

9

2020

SEPTEMBER

Monthly  
magazineFinancial Services Agency  
NewsletterAccess  
FSA

No.205



## Contents

Seminars & Conferences (P1~)

- P1 Blockchain Global Governance Conference (BG2C)—FIN/SUM Blockchain & Business (FIN/SUM BB)
- P2 Meeting of Directors-General of the Local Finance Bureaus

Policy Commentary Corner (P3~)

- P3 Report by the Working Group on Financial Markets, Financial System Council  
- Toward Progress of Customer-Oriented Business Conduct -  
MIYANO Keita, Deputy Director, Market Policy Office, Financial Markets Division, Policy and Markets Bureau
- P5 Monitoring Priorities for Securities Businesses (July 2020 - June 2021)  
WATANABE Kaori, Deputy Director, Securities Business Monitoring Division, Executive Bureau,  
Securities and Exchange Surveillance Commission
- P7 Formulation of Basic Plan for Monitoring Audit Firms in Program Year 2020 (from July 2020 to June 2021)  
NOMURA Akifumi, Director, Monitoring and Inspection Office,  
Certified Public Accountants and Auditing Oversight Board
- P9 Financial Policies Monitor  
HARADA Mitsuharu, Deputy Director, Strategy Development Division,  
Strategy Development and Management Bureau

Notices (P11~)

- P11 Computerization of the special guarantee approval process in Ishikawa Prefecture
- P12 Online “Kasumigaseki Dialogue” Held as a Local Finance Meeting Spinoff under a Regional Revitalization Support Program

JFSA's Major Activities in August (P13)

⇐Access the online version here

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

# **Blockchain Global Governance Conference (BG2C)—FIN/SUM**

## **Blockchain & Business (FIN/SUM BB)**

On August 24 and 25, the FSA and Nikkei Inc. jointly held the "Blockchain Global Governance Conference (BG2C)—FIN/SUM Blockchain & Business (FIN/SUM BB)," which had been postponed due to the influence of the spread of COVID-19.

From the perspective of taking every possible measure to prevent infection, the participants in this conference took measures to avoid the three Cs (closed spaces, crowded places, and close settings), and the conference sessions were held both in-person and online, using an online conferencing system that allowed remote participation and live streaming.

The sessions can be viewed by accessing the following:

**YouTube channel "Nikkei XSUM":**

<https://www.youtube.com/channel/UCJGSI0yuqZLiBWQajKb8UIA>

Before the opening of this conference, Mr. ASO Taro, Deputy Prime Minister, Minister of Finance and Minister in Charge of Finance, gave the following remarks.



### ◆ Opening Remarks by ASO Taro Deputy Prime Minister, Minister of Finance and Minister in Charge of Finance

Good morning, distinguished guests, ladies and gentlemen. I am Taro Aso, Deputy Prime Minister of Japan and Finance Minister.

Thank you very much for attending the Blockchain Global Governance Conference and FIN/SUM Blockchain & Business, today.

As you may be aware, financial innovation was one of the G20 priorities under Japan's Presidency last year.

In the G20 high-level seminar last year in Fukuoka, we focused specifically on blockchain and discussed the implications of the decentralized financial technologies.

A group of experts from the regulatory community,

academia, financial industry and technology community explored a possible multi-stakeholder approach to developing sound governance of the decentralized financial system.

Thanks to the fruitful discussion, the G20 members welcomed the idea and agreed to pursue a wider stakeholder cooperation in the governance of the emerging system.

Today's conference embodies the G20 spirit by covering a variety of latest topics relating to blockchain, ranging from the ideal design of governance to the advances in technology and use cases.

The application of blockchain is not limited to digital assets in finance. It could also play important roles in a broader context, including further sophisticating digital identity system, trade finance and so forth.

For instance, in the current fight against the widespread epidemic, blockchain could provide a resilient solution to contact-tracking with a high level of privacy protection. It will certainly enhance our ability to prevent and mitigate future risks.

In the blockchain community, some people may still look at regulators with a sort of hostility. It may stem from the assumption that the regulators lack technological understanding and thus could hinder innovation.

However, what is needed is for all of us to get together and work together to design the proper use of technology under better governance. By doing so, we can move towards our common goals of human prosperity.

I would strongly hope that today's conference will provide a useful platform for such cooperation and coordination.

Finally, I would like to sincerely thank Nikkei, who is our FIN/SUM partner, for co-hosting this event.

I truly thank you for your kind attention. Please enjoy the discussions.

Thank you very much again.

Thank you.

# Meeting of Directors-General of the Local Finance Bureaus

On Wednesday, August 5, 2020, a meeting of Directors-General of the Local Finance Bureaus\* was held for the first time in Administrative Year 2020. This meeting was held online in order to prevent the COVID-19 infection. State Minister MIYASHITA Ichiro and Parliamentary Vice-Minister KANDA Kenji participated from their offices, and gave remarks to the participants at the beginning of the meeting.



## [Remarks by State Minister Miyashita]

State Minister Miyashita gave the following remarks, focusing on three issues: (1) disaster response, (2) response to COVID-19, and (3) employment measures.

(1) As for disaster response, the FSA requests that the Local Finance Bureaus prompt financial institutions to provide meticulous support to disaster victims in rebuilding their lives and resuming their business operations.

(2) As for response to COVID-19, the FSA has made requests to private financial institutions several times to provide cash flow support for businesses, and has taken measures to strengthen financial institutions' financial intermediation function, such as extending the deadline of the Act on Special Measures for Strengthening Financial Functions and establishing a framework for providing equity financing. Financial institutions are expected to exert their integrated financial functions in preparation for the changes in business models in the post-COVID-19 era.

(3) Regarding employment issues, a meeting of State Ministers on employment measures was held (under the auspices of the Cabinet Office) with a view to accelerating support for matching workers and jobs

beyond business categories and regional boundaries. The FSA requests that the Local Finance Bureaus use reference materials concerning initiatives implemented by other ministries and agencies, which are available on the Cabinet Office website, in their dialogue with financial institutions.

## [Remarks by Parliamentary Vice-Minister Kanda]

Parliamentary Vice-Minister Kanda gave remarks focusing on the two issues of disaster response and response to COVID-19.

In his remarks, he stated that in the current situation where a number of businesses were facing financial difficulties, the FSA and the Local Finance Bureaus should make concerted efforts to prompt financial institutions to provide support for business operators while using the government's support, such as the system of effectively interest-free and unsecured loans.



After the remarks by the State Minister and the Parliamentary Vice-Minister, the Commissioner and senior officials of the FSA explained the immediate issues in financial administration and the initiatives implemented by the FSA. The FSA shared an understanding with the Directors-General of Local Financial Bureaus with regard to the necessary reforms for the FSA and various issues concerning financial and capital markets, as well as the necessity of cooperation between the FSA and Local Finance Bureaus in financial monitoring and issues in regional finance, including support for businesses. The participants confirmed that the FSA and Local Finance Bureaus should continue to work together in tackling these issues.

\* The FSA delegates part of its authority in terms of inspection and supervision of regional private financial institutions to the 11 Local Finance Bureaus (including the Fukuoka Finance Branch Bureau and the Okinawa General Bureau of the Cabinet Office) under laws and regulations. In order to ensure sufficient cooperation between the FSA and the Local Finance Bureaus, Directors-General of Local Finance Bureaus and FSA officials meet once every three months to discuss various issues.

# Report by the Working Group on Financial Markets, Financial System Council

## - Toward Progress of Customer-Oriented Business Conduct -

MIYANO Keita, Deputy Director, Market Policy Office, Financial Markets Division, Policy and Markets Bureau

(\*The opinions expressed in this piece are the personal views of the author and do not necessarily reflect the views of the organizations with which the author is affiliated.)

On August 5, 2020, the FSA released the "Report by the Working Group on Financial Markets, Financial System Council - Toward Progress of Customer-Oriented Business Conduct -." The details compiled in this report are wide-ranging, but the major points are introduced here.

### 1. Introduction

In December 2016, the Working Group on Financial Markets of the Financial System Council recommended the formulation of the Principles for Customer-Oriented Business Conduct (hereinafter referred to as the "Principles") with the aim of facilitating people's stable asset building. In response, the FSA formulated and announced the Principles in March 2017 and has encouraged financial institutions that have adopted the Principles and respective KPIs, thereby endeavoring to achieve a mechanism to enable customers to select financial institutions that are carrying out better initiatives (principle-based approach).

As three years have passed since the announcement of the Principles, the Working Group reviewed the past progress and deliberated means to further promote customer-oriented business conduct and ideal financial services in a super-aging society.

### 2. Means to further promote customer-oriented business conduct

Since the formulation and announcement of the Principles, financial institutions that adopted the Principles and are making efforts for customer-oriented business conduct have been increasing steadily, but some of them seem to consider merely signing up to the Principles as their final goal. According to the customer survey that the FSA conducted in 2019, only around 30% of the respondents said that they know about the FSA's efforts to encourage financial institutions to publish their policies for achieving the Principles, and out of them, only 20% said that they take into account those published policies when purchasing financial instruments. It was thus revealed that financial institutions' initiatives are not sufficiently referred to by customers in selecting better financial institutions. Additionally, there are still inappropriate cases, such as the sale or provision of financial instruments or services contrary to customers' attributes or intentions and acts of prioritizing companies' benefits over customers' interest.

In light of these current circumstances, this report recommends the following in order to achieve a mechanism in which financial institutions carrying out better initiatives are properly evaluated and selected by customers.

#### (1) Enhancement of specifics of the Principles

#### (2) Further dissemination and establishment of the Principles

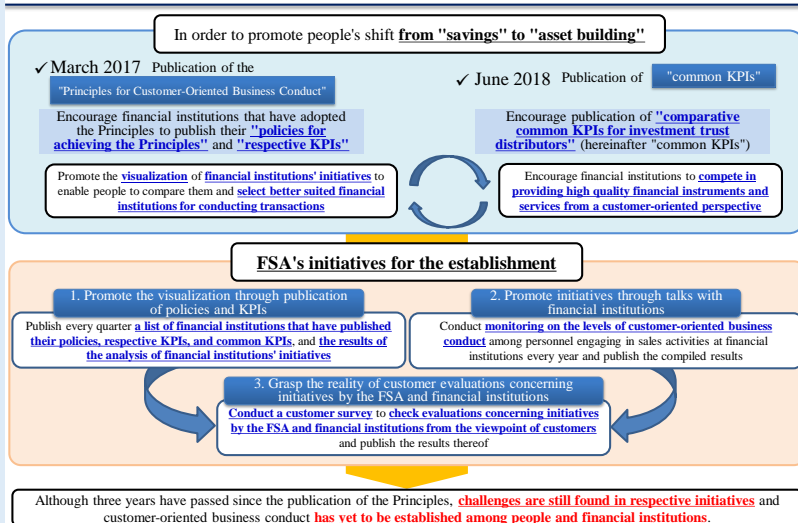
#### (3) Stricter supervisory measures against inappropriate sale of financial instruments

In relation to (1), financial institutions are required to devise means voluntarily based on the purport of respective principles, but some elements of the Principles are not materialized in effective initiatives. Therefore, the report specifically recommends to add the following to the Principles.

- Investment suggestions on cross-industrial financial instruments or services based on customers' life plans and appropriate follow-ups after sales
- Publication of targeted customers by financial institutions that compose financial instruments
- Information provision in an easy-to-understand manner using materials to enable customers to make comparisons among financial instruments of the same type<sup>(\*)</sup>

(\*) It is recommended to positively utilize a material information sheet wherein risks, fees and commissions, conflicts of interest, and other information concerning financial instruments are briefly described.

#### Overview of FSA's Past Initiatives for the Establishment of Customer-Oriented Business Conduct





Regarding (2), in consideration of the current circumstances where financial institutions' initiatives are not sufficiently referred to in customers' selection of financial institutions, as mentioned above, the report recommends that the FSA publish the status of financial institutions' initiatives for achieving the Principle in a comparable form separately for each item to help customers select better financial institutions.

Regarding (3), prior to seeking financial institutions' best practices, the report requests a proper legal function against inappropriate cases by revising the Comprehensive Guidelines for Supervision and clarifying the duty of good faith and fair dealing and the principle of suitability under the Financial Instruments and Exchange Act.

Outline of the Report by the Working Group on Financial Markets, Financial System Council, "Toward Progress of Customer-Oriented Business Conduct" (August 5, 2020)

As three years have passed since the formulation of the Principles for Customer-Oriented Business Conduct, the Working Group verifies the status of their establishment and seeks further progress.

From a customer-oriented perspective, efforts should be made to ensure safe and convenient services for elderly customers with impaired judgment and their family members.

Principles for Customer-Oriented Business Conduct (formulated and announced in March 2017)

With the aim of facilitating people's stable asset building, financial institutions should adopt the Principles and make their related initiatives visible to achieve a mechanism to enable customers to select better financial instruments and services (principle-based approach).

[7 Principles]

1. Pursuit of the Customers' Best Interest

2. Providing Important Information in an Easy-to-Understand Manner

7. Framework for Adequate Motivation of its Employees

1. Formulation and Announcement of Policies regarding Customer-Oriented Business Conduct

3. Appropriate Management of Conflicts of Interest

5. Clarification of Various Fees and Commissions

6. Providing Suitable Service to Customers

Further Progress of Customer-Oriented Business Conduct

Enhancement of specifics of the Principles: In order to enhance the effectiveness, the following are added as specific initiatives required under the Principles (notes to the Principles).

- Investment suggestions on cross-industrial financial instruments or services based on customers' life plans and appropriate follow-ups after sales
- Publication of targeted customers by financial institutions that compose financial instruments
- Introduction of a common information provision sheet (material information sheet) for each financial institution and financial instrument so that information on risks, fees and commissions, conflicts of interest, etc. can be compared

Further dissemination and establishment of the Principles: The FSA's publication of the status of financial institutions' initiatives in a comparable form separately for each item.

Effective deterrence of inappropriate sales: Revision of the Comprehensive Guidelines for Supervision to clarify the duty of good faith and fair dealing and the principle of suitability under law

Ideal Financial Services in a Super-Aging Society

Services for customers with impaired judgment: The financial industry is to formulate guidelines for the following.

- Financial transactions by proxy, etc.
- Strengthening of cooperation with welfare-related organizations
- Compilation and feedback of best practices regarding services for elderly customers

Studies on elaboration of systems depending on the ability to make judgments and circumstances of each customer by the use of digital technologies

Examination of the feasibility of a system to allow third-party inquiries concerning financial contracts

### 3. Ideal Financial Services in a Super-Aging Society

Amid rapid population aging, any Japanese person may face impaired judgment or physical deterioration personally or in a family member in the future. Japan is characterized by the fact that two-thirds of total household financial assets are held by households consisting of elderly people over 60 years of age. Elderly people are thus significant as customers who purchase financial instruments and services from financial institutions.

Accordingly, financial institutions, which play important roles in securing community infrastructure, are expected to perform business operations in a customer-oriented manner, while carefully responding to the various problems and needs of elderly customers, especially those with impaired judgment. The report requests industrial associations to formulate guidelines for the following.

- (1) Financial transactions by proxy, etc.
- (2) Strengthening of cooperation with welfare-related organizations
- (3) Compilation and feedback of best practices regarding services for elderly customers

Regarding (1), the report states that, supposing the case where an elderly customer becomes unable to conduct financial transactions or visit financial institutions by him/herself as before due to impairment of judgment or deterioration of physical functions, the financial industry is expected to formulate guidelines to facilitate financial institutions' flexible responses, such as to admit a transaction by a third party as an agent as long as the transaction is evidently for the expenses for medical treatment or nursing care for the elderly customer and the transaction procedures are secured in such manner as a direct transfer of medical fees to a hospital.

Regarding (2), the report points out the necessity that financial institutions should offer support cooperatively with welfare-related organizations to elderly customers suspected to have impaired judgment from the perspective of protecting customers' rights and ensuring appropriate asset building and management, and also refers to the importance for the financial industry to formulate guidelines for specifics concerning such cooperation. It is expected that the guidelines will incorporate concrete examples of cases requiring cooperative actions, such as when a customer frequently loses passbooks or cash cards, or other problematic signs and behavior of customers.

Regarding (3), the report suggests that in order to enhance the overall levels of the financial industry regarding services expected in a super-aging society, it would be effective to formulate industry-wide guidelines for common issues such as through compiling and feeding back best practices concerning (i) financial instruments and services that satisfy elderly customers' needs, (ii) advance measures in preparation for the deterioration of customers' ability to make judgments, (iii) introduction of counseling services for elderly customers, and (iv) follow-ups after selling financial instruments.

Additionally, the report points out the need for studies on meticulous responses depending on the ability and circumstances of each elderly customer by the use of digital technologies, which includes the identification of appropriate responses in accordance with each elderly customer's judgment and the detection of inappropriate transactions in consideration of customers' circumstances. The report also suggests the necessity of examining the feasibility of a system to allow third-party inquiries concerning financial contracts ahead of further population aging.

### 4. Measures to be taken

The FSA will follow up the future developments as to whether these initiatives by financial institutions would actually result in achieving their goal of assisting customers with their asset building.

# Monitoring Priorities for Securities Businesses (July 2020 - June 2021)

WATANABE Kaori, Deputy Director, Securities Business Monitoring Division,  
Executive Bureau, Securities and Exchange Surveillance Commission

(\*The opinions expressed in this piece are the personal views of the author and do not necessarily reflect the views of the organizations with which the author is affiliated.)

On August 4, 2020, the Securities and Exchange Surveillance Commission (SESC) published the "Monitoring Priorities for Securities Businesses<sup>\*1</sup> (July 2020 - June 2021)." The outline follows.

## 1. Monitoring Priorities for Securities Businesses

Monitoring of securities businesses does not solely focus on business categories or sizes of financial instruments business operators (FIBOs). The SESC will continue efforts for seamless on-site/off-site monitoring based on risks to select the businesses subject to on-site monitoring through conducting risk assessment in light of business models or otherwise from a multifaceted perspective.

In particular, the SESC conducts on-site monitoring centered on the following cases, thereby making efforts for in-depth examinations.

- (i) A case where a relevant law and/or regulation is breached or there is a deficiency in business operations that requires a prompt in-depth examination
- (ii) A case where a financial instrument is offered with an unclear risk profile, necessitating an examination of its solicitation activities
- (iii) A case where the actual situation of business operations is not fully comprehended from an information analysis based on off-site monitoring (including where there is a long period between examinations)
- (iv) A case where there is a possible serious problem concerning investor protection (e.g., inadequacy in the segregated management of customer assets)

Upon conducting on-site monitoring, the SESC will not only point out problems and make a recommendation for administrative disciplinary actions, but also analyze the whole picture of the problems to identify their root causes, so that businesses can address them and prevent recurrence.

Furthermore, if the need to improve business operations or other potential issues is identified before any problems materialize, the SESC will share the findings with the monitored businesses and urge them to build effective internal control environments or take other actions to address the issues.

With regard to unregistered FIBOs, the SESC will actively collect and analyze information, conduct investigations, and seek court injunctions to cease and suspend activities that violate the Financial Instruments and Exchange Act so as to contain the spread of damage to investors.

## 2. Industry-wide and thematic monitoring priorities

The SESC will monitor the following matters in collaboration with the relevant departments of the FSA.

- (i) Changes in customer services and business models under the impact of COVID-19

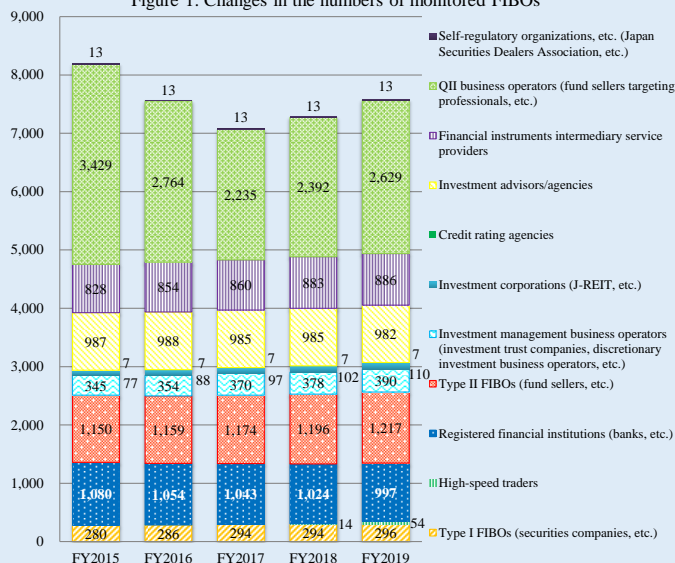
For example, the SESC examines the influence on businesses, including financial impact, caused by significant environmental changes, such as (a) the status of responses to customers holding investment assets with wild price fluctuations, (b) malicious transactions taking advantage of investors' anxieties, and (c) the sustainability of conventional business models that depend on face-to-face services, and also examines (d) the appropriateness of underwriting operations in response to demand for fund procurement.

- (ii) Status of the establishment of customer-oriented business conduct prioritizing appropriate investment solicitation based on the clarification of the principle of suitability

For example, in consideration of the possibility of inappropriate business conduct toward investors that may be caused by excessive sales goals or heavy burdens exceeding resources on site, the SESC will focus on whether required internal control environments are put in place, as well as intentions of the management behind those problems, and insufficient allocation of management resources, etc.

- (iii) Sufficiency of cyber security measures, and implementation of system risk management, including securities businesses utilizing block chain technologies
- (iv) Status of the establishment of internal control environments pertaining to anti-money laundering and counter-terrorist financing (AML/CFT) measures
- (v) Implementation of measures to improve or prevent the recurrence of matters pointed out in results of internal audits or examinations by self-regulatory organizations (SROs)

Figure 1: Changes in the numbers of monitored FIBOs



<sup>\*1</sup> "Monitoring Priorities for Securities Businesses (July 2020 - June 2021)" published on August 4, 2020:

[https://www.fsa.go.jp/sesc/news/c\\_2020/2020/20200804-1.htm](https://www.fsa.go.jp/sesc/news/c_2020/2020/20200804-1.htm)

3. Monitoring strategies for various FIBO business models

Based on the results of monitoring in the previous business year and the impact of COVID-19 on the securities industry, the examination will be conducted with a focus on the following points.

(1) Major securities business groups\*2

The SESC will monitor major securities business groups with regard to such matters as the development of governance and risk control environments that support domestic and overseas business operations, efforts to establish a sustainable business model, efforts to establish an effective and principle-based compliance environment, efforts to instill and establish customer-oriented business conduct, and efforts to enhance AML/CFT measures. In doing so, the SESC will take into consideration the management environment surrounding each group.

For securities businesses under the three mega banking groups, given their intentions to expand their customer bases through banking and securities collaborations, the SESC will monitor their control environments to manage conflicts of interest and other control measures.

(2) Foreign securities firms

The SESC will monitor the development of internal control environments that respond to the progress of overseas outsourcing of back office operations and structural changes in business models, the trends in products sold to Japanese financial institutions and other investors, and the risks of these products.

(3) Online securities firms

In consideration of the group-wide strategies and operation policies of the entire corporate group, the SESC will examine the status of internal control environments that reflect the increase in financial instruments they offer and their launch and expansion of face-to-face sales activities in collaboration with independent financial advisors (IFAs) , as well as the implementation status of system risk management that covers cyber security.

(4) Semi-major securities firms and regional securities firms

The SESC will examine cases of inappropriate solicitation, particularly in connection with foreign shares and high return products, and other conduct that is problematic from the viewpoint of investor protection, including their measures regarding the principle of suitability.

The SESC also monitors securities firms whose major shareholders or management structure changed, for example, due to the participation of foreign capital, from the viewpoint of their business models and governance.

(5) Foreign currency margin transactions (FX transactions) business operators

The SESC will examine their initiatives based on the Cabinet Office Ordinance to strengthen settlement risk management, which includes disclosure of risk information, implementation of stress tests, and an appropriate reflection of the results of the implemented stress tests to equity capital.

(6) Investment management business operators

The SESC will examine control environments for the management of conflicts of interest and outsourced investment management, as well as the status of development of a system to ascertain adequate market value.

Additionally, the SESC will continuously ascertain the current situation of investments in alternative assets.

(7) Investment advisors/agencies

The SESC will examine whether or not any misleading advertisements are used, or if any solicitation activity is conducted using false explanations.

(8) Type II FIBOs and QII business operators

The SESC will conduct risk-based examinations through the analyses of information provided by investors and other sources, while conducting monitoring with a focus on funds advertising high returns and the actual existence of the business project in which investment is to be made.

(9) Unregistered business operators

The SESC will positively utilize its investigative authority to seek court injunctions to cease and suspend activities that violate the Financial Instruments and Exchange Act.

With regard to operations related to high-speed trading, the SESC will look into the development of internal control environments for entrusted operations, such as the environments for managing orders and controlling systems, as well as order execution and trading management across multiple markets, such as stock exchanges, proprietary trading systems (PTSs), and dark pools.

Additionally, with regard to operations related to crypto asset derivatives, electronically recorded transferable rights, and commodity futures, etc., the SESC will conduct examinations in accordance with the risk characteristics of respective business categories.

4. Cooperation with relevant organizations

The SESC will conduct joint investigations in close collaboration with LFBs from the planning stage of both off-site and on-site monitoring.

Furthermore, the SESC will also work closely with SROs and encourage parties related to audits and outside directors of FIBOs to make voluntary efforts for improvements by sharing monitoring results with them at the time of review or on other occasions.

Figure 2: Number of inspections completed (Unit: cases)

Category	2015	2016	2017	2018	2019
Number of inspections completed	191	94	41	56	76
FIBOs	128	57	33	49	66
Type I FIBOs	58	25	21	31	46
Type II FIBOs	33	12	6	7	4
Investment advisors/agencies	31	14	4	7	11
Investment management business operators	6	6	2	4	5
Registered financial institutions	0	1	0	2	3
QII business operators	35	27	5	2	2
Financial instruments intermediary service providers	18	5	2	3	1
Credit rating agencies	2	0	0	0	0
Self-regulatory organizations, etc.	3	3	0	0	2
Investment corporations	2	1	0	0	1
Others	3	0	1	0	1

\*2 Major securities business groups: Japanese securities companies with global operations

# Formulation of Basic Plan for Monitoring Audit Firms in Program Year 2020 (from July 2020 to June 2021)

NOMURA Akifumi, Director, Monitoring and Inspection Office,  
Certified Public Accountants and Auditing Oversight Board

(\*The opinions expressed in this piece are the personal views of the author and do not necessarily reflect the views of the organizations with which the author is affiliated.)

The Certified Public Accountants and Auditing Oversight Board (hereinafter, “the CPAAOB”) conducts monitoring (off-site monitoring and inspection) of audit firms (audit firms and certified public accountants) to secure and improve the quality of audit by certified public accountants, based on the Basic Plan for Monitoring Audit Firms. I would like to introduce the key points of the basic plan for Program Year 2020\*<sup>1</sup> that was published on July 14, 2020.

When formulating the Basic Plan for PY 2020, the CPAAOB considered the basic concepts and focus points of monitoring, based on monitoring perspectives, objectives, etc. stated in the Basic Policy for PY 2019 and the environment surrounding audit firms, including recent audit and accounting scandal trends and the present status of quality control at audit firms.

## (1) Environment surrounding audit firms

The rapid expansion of the novel coronavirus 2019 (COVID-19) pandemic from around March 2020 has exerted a great influence on corporate account settlement and audit. In particular, account settlement operations were delayed mainly at companies that close annual books in March, leading to constraints on audit operations, such as stocktaking observation, balance confirmation and group audit involving overseas subsidiaries, which were feared to delay audit operations and affect audit opinions.

In response, the Japan Institute of Certified Public Accountants (hereinafter, “the JICPA”) published the consideration regarding audit, and stakeholders set up a liaison council.

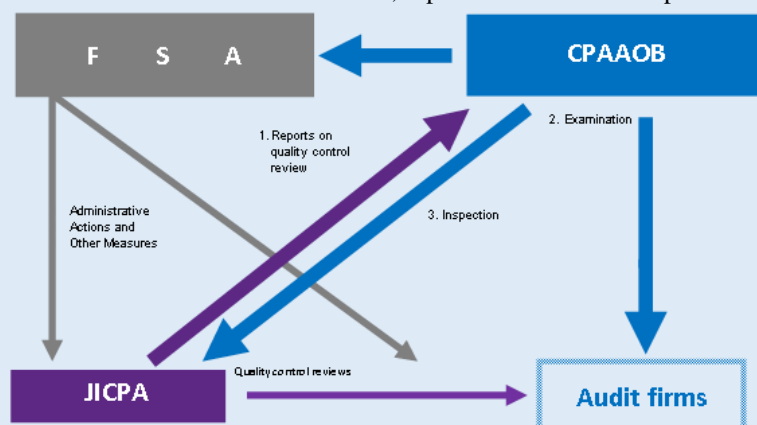
Audit firms have adopted telework in principle and implemented alternative audit procedures based on the points of attention. Some of them have used online conference systems for non-face-to-face quality control. Mainly large audit firms are assumed to further promote the digitalization of audit operations, including the introduction of remote audit, in which auditors use information technologies for audit without visiting audited companies.

Meanwhile, the number of listed companies that provide timely disclosure of matters such as inappropriate accounting treatment regarding insufficient control on overseas and other affiliates has been increasing.

## (2) Basic monitoring approach

In the current program year, the CPAAOB plans to flexibly conduct monitoring in view of the COVID-19 pandemic’s impacts on audit operations and to take the opportunity of the pandemic expansion to reconsider monitoring methods to make the CPAAOB’s monitoring of audit firms more efficient and effective for both sides.

<CPAAOB scheme for examination, report collection and inspection>



\*1 “Basic Plan for Monitoring Audit Firms in Program Year 2020,” published on July 14, 2020  
<https://www.fsa.go.jp/cpaaob/shinsakensa/kihonkeikaku/20200714/20200714-1.html>



Cited as focus points of monitoring in the plan are (a) the tone at the top towards the improvement of audit quality, (b) the establishment of an effective business management (governance) environments, (c) fact-finding in light of audit trends (effects of the COVID-19 pandemic on audit operations, group audit of overseas subsidiaries, conclusion of new audit contracts) and (d) IT-based audit approaches and cybersecurity measures.

### (3) Monitoring

#### (i) Off-site monitoring

Given the CPAAOB’s limited inspection resources, it is important for the CPAAOB to make effective use of the collection of reports so as to encourage audit quality to be ensured and improved at all audit firms in Japan. Therefore, we collect reports from and conduct interviews with audit firms, examine JICPA quality control reviews, and cooperate and exchange opinions with relevant organizations to further enhance information sharing.

#### (ii) Inspection

- We inspect audit firms according to their sizes\*2 and environments.
- Given that large audit firms fulfill an important role in the capital market, we inspect them every year (with regular inspections and follow-up inspections being conducted alternately) in principle. Follow-up inspections in the current program year will be conducted more efficiently and effectively, focusing on the verification of improvements regarding problems found in regular inspections.
  - Given that mid-tier audit firms hold a key position in the audit sector, we inspect them every three years in principle.
  - As for small and medium audit firms, we consider the JICPA’s quality control review and risks of companies audited by them and selectively inspect those whose quality control arrangements must be urgently checked.

Verification priorities for inspections of large and mid-tier audit firms include the effectiveness of senior executives’ operations management, quality control and governance arrangements, group audit covering overseas subsidiaries, and responses to fraud risks. Priorities for small and medium audit firms include quality control arrangements, such as audit resources, accounting estimates, responses to fraud risks and group audit procedures. Given that audit firms will be required to specify key audit matters, or KAMs, in audit reports on listed and other companies from the year to March 2021, we will check small and medium audit firms’ responses to the introduction of the requirement.

<Inspections in five latest years (based on inspection commencement dates) (number of audit firms)>

FY/PY	2015	2016 (Notes 1 and 2)	2017 (Notes 2)	2018 (Notes 2)	2019 (Notes 2)
Large audit firms	2	4(2)	4(2)	4(2)	4(2)
Mid-tier audit firms	1	2	2	1	2
Small and medium audit firms	6	5	3	5(1)	3
Foreign audit firms, etc.	0	1	0	0	1
Total	9	12(2)	9(2)	10(3)	10(2)

(Note 1) The fiscal year was changed into the program year from July 2016. PY 2016, in which the change came, covered the April-June 2016 quarter in addition to FY2015.

(Note 2) Numbers in parentheses represent audit firms subjected to follow-up inspections.

### (4) Providing monitoring information

We compile easy-to-understand reports on monitoring results and conditions and provide them to a wide range of stakeholders, including not only accountants and auditors but also market participants. From this viewpoint, we published the Monitoring Report\*3 and the Case Report from Audit Firm Inspection Results\*4 for 2020 on July 14.

\*2 "Large audit firms" represents the Big Four, covering about 100 or more listed companies and having 1,000 or more full-time auditors. "Second-tier audit firms" refers to five firms ranked below the Big Four. "Small and medium audit firms" refers to those other than large and mid-tier audit firms.

\*3 "2020 Monitoring Report"  
[https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20200714/2020\\_monitoring\\_report.pdf](https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20200714/2020_monitoring_report.pdf)

\*4 "Case Report from Audit Firm Inspection Results (PY 2020)"  
[https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20200714/2020\\_jireisyu.pdf](https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20200714/2020_jireisyu.pdf)

# Financial Policies Monitor

HARADA Mitsuharu, Deputy Director, Strategy Development Division,  
Strategy Development and Management Bureau

(\*The opinions expressed in this piece are the personal views of the author and do not necessarily reflect the views of the organizations with which the author is affiliated.)

## ■ Financial Policies Monitor

The FSA has heard opinions about financial administration from financial institutions and the general public in various ways. However, financial institutions and others have pointed out that it would be difficult for them to submit candid opinions directly to FSA officials.

Given this situation, the FSA on January 29, 2016, launched a Contact for Financial Policies Monitors through which neutral third parties (hereinafter, Financial Policies Monitors\*), instead of FSA officials, hear opinions, proposals and criticisms directly from financial institutions, their employees, academic experts, think tanks, industrial companies and others that have opinions about financial administration. Opinions given through the counter have been reflected in financial administration.

(\*) Financial Policies Monitors (as of September 1, 2020)

Satoshi Inoue, Attorney at law (Partner, Nagashima Ohno & Tsunematsu)

Hiroyuki Kansaku, Professor, Graduate Schools for Law and Politics, the University of Tokyo

Yuri Sasaki, Dean, Department of Economics, Meiji Gakuin University

Yumiko Nagasawa, Organizer, Foster Forum (forum to foster quality financial products)

Takau Yoneyama, Professor, Faculty of Business Administration, Tokyo Keizai University

Akihiro Wani, Attorney at law (Senior Counselor, Morrison & Forester LLP)

## ■ Comments received at the Contact for Financial Policies Monitor

Comments received at the Contact are submitted to FSA executives along with views of Financial Policies Monitors. Comments that do not represent companies or other organizations can be submitted.

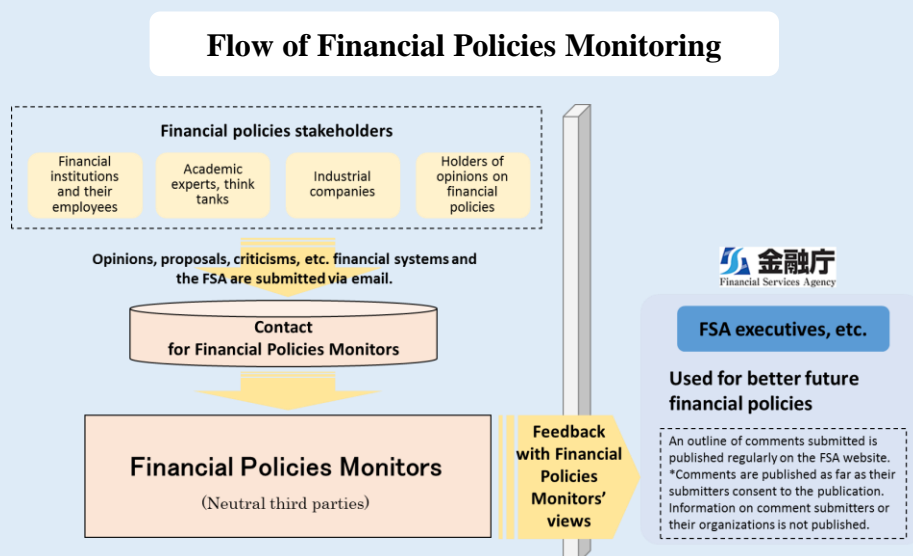
When comments are submitted, information for identifying comment submitters or their organizations is subjected to

masking to strictly secure their anonymity, unless they consent to their identification.

Discussions within financial institutions about comments submitted to the FSA would never become subject to inspections of financial institutions.

To secure the effectiveness and transparency of the Financial Policies Monitor system, the FSA publishes an outline of major comments and its responses to them on its website.

(However, information regarding comment submitters and their organizations is not published.)



■ Meeting between Financial Policies Monitors and FSA Executives

The Financial Policies Monitor system includes not only Financial Policies Monitors’ feedback of comments submitted to the Contact (email) to relevant FSA officials but also an annual meeting between the Monitors and FSA executives to ensure that the executives pay attention to the comments.

For PY 2019, the FSA held a meeting between the Monitors and FSA executives on June 30, 2020, giving consideration to the COVID-19 pandemic. At the meeting, relevant FSA officials gave presentations on issues raised by the Monitors in advance before an exchange of opinions.

Financial Policies Monitors gave the following opinions:

- In response to the COVID-19 expansion, the FSA should strenuously promote non-face-to-face procedures at financial institutions. It should cooperate with relevant government agencies to work on financial institutions to abolish the seal stamping system. The FSA still retains the seal stamping system for its internal procedures and should take the initiative in abolishing the system.
- The FSA website should be improved to make it easier for visitors to navigate the site.
- The financial administration monitoring counter has received an opinion that financial alternative dispute resolution organizations have failed to adequately respond to complaints. The financial ADR system should be continuously improved through the plan-do-check-act cycle.
- A framework like the financial administration monitoring system is rarely seen at any other government agency, which is very significant.

The above opinions are useful for FSA measures.

■ For better financial policies

In this way, the Financial Policies Monitor system allows Financial Policies Monitors to convey frank opinions, proposals, criticisms, etc. on financial policies to the FSA.

Comments received through the system include those that led to legislative actions. Major examples are cited on the right side.

◆ Flexible handling of the fiscal year involving foreign bank branches <A case leading to a Banking Act revision>

[Opinion provided]

Under the Banking Act, the fiscal year of banks is from April 1 to March 31. A foreign bank’s branches in Japan are subject to the rule, resulting in differences in fiscal years between its branches in Japan and its head offices in a foreign country. A foreign bank’s branches in Japan are thus forced to close annual books twice a year. A measure should be taken to allow the fiscal year of a foreign bank’s branches in Japan to be adapted to that of its head office.

[FSA response]

After considering the issue in view of its effects on the fiscal year of a foreign bank’s head office, on clerical burdens on its branches in Japan, and on regulatory operations, the FSA on March 3, 2017, submitted to the 193rd session of the National Diet parliament a bill to revise the Banking Act, etc. to allow a foreign bank’s branches in Japan to choose the same fiscal year as its head office. The bill was enacted on May 26, 2017.

◆ Removing the standard amount for reporting scandals involving cash and other losses <A case leading to a revision to the Regulation for Enforcement of the Banking Act>

[Opinion provided]

While any scandal involving a monetary loss of at least 1 million yen is required to be reported to authorities, the standard amount of 1 million yen is interpreted as lower than that indicated by the current economic situation.

[FSA response]

While banks, etc. must implement adequate business operations from the viewpoint of protecting depositors, etc., the FSA considered the advisability of establishing a stereotype standard of 1 million yen in view of the standard’s effects on business efficiency and operations at financial institutions. As a result, the FSA revised the Regulation for Enforcement of the Banking Act to remove the formal standard amount and require financial institutions to report losses recognized as significant for business management. The revision took effect in April 2017.

The FSA aims to implement better financial policies by receiving opinions, proposals, criticisms, etc. from the outside.

The FSA wishes that the Contact for Financial Policies Monitors would be proactively used as a channel for conveying such comments directly to the FSA.

On August 31, 2020, Yuri Okina (Chairperson, Japan Research Institute) and Hideki Kanda (Professor, Gakushuin University Law School) retired as Financial Policies Monitors after their long services. We thank them for having taken care of us since the launch of the Financial Policies Monitor system.

◆ For details, see “Financial Policies Monitor” of the FSA website at: <https://www.fsa.go.jp/monitor/> (available in Japanese)

# Computerization of the Special Guarantee Approval Process in Ishikawa Prefecture

The Regional Solutions Support Team\* has closely supported the computerization of the special guarantee approval process in Ishikawa Prefecture.

## \* Regional Solutions Support Team

This is a team launched by FSA officials on a voluntary basis under the Open Policy Lab framework. Along with like-minded volunteers from financial institutions, other central government agencies and local governments, the team has established the Regional Finance Meeting for exchanges between like-minded officials. It serves as a contact between local and central government agencies and between the government and private sectors, provides dialogue forums for solving regional issues submitted from various regions, and supports the consideration and implementation of plans or schemes to solve these issues.

## [Initiative History]

As private financial institutions began to handle effectively interest-free unsecured loans on May 1, 2020, they were required to serve as a one-stop contact point for various procedures to quickly provide such loans. (Those attempting to borrow interest-free unsecured loans are required to obtain approval from local governments regarding terms and conditions, including a sales decline.)

Through the Regional Finance Meeting network, however, local officials complained that those attempting to borrow such loans had to visit relevant local government offices for submitting documents and corrections, which incurred much cost in terms of time, while local government offices were plagued with the

three C's - closed spaces, crowded places and close-contact settings -- which must be avoided to prevent the COVID-19 infection, and that local governments had to shoulder massive clerical costs for such procedures as mailing written approvals.

In response, the team contacted Local Finance Meeting network members from the Small and Medium Enterprise Agency and found that subsidies would be provided to cover costs for the computerization of procedures for effectively interest-free unsecured loans and other measures contributing to improving clerical efficiency.

When the subsidy program was shared between Local Finance Meeting network members from financial institutions, local governments, credit guarantee associations and other organizations, Ishikawa Prefecture officials offered to computerize procedures affected by the COVID-19 disaster in order to facilitate cash flow for business operators.

Then, the team set up a dialogue forum for ambitious stakeholders of the Ishikawa Prefecture government, the Small and Medium Enterprise Agency and other organizations to discuss and reach a consensus on the computerization of the special guarantee approval process.

The computerization of the special guarantee approval process is designed to simplify and speed up approval application procedures, shorten the period of time between application and the provision of a loan, and prevent the three C's at local government offices.

The computerization initiative is expected to further promote digitalization and adaptation to the new normal.

## [Key point of the computerization initiative]

The Regional Solutions Support Team served as a bridge between local and central governments and between the government and private sectors to join ambitious like-minded volunteers through the Local Finance Meeting network and take advantage of information and communications technologies even at a time when face-to-face contact is limited under the COVID-19 expansion.

The computerization initiative, though involving a wide range of stakeholders from local governments, financial institutions and credit guarantee associations to central government agencies, was realized only in three months thanks to dialogue forum participants' close cooperation.

The Regional Solutions Support Team backs up the formation of regional economic ecosystems by joint regional key persons and providing dialogue forums.



〔 Dialogue forum (with some online participants) 〕



# Online “Kasumigaseki Dialogue” Held as a Local Finance Meeting Spinoff under a Regional Revitalization Support Program

On August 24 and 26, the Regional Solutions Support Team held an online Kasumigaseki Dialogue\* in cooperation with like-minded volunteers from central government agencies. The team took advantage of the online conference to gather a total of about 300 financial institution employees, public servants and business operators in various regions from Hokkaido in the north to Okinawa in the south. Under the theme "Support Programs amid the COVID-19 Crisis," the participants discussed support programs that central government agencies hope to provide to local communities.

Day 1		Day 2	
Small and Medium Enterprise Agency	Future SME support – Special COVID-19 loan rescheduling	Agriculture, Forestry and Fisheries Ministry	Food business status and policy
Japan Tourism Agency	Support for hotels	Cabinet Secretariat, Secretariat for the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan	Let's use data to discuss COVID-19
Immigration Services Agency of Japan	Recommending specified skilled workers – How to accept new foreign human resources in a new era	Ministry of the Environment	Regional ESG (environment, society and governance) finance to build a sustainable society
Cabinet Secretariat, Secretariat for the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan /FSA	Utilization of regional business human resources – Side job and professional human resources	FSA/Small and Medium Enterprise Agency	Regional dialogue initiative – Computerization of the special guarantee approval process at private financial institutions

Over the two days, a total of eight topics were discussed. Relevant agencies made 10-minute presentations on their respective topics, before participants interested in each topic were divided into two group sessions for active discussions.

As a questionnaire survey upon the previous Kasumigaseki Dialogue found an opinion that the time of 3 minutes for each presentation was too short, the time was lengthened to 10 minutes to allow each presenter to provide an outline of a program as well as explain its background and goal to deepen participants’ understanding.

Participants commented that they had intensive discussions, that they made inquiries with relevant central government officials to conduct discussions toward cooperation, and that they immediately proposed information gained through the online conference to their customers.

The first ever online Kasumigaseki Dialogue indicated that even an online meeting can create a network through interactive discussions.

The Regional Solutions Support Team supports regional revitalization by linking Kasumigaseki to local communities through a network of like-minded volunteers and promoting central government agencies’ support programs to local communities.



Upper photo: Presentation  
Lower photo: Regional Solutions Support Team members serving as facilitators in group discussions



\* "Kasumigaseki Dialogue":  
This dialogue has been devised jointly by the Regional Solutions Support Team and like-minded volunteers of central government agencies. It is designed to deepen understanding on regional revitalization measures taken by central government agencies and promote the measures to local communities.

## JFSA's Major Activities in August

(August 1 to August 31, 2020)



- [Publication of Summary from 'JFSA priorities for July 2020-June 2021' \(August 31,2020\)](#)
- [Updated statistics of money lending business \(August 28,2020\)](#)
- [FSA publishes the status of loans held by all banks as of the end of March 2020, based on the Financial Reconstruction Act \(August 28,2020\)](#)
- [FSA publishes English translation of monthly magazine, Access FSA No.204 \(August 27,2020\)](#)
- [Opening Remarks by Aso Taro, Deputy Prime Minister, Minister of Finance and Minister in Charge of Finance at the Blockchain Global Governance Conference \(BG2C\) in Tokyo \(August 26, 2020\)](#)
- [Is Satoshi's dream still relevant today? - Closing remarks by Himino Ryoza, commissioner of the JFSA, at the Blockchain Global Governance Conference \(BG2C\) in Tokyo \(August 26, 2020\)](#)
- [Financial hub cities in the post-COVID era \(August 25, 2020\)](#)
- [G20: Efforts on Governance Issues in Decentralized Financial Systems 'BGIN' — new global network \(August 24, 2020\)](#)
- [Brochure about the FSA \(August 12, 2020\)](#)
- [Preparation for permanent cessation of LIBOR \(August 11, 2020\)](#)
- [Stewardship Code : 285 institutional investors have signed up to the Principles for Responsible Institutional Investors as of July 31, 2020 \(August 7, 2020\)](#)
- [FSA publishes English translation of monthly magazine, Access FSA Extra Issue \(August 5, 2020\)](#)

- FSA Weekly Review  
<https://www.fsa.go.jp/en/newsletter/index.html>

- JFSA's official English Twitter account  
[https://twitter.com/JFSA\\_en](https://twitter.com/JFSA_en)



**We are promoting  
information  
dissemination using  
Twitter!**

### Editorial Postscript

I have newly assumed the office of Director of the Public Relations Office. I was in Beijing for the most recent three years, during which the Public Relations Office had endeavored to make ACCESS FSA easier to understand for readers as an effective PR tool. ACCESS FSA was significantly renewed from the September 2019 issue. I would like to inherit the editorial policy of my predecessor, Mr. Wada, and further endeavor to communicate information on the FSA's measures in a manner to help readers better understand them. We hope you will also enjoy reading this September issue, which contains diverse information summarizing the content of various meetings and policies.

SAKAI Yoshitaka, Director, Public Relations Office, FSA