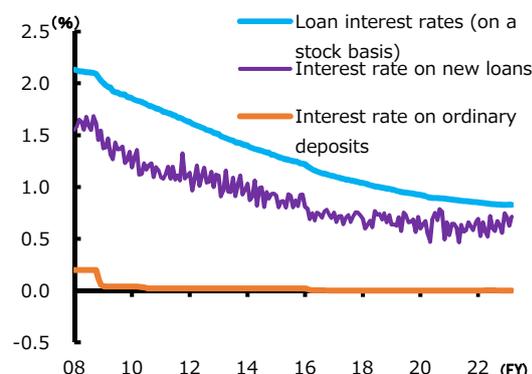
The JFSA will closely watch economic and financial market trends, analyze and identify potential financial system risks quickly and continue to take appropriate measures to secure financial system stability.

(Figure 1) Details of assets



(Source) JFSA

(Figure 2) Interest rate trend

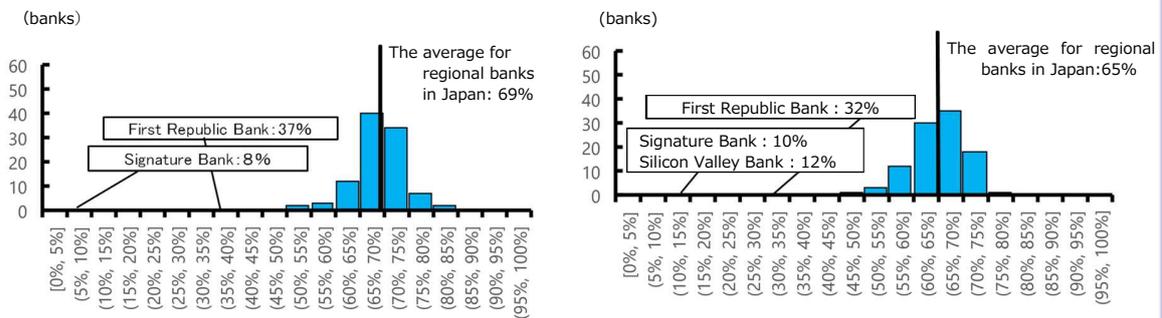


(Source) Prepared by the JFSA from reference materials of the BOJ

¹⁵⁶ See the main text in III. 2. (2) Regional financial institutions.

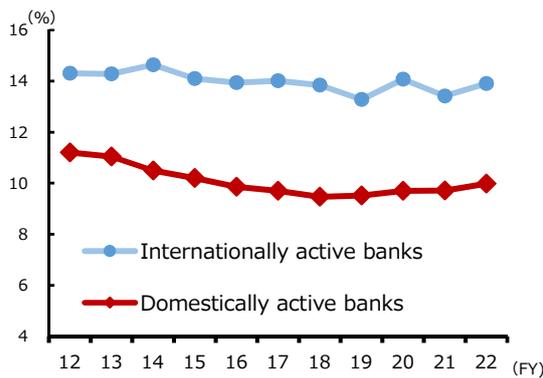
¹⁵⁷ See [Column 15](#) "Response to the U.S. Banking-Sector Turmoil This Spring."

(Figure 3) Regional banks' individual deposit ratio (left) and insurance deposit coverage ratio (right)



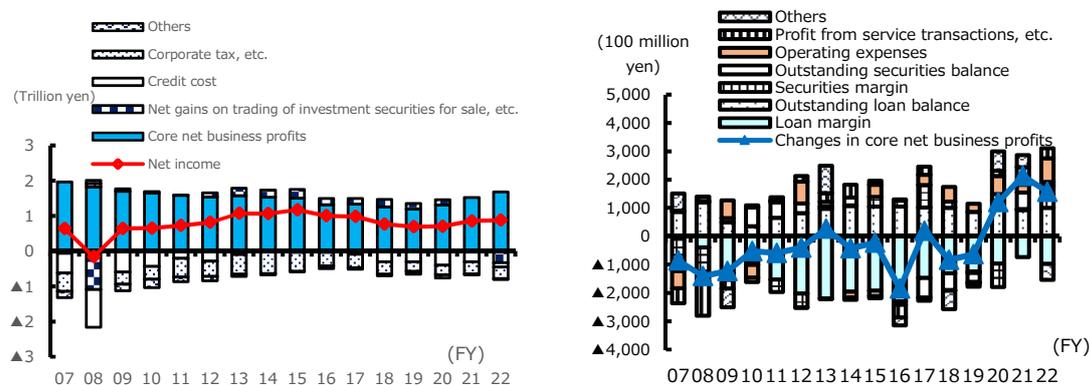
(Note 1) The figures for Japanese regional banks are as of the end of March 2023 and the figures for the failed U.S. banks are as of the end of December 2022.
 (Note 2) Individual deposits: The figure for "personal deposits" was computed in the case of Signature Bank and the figure for "consumer deposits" was computed in the case of First Republic Bank. The official figure for Silicon Valley Bank could not be confirmed.
 (Note 3) The deposit insurance coverage ratio = (the outstanding balance of deposits for settlement + the outstanding balance of deposits totaling 10 million yen or less per depositor after name-based aggregation of deposits + the number of depositors with an outstanding deposit balance of more than 10 million yen × 10 million yen)/the overall outstanding balance of deposits
 (Source) The data for Japanese regional banks: the JFSA; the data for the failed U.S. banks: prepared by the JFSA from reference materials published by the U.S. banks.

(Figure 4) Capital adequacy ratio trend



(Source) Prepared by the JFSA from reference materials published by individual financial institutions

(Figure 5) Net income trend (left) and factors behind changes in core net business profits (right)



(Note 1) The above data cover regional banks, second-tier regional banks and Saitama Resona Bank. Data for regional financial institutions that failed to survive mergers during each fiscal year are excluded.
 (Note 2) Core net business profits = Gross profit - Costs - Net gain on bonds
 (Note 3) Net gains on trading of investment securities for sale, etc. = Net gain on equity securities + Net gain on bonds
 (Note 4) Credit costs = (Provision for general reserves for possible loan losses + Provision for specific reserves for possible loan losses + Provision for loan loss reserves for specific overseas countries + Write-off of loans) - (Gains on reversal of reserve for possible loan losses + Recoveries of written-off claims)
 (Source) JFSA

IV. Constantly Evolve and Deepen JFSA's Financial Administration

Column 21: Initiatives for Data Integration by the JFSA and the BOJ¹⁵⁸

(1) Introduction

For further enhancing their monitoring capabilities and reducing burdens on financial institutions, the JFSA and the BOJ have endeavored to strengthen collaboration in financial monitoring by holding regular meetings, conducting joint surveys and other relevant activities.

Their initiatives for data integration are part of such efforts for the collaboration enhancement. The JFSA and the BOJ have worked to improve efficiency in the existing data collection process through the integration and abolition of data templates and unification of submission destinations, and have deliberated on a new framework for data collection and management (Common Data Platform (the "CDP")).

(2) Progress to date

(i) Integration of regulatory reports

Similar documents and data templates that financial institutions had submitted to the JFSA, the BOJ and industry organizations, etc. were integrated and abolished, except for those that cannot be integrated or abolished due to grounds for statistical aggregation (approx. 50 data templates¹⁵⁹ were abolished), taking account of requests from the financial industry.

With regard to the same documents and data templates that financial institutions must submit to the JFSA, the BOJ and industry organizations, etc., the JFSA developed a server for receiving files and unified submission destinations for approx. 330 data templates¹⁶⁰ to the JFSA by April 2023.

(ii) Common Data Platform

The CDP regularly collects and accumulates granular data (details of transaction-level corporate loans with standardized and integrated data definitions and formats) for sharing them among the authorities, with the aim of

- reducing burdens on financial institutions by substituting part of the existing data templates currently submitted by them, and
- identifying risks in the financial system and promoting dialogues for encouraging financial institutions' support for their client firms through conducting more detailed monitoring and analyses on lending and business trends.

Toward the development of the CDP, a survey on overseas developments was conducted in fiscal 2021. In fiscal 2022, the FSA and the BOJ coordinated to conduct a joint experiment to collect transaction-level corporate loan data from some financial institutions (Figure 1).

As a result, the aggregation of granular data will possibly substitute for some existing data templates, and granular data have great potential to further enhance their monitoring and analytical capabilities.

On the other hand, it also turned out that data collection and management require a considerable amount of time and resources, both on the side of financial institutions and at the FSA and the BOJ in terms of organizing their operations (Figure 2)

¹⁵⁸ See the main text in IV. 1. (1) Understanding realities in a multifaceted manner by data utilization.

¹⁵⁹ The number of data templates abolished in the data integration initiatives in or after FY2020

¹⁶⁰ The number of data templates for which submission destinations were unified in or after FY2022

(3) Next steps

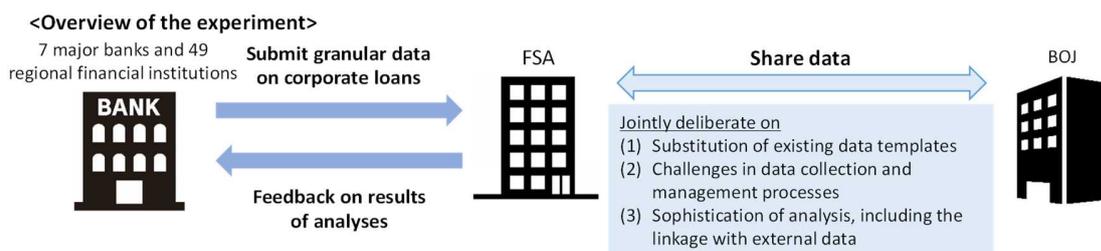
For the integration of regulatory reports, the JFSA and the BOJ will continue relevant review, while regularly receiving requests from the industry, to reduce burdens on financial institutions.

With regard to the CDP, the FSA and the BOJ will closely communicate and coordinate with financial institutions to standardize data definitions and formats and establish operations of data collection. Moreover, they will consider expanding the coverage of banks subject to data submission.

Specifically, the two entities will start to collect granular data on corporate loans in a phased manner from the second half of fiscal 2023. They will conduct more detailed monitoring and analysis with the data and promote dialogue to identify risks in the financial system and encourage financial institutions to support their client firms. They will also abolish existing data templates that can be substituted with granular data to reduce the burden on financial institutions.

In light of changes in the environment surrounding the financial system, the JFSA and the BOJ will continue to make steady progress with necessary data collection and management from a medium-term perspective, including improving the quality of data, with a view to conducting more comprehensive and accurate monitoring and analysis. Through these initiatives, they will encourage financial institutions to further sophisticate their data governance and risk management.

(Figure 1) Overview of the experiment



(Source) JFSA

(Figure 2) Details and results of the experiment

	Issues	Results
(1) Substitution of existing data templates	<ul style="list-style-type: none"> Whether the substitution of the existing data templates is possible by comparing the aggregated values of granular data with the values of individual items in the existing data templates submitted by banks 	<ul style="list-style-type: none"> It was assessed that some data templates can be substituted if (1) definitions of data items are further clarified and adjusted and (2) additional items are submitted.
(2) Challenges in data collection and management processes	<ul style="list-style-type: none"> Delivery of the granular data (from financial institutions to the FSA and the BOJ) Cleansing, normalization, and storage of submitted data 	<ul style="list-style-type: none"> Challenges related to data management at financial institutions and data cleansing/management/sharing at the FSA and the BOJ were identified.
(3) Sophistication of monitoring and analysis	<ul style="list-style-type: none"> Assignment of Corporate Numbers at the FSA after receiving borrower information from banks Deliberation on sophistication of monitoring and analysis by making use of the characteristics of granular data 	<ul style="list-style-type: none"> Corporate Numbers were assigned to more than 90% of financial institutions' client firms both in terms of number and their loans outstanding. Climate-related risks were analyzed by linking them with individual firm data and geographic data. It was confirmed that granular data have great potential for use in monitoring and analysis.

(Source) JFSA

Column 22: Collaboration with Academia¹⁶¹

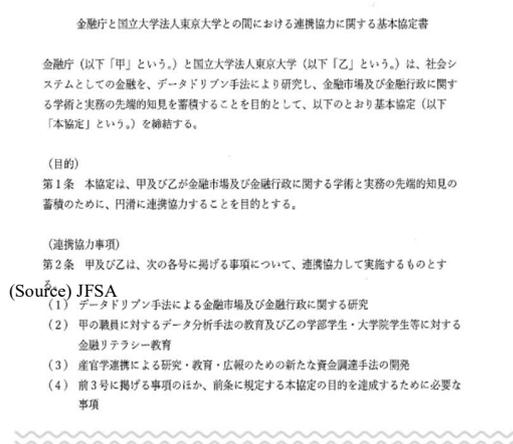
The JFSA has been endeavoring to strengthen collaboration with academia to further sophisticate financial administration through high-quality research that would form a theoretical base for financial administration and by sharing research outcome and giving feedback on actual financial administration. One example is research undertaken jointly by university researchers and JFSA staff using administrative data.

As part of such efforts, the JFSA and the University of Tokyo entered into a basic agreement on cooperation and collaboration in May 2023. Through cooperation and collaboration under this agreement, advanced and innovative research will be promoted by integrating academic and practical knowledge related to financial markets and financial administration and by utilizing the knowledge and expertise of both institutions. Specifically, both parties will cooperate and collaborate on the following items:

- (i) Research on financial markets and financial administration using data-driven techniques;
- (ii) Education on data analysis methods for JFSA staff members and financial literacy education for undergraduate and graduate students of the University of Tokyo;
- (iii) Development of new financing methods for research, education, and public relations through collaboration between industry, government, and academia; and
- (iv) Any other matters necessary to achieve the purposes of this Agreement.

This is the first time for the JFSA to conclude a partnership agreement with a university or other academic institution in research field. Through building such partnerships, the JFSA aims to launch high-quality research projects with leading researchers, expand its academic network, and improve the analytical capabilities of its staff.

(Figure 1) Basic Agreement



(Figure 2) At the ceremony for conclusion of the Basic



¹⁶¹ See the main text in IV. 1. (1) Understanding realities in a multifaceted manner by data utilization.

Column 23: Initiatives for Enhancing JFSA Staff Members' Capacity¹⁶²

The JFSA has provided training to staff members, including those of Local Finance Bureaus, in charge of monitoring, and has added curricula in accordance with trainees' levels or has otherwise enhanced the content mainly for classroom training to give knowledge.

In PY2020, the JFSA commenced new human resources development programs (Figure 1), in which trainees create a basis through personal development, acquire knowledge and skills through in-house training, and practice them in OJT, with the aim of fostering human resources for commencing a new form of monitoring after the abolishment of the Inspection Manuals and addressing staff members' lack of monitoring experience due to COVID-19. In this manner, the JFSA has endeavored to enhance its staff members' capacity to conduct monitoring.

Based on such idea on human resources development, the JFSA will continue efforts for further enhancing the capacity of its staff members in charge of monitoring.

[In-house training]

(i) Central training and study sessions

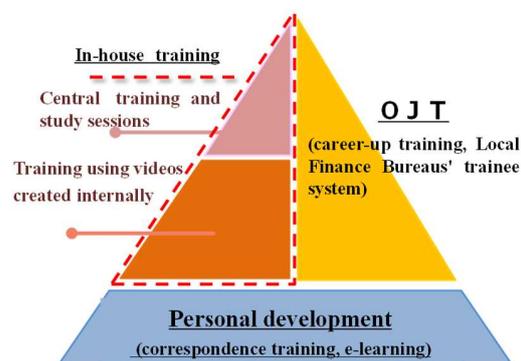
Central training is held twice a year, once in summer and once in winter, in the form of classroom training to give knowledge and the form of hands-on training, to have trainees acquire knowledge and skills on finance. Training was suspended or provided online due to COVID-19, but face-to-face training was resumed in PY2022.

In addition, in order to foster human resources who will play the central role in verification work regarding risk management in the fields of credit risks and market risks, the JFSA has continued study sessions in these specialized fields¹⁶³ since PY2020.

(ii) Training using videos created internally

As the central training was suspended or provided online as mentioned above and the training period was limited, the JFSA started to create videos¹⁶⁴ that are available on demand in PY2020 for compensating for decreased opportunities, and has provided them to staff members of the JFSA and Local Finance Bureaus. Those videos aim to secure opportunities for staff members to learn the content of the "JFSA's supervisory approaches – Replacing checklists with engagement –" and other various basic policies (discussion papers), as well as financial practices and skills in highly professional fields (those relating to credit risks, market risks, and IT and cybersecurity, etc.).

(Figure 1) Conceptual picture of human resources development



¹⁶² See the main text in IV. 2. (1) Enhancing staff members' capacity and quality.

¹⁶³ The JFSA has held study sessions on credit risks targeting JFSA staff members and staff members of some Local Finance Bureaus since PY2020, and has held study sessions on market risks targeting staff members of the JFSA and all Local Finance Bureaus since PY2022. A total of approx. 400 staff members have participated in these study sessions. In addition, the JFSA has also held study sessions in the IT and cybersecurity-related field.

¹⁶⁴ As of August 2023, videos for a total of approx. 200 training classes for approx. 220 hours are available.

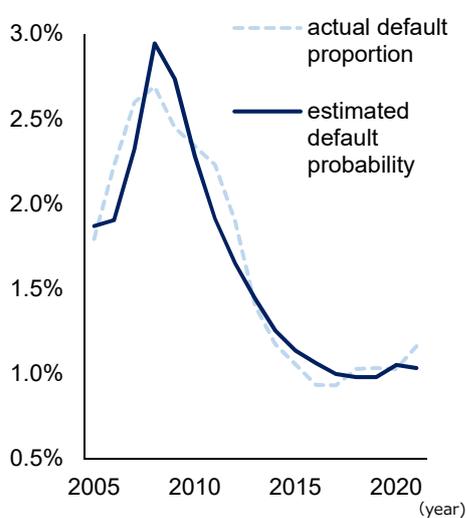
Column 24: Data Analysis by the JFSA¹⁶⁵

The JFSA is endeavoring to enhance data utilization and compiled examples of analysis using granular data, on which it places importance in recent years, and published them as "FSA Analytical Notes – FSA Data Analysis Examples –."¹⁶⁶ Out of these examples, an analysis on credit risks in bank loans constructed and estimated a model to assess the credit risk of the loan portfolio using anonymized data of the financial statements and credit profiles of corporate borrowers from 62 member banks of the Regional Banks Association of Japan (Figures 1 and 2).

Additionally, impact of changes in the economic and financial environment on default probability was also estimated by using this model.

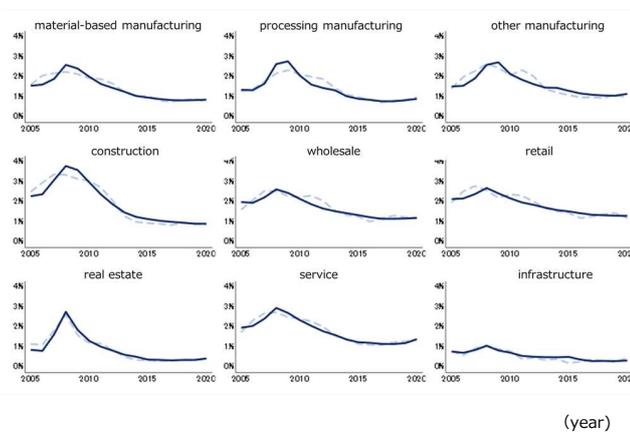
Also, for an analysis on climate-related risks, granular data, such as details of corporate loans collected from 49 regional banks, were used to clarify the characteristics of regional banks' climate-related risks (transition risks and physical risks) and differences by region, etc. by focusing on business types and products of client companies or geographical conditions¹⁶⁷ (Figures 3 and 4).

(Figure 1) Percentages of companies in default (actual figures) and default probabilities (estimates)



(Source) JFSA

(Figure 2) Changes in the percentages of companies in default and default probabilities (by business type)



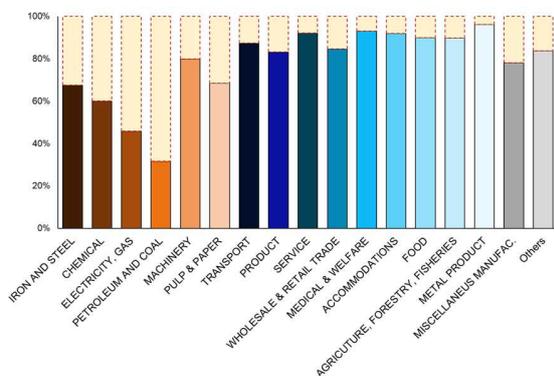
(Source) JFSA

¹⁶⁵ See the main text in IV. 2. (1) Enhancing staff members' capacity and quality.

¹⁶⁶ "Publication of 'FSA Analytical Notes'" (published on June 23, 2023)
<https://www.fsa.go.jp/en/news/2023/20230929-2/index.html>

¹⁶⁷ Additionally, an analysis on recent trends of corporate finance is also included.

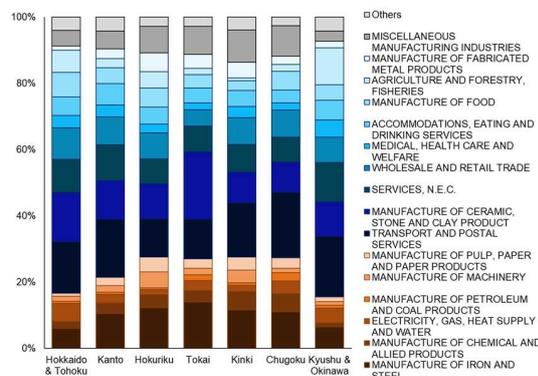
(Figure 3) Percentages accounted for by clients that use regional banks as their main financing banks among regional banks' FE¹⁶⁸ (by type of business)



(Note) The parts surrounded by dotted lines show the percentages of clients that use major banks as their main financing banks and the parts surrounded by solid lines show the percentages of clients that use regional banks as their main financing banks.

(Source) JFSA

(Figure 4) Distribution of business types in corrected FE (by region)



(Source) JFSA

Furthermore, since PY2020, the JFSA has listed up various data analysis projects within the agency and has offered support in order to enhance its staff members' analysis capabilities, while backing up individual staff members' self-motivated data analysis for the purpose of policy planning and monitoring. In PY2022, there was a case where a staff member of a Local Finance Bureau launched a project. Analysis results of individual projects are presented at an analysis report session, to which academic experts, etc. are invited as commentators, and excellent analyses are awarded with the Commissioner's Award and other awards.

Examples of projects whose results were presented at an analysis report session in PY2022¹⁶⁹

(i) Verification of the Market Making Scheme and the status of orders by high frequency traders in the ETF market

By examining in detail the status of orders placed by high frequency traders that participated in the TSE's Market Making (MM) Scheme, trading strategies that would be overlooked if based on the conventional definition of liquidity provision were clarified and a new viewpoint on liquidity provision was obtained.

(ii) Analysis using big data of high frequency traders' profits and losses

Based on the knowledge obtained through the latest academic workshop, daily profits and losses for three years and ten months of high frequency traders were estimated and causes of profits and losses were considered. Additionally, indices to measure individual businesses' levels of ascertaining actual conditions and indices that will contribute to monitoring were developed.

¹⁶⁸ FE is an abbreviation for financed emissions. FE is obtained by multiplying greenhouse gas emissions from companies for which relevant financial institutions provide loans or make investments by the rate accounted for by the amount of relevant loans or investments among the total amount of funds procured by those companies (capital + debts). Corrected FE is calculated only regarding clients that use regional banks as their main financing banks.

¹⁶⁹ In addition to the projects (i) to (vi) below, the following analysis was also conducted. "Trends in High-Speed Trading" (published on June 30, 2021; updated on June 30, 2023) https://www.fsa.go.jp/en/regulated/trends_hst/index.html

(iii) More efficient and effective supervisory process pertaining to the capital adequacy requirements

In Japan, the phased implementation of the finalized Basel III standards started from March 2023, and the JFSA has been requested by not a few financial institutions to examine and approve the use of certain risk measurement methods in a relatively short period of time., To enhance the efficiency and effectiveness of such process, data analysis is used to understand overall trend and issues that may require careful examination. The results of data analysis identifies the areas that require deeper dialogue with the financial institutions to make sure that they were satisfied with regulatory requirements.

(iv) Analysis of the effects of financial institutions' exercise of relationships on borrowers' finance

By combining the data of the Corporate Questionnaire Survey to confirm the client assessment of financial institutions' efforts, which was conducted targeting SMEs and small businesses that use regional financial institutions, etc. as their main financing banks, and individual companies' financial information, it was clarified that there is a certain correlation between financial institutions' efforts to deepen common understanding on business feasibility and challenges through dialogue with borrowers and provide business support services (exercise of relationships) and the improvement of borrowers' business finance.

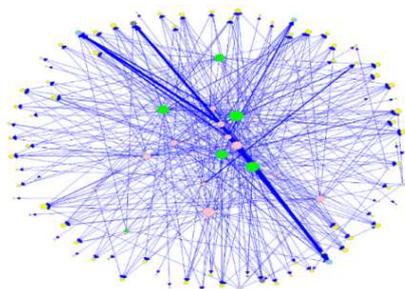
(v) Analysis concerning the relationship, etc. between financial knowledge and ratio of holding securities mainly in the Tohoku region

Based on published data on financial literacy and household economy by region, the influence of individuals' financial knowledge on households' holding of securities was analyzed. The tendency that the higher one's financial literacy is, the higher the ratio of holding securities was observed, while it was made clear that it would be effective to raise saving levels in order to raise the ratio of households' holding of securities at least under current circumstances.

(vi) Analysis of securities companies' network of investment vehicles by using granular data pertaining to Japanese repo transactions and securities lending transactions

By using granular data on repo markets jointly acquired by the JFSA and the BOJ, the network structure for fund management with collateral from securities companies to banks, etc. in the Japanese repo transaction market and cash-secured government bond market was made visible (Figure 5).

(Figure 5) Analysis of securities companies' network of investment vehicles



(Source) Prepared by the JFSA

Column 25: Major "Open Policy Lab" Activities¹⁷⁰

In the PY2022 Open Policy Lab,¹⁷¹ 10 teams covering a total of more than 90 JFSA officials participated. The following introduces major projects.

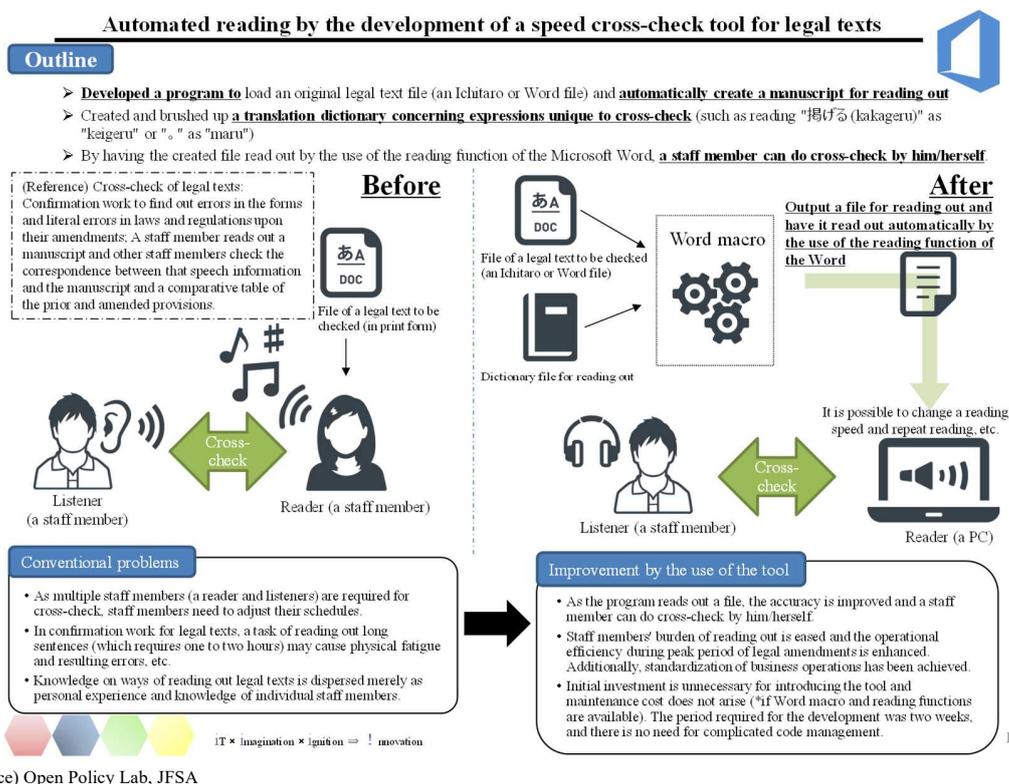
(1) For organization-wide TECH FORMING

Under the concept of making the JFSA an environment abundant with creative work and human resources, the team intends to rebuild inefficient operational methods and practices to develop programs to enhance operational efficiency for young staff members and provide them with opportunities to obtain the latest IT skills and programming know-how.

In PY2022, the team developed a macro to link the crypto service, an online storage service that the JFSA uses as part of its in-house security measures, and the Outlook service, held programming workshops targeting its staff members, and offered technical support to internship programs in science and engineering and programming training sessions for new staff members.

In addition, the team developed a speed cross-check tool for legal texts (Figure 1) and this project received the Grand Prix in the Work Review and Digitalization Sector (the Ministry and Agency Part) for the Workstyle Reform Award¹⁷² in June 2023.

(Figure 1) Outline of the speed cross-check tool for legal texts



¹⁷⁰ See the main text in IV. 2. (2) Placing priority on self-motivated initiatives.

¹⁷¹ The JFSA established the Open Policy Lab in PY2018, a framework for voluntary submission of policy proposals by employees that is intended to train and better use employees, centered on young employees, and invigorate the organization and also to promote the formulation of novel and original policies by actively accepting employees' new inspirations and ideas.

¹⁷² The Cabinet Bureau of Personnel Affairs, the National Personnel Authority, and the Digital Agency organize the award with the aim of further disseminating workstyle reform of administrative bodies through the efforts of individual staff members. Projects to be awarded are decided by vote by national public officers nationwide, and over 11,000 national public officers participated. Out of a total of 146 projects applied, a vote was held for 24 projects that passed the first round, and four projects were awarded the Grand Prix (one project each for the Digitalization Sector and the Human Resources Development Sector respectively for the Ministry and Agency Part and the Regional Bureau Part) and eight projects were awarded the Award of Excellence (two projects each) (this project obtained 2,663 votes).

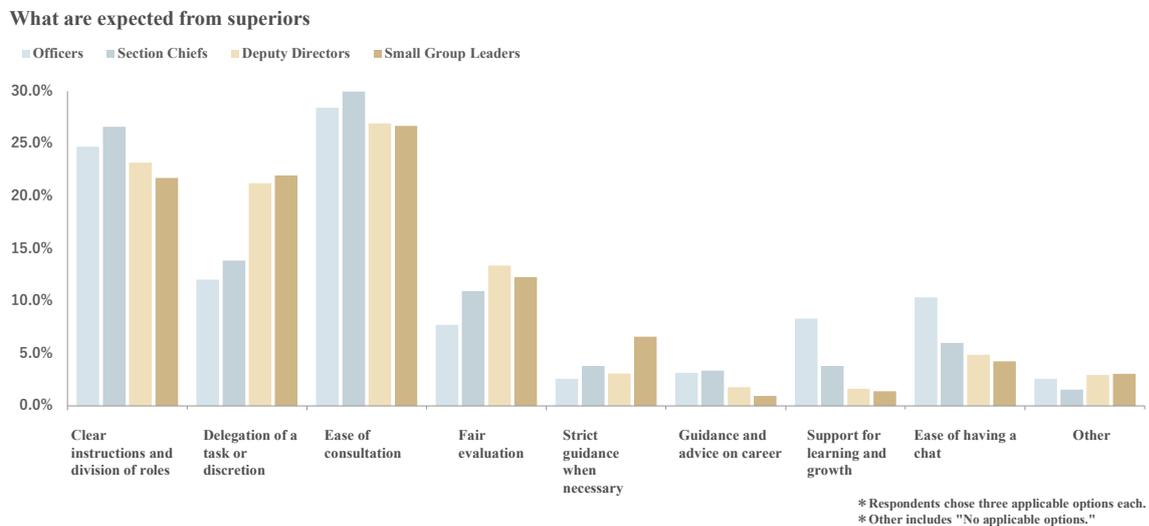
(2) Young staff members' ideas on management

The JFSA has been taking diverse measures to enhance its staff members' management capabilities for the purpose of creating a workplace where everyone can work actively.

The team is carrying out activities to have all staff members consider the importance and necessity of management and what kind of management is required for the JFSA from the viewpoint of young staff members and to provide them with clues for further enhancing their management capabilities.

Specifically, the team conducted a questionnaire survey with the aim of visualizing needs and requests concerning the organization and work, etc. of staff members in charge of management and young staff members and clarifying the gap in ideas of both parties, thereby increasing mutual understanding. The team reported and disseminated the results throughout the JFSA. For example, for a question asking about what young staff members expect from their superiors, many expect "clear instructions and division of roles" and "the ease of consultation" from superiors, but younger staff members are more likely to expect "the ease of having a chat" and "support for learning and growth" from superiors (Figure 2). Additionally, the team conducted opinion exchange with some companies to learn of their awareness, current situation, challenges, and measures concerning management.

(Figure 2) Awareness survey concerning management



(Source) Open Policy Lab, JFSA

