

7

2021

July

Monthly
magazine

Financial Services Agency Newsletter

Access FSA

No.215



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⇐Access the online version here

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

Opening of the New Office of the Financial Market Entry Office (Kabutocho, Nihonbashi)

As part of a nationwide initiatives to expand Japan's role as an international financial hub, the FSA and Local Finance Bureaus jointly established the Financial Market Entry Office in January 2021. On June 11, we relocated the office to Kabutocho, Nihonbashi, and held an opening ceremony.*¹

In order to promote new entries into Japanese financial markets, the Financial Market Entry Office handles all procedures, from prior consultations for registration of newly entering foreign asset management companies and their registration to supervision, all in English as a single point of contact. Applications for registration in English started to be accepted this January and the office has received a number of inquiries. As of now, two asset management companies, a UK company and a US company, have completed their registration procedures in English.*²

For further accelerating this activity, it is important to develop an environment to enable financial businesses to make consultations easily. Instead of assuming a wait-and-see attitude, the FSA has opened the office at a location more convenient for businesses, thereby lowering physical and psychological hurdles with the expectation of achieving smoother entry procedures.



Photo: Finance Minister ASO (left) and State Minister AKAZAWA (right) unveiling the sign for the office at the opening ceremony

Upon opening the new office, an opening ceremony was held with the attendance of Finance Minister ASO and State Minister AKAZAWA, taking the measures against coronavirus. At the ceremony, Finance Minister ASO delivered his remarks encouraging the relevant personnel of the FSA and Local Finance Bureaus to work hard, saying that the office will lower the first barrier for entries into Japan, the language problem, and that attracting funds from overseas will lead to the activation of the Japanese financial industry as a whole. The officials reconfirmed their mission and responsibility and renewed their commitment. Then, in the presence of members of the media, a sign for the office was unveiled by Finance Minister ASO and State Minister AKAZAWA, and new office rooms were introduced to related parties including the Minister and the State Minister.

The new office in Kabutocho has meeting rooms of various sizes with video conferencing equipment. The FSA would like to have communication and collaboration more closely with related organizations, including financial businesses and self-regulatory bodies, to proceed with its initiatives for achieving financial administrative services in English as a single point of contact and various other measures.

*¹ For the address, etc. of the new office, see https://www.fsa.go.jp/en/policy/marketentry/index_5.html.

*² For details of the initiatives concerning an international financial hub, including the Financial Market Entry Office, see <https://www.fsa.go.jp/en/financialcenter/financialcenter.html>.

Parliamentary Vice-Minister WADA Had a Dialogue in a TV Program, "マネーのまなび" (BS TV Tokyo)

Parliamentary Vice-Minister WADA had a dialogue in a TV program of BS TV Tokyo, "日経スペシャル マネーのまなび (Nikkei Special: Learn about Money)," which was broadcasted from 10:00 p.m. on Thursday, May 27. He had a discussion with the anchorperson, Mr. MURAO Nobutaka. The discussion is outlined below.



Anchorperson MURAO (left) and Parliamentary Vice-Minister WADA (right) having a discussion

(Anchorperson MURAO)

What idea do you have concerning individuals' asset building in financial sector policies?

(Parliamentary Vice-Minister WADA)

The ultimate mission of the government is to achieve happiness and rich lives for all people.

Honestly, I myself have a sense of urgency because Japan is slightly behind in financial literacy, compared with western countries. In Japan, households' cash and deposits amounted to over 1,000 trillion yen as of last September, nearly ten times the national budget. I wonder if they actually need to save that amount all in the form of cash or deposits.

(Anchorperson MURAO)

Many of Japanese, including me, prioritize a guarantee of principal and hesitate to purchase stocks or investment trusts. How will the FSA encourage people to change their way of thinking?

(Parliamentary Vice-Minister WADA)

Individuals' lifestyles and ways of thinking are diverse. I think it important for people to manage their assets suited to their needs, respectively, in 100-year life society.

Taking an excessive risk may lead to a loss of property, but *Tsumitate* (Dollar-Cost Averaging) NISA is a long-

term, reserve-type, diversified investment product. Principals are not necessarily guaranteed, but we hope that *Tsumitate* NISA will be better utilized as the first step for steadily increasing assets.

(Anchorperson MURAO)

People's money will also flow into markets increasingly as risk money. What stance will you take regarding financial education?

(Parliamentary Vice-Minister WADA)

We dispatch lecturers to schools and deliver easy-to-understand videos^{*1} targeting high school students and adults on the FSA's official YouTube channel.

As a unique initiative, the FSA has published a financial education workbook for elementary school students, "Unko Money Drill,"^{*2} in collaboration with a popular "Unko Drill" workbook series ("unko" means "poo"), and has made it available on the FSA's website free of charge.

(Anchorperson MURAO)

In the meantime, a number of financial crimes are reported in newspapers and TV news programs. Thus, also, from such perspective, financial education is considered to be necessary. How is the FSA dealing with the current circumstances where financial crimes are not rare?

(Parliamentary Vice-Minister WADA)

Financial crimes are becoming more sophisticated year by year and are taking various forms, which makes it rather difficult to identify them, to be honest. However, the FSA is transmitting the latest information in diverse ways in collaboration with relevant ministries and agencies. With the awareness that the financial industry is entrusted with people's important assets, we must not forget our significant mission, namely, to surely protect those assets.

(Anchorperson MURAO)

Thank you very much.

^{*1} Videos for high school classes for students and explanatory videos for teachers:
<https://www.fsa.go.jp/ordinary/douga.html> (Available in Japanese)

^{*2} 'Unko Money Drill' Workbook for Elementary School Students, : <https://play.unkogakuen.com/manabi/game/fsa/>
(Available in Japanese)

Platform for Exchange and Communication between Government Employees and Financial Institution Employees, "Regional Finance Meeting" of Tottori Held Online

On Friday, June 11, 2021, about 150 officials of local governments and financial institutions, etc. in Tottori, who gathered on a voluntary basis with the aim of activating the economy of the prefecture, held the first Regional Finance Meeting (Chiikin kai), of Tottori online.

At the meeting, participants deepened understanding on the status and method of utilizing side-job workers through panel discussions and group discussions with invited intellectuals for the purpose of sharing skills held by individuals inside and outside Tottori Prefecture, which has the smallest population in Japan, and expanding initiatives for solving challenges faced by businesses in the prefecture.

Those officials who established the Tottori meeting had participated in the principal body of the Regional Finance Meeting with the FSA Regional Solutions Support Team. Then, this team assisted with the operation of the Tottori meeting as a member of the secretariat.



Photo: State Minister AKAZAWA greeting to participants online

At the opening, State Minister AKAZAWA Ryosei (Financial Services) delivered a speech that pointed out the significance of making efforts for regional revitalization in Tottori Prefecture and encouraged the participants to promote utilization of side-job workers in the prefecture as a joint effort between civil servants and financial institutions.

During the meeting, an official of a financial institution, who operates a local development company as a side job taking advantage of an the institution's in-house system supporting a side job, explained the aim of the system and talked how his experience through his side job was utilized in his main job.

Under the theme of "Regional Revitalization Centered on Human Resources," OTSU Toshiya, Director General of the Kyusyu Local Finance Bureau, introduced

nationwide initiatives utilizing side-job workers, such as a collaborative program between local governments and financial institutions to utilize side-job workers and a case in which a participant of a workation remained in the community and started business support as a side job.

In panel discussions on facilitating utilization of human resources, efforts and ideas were introduced by

- an official of the prefectural government, which is promoting human resources utilization policies,
- staff from a recruitment agency operating a community of side-job workers, an intermediary support organization bridging companies and workers, and a company that has accepted side-job workers,
- a worker who has engaged in a side jobs.

In subsequent group discussion, participants exchanged opinions, based on relevant policies of the national and local governments, with regard to ideal role sharing and collaboration for better utilizing human resources in local areas and the need for financial institutions themselves to contribute to local communities by providing side-job workers.

The volunteers in Tottori Prefecture who organized and held the Regional Finance Meeting of Tottori aim to hold the Tottori Dialogue regularly to deepen discussion among participants and provide local related parties with opportunities to have talks, thereby discussing concrete means to solve problems while sharing know-how on utilization of human resources in light of regional characteristics and policies of local governments.

The FSA Regional Solutions Support Team will encourage such regional initiatives by linking local people and supporting the preparation of a forum for their discussions, with the aim of offering assistance in the creation of networks for solving regional issues and the development of regional economic ecosystems.

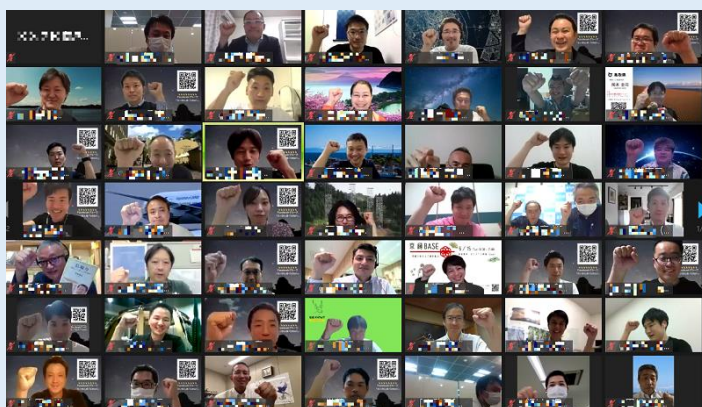


Photo: Online Regional Finance Meeting of Tottori

< For Promotion of Side – Message from State Minister AKAZAWA – >

I participated in the Regional Finance Meeting of Tottori held on Friday, June 11, 2021. What impressed me was an opinion of one of the participants, who said “There are still cases where financial institutions' in-house rules hinder workers from doing side jobs. Financial institutions should enable workers to build networks with diverse people and accumulate experience through side jobs and utilize such experience in their main jobs.”

Some financial institutions have already introduced organizational systems to permit side jobs or multiple jobs and such systems are considered to be beneficial for human resources development, regional revitalization, and financial institutions' contribution to local communities. This is a trend of the times, I think. In the past, when the population was increasing and the labor force was sufficient, it was normal for a worker, once employed, to swear his/her allegiance to a company and work for it throughout his/her working career, which was considered a virtue of the Japanese society. Those practices served as measures against unemployment in a sense and were viewed as a wise way by the politics or the society, aiming to avoid creating unemployment by preventing individuals from having multiple jobs.

However, the population, which increased rapidly from the early Meiji era in particular, started to decrease around a decade ago and Japan now faces a sharp population decline. Then, in contrast to the past, labor shortage became a social issue amid advancing population aging. We need to make all-out efforts to secure human resources in society as a whole. The idea of postponing retirement and helping healthy elderly people continue working is reasonable in the coming age and there is evidence to prove that continuing working is also beneficial to the elderly.

In light of such circumstances, it is necessary to further increase opportunities for the working generation to sufficiently utilize their skills through side jobs or multiple jobs and contribute to society. The same applies to workers of financial institutions and this is also considered a societal demand.

From such perspective, on June 23, the FSA issued a document to financial institutions to encourage them to develop a favorable environment, including the establishment of working rule, to permit workers to have side jobs or multiple jobs.



This request is in line with the government's policies incorporated in its Basic Policy on Economic and Fiscal Management and Reform, and we consider that side jobs and multiple jobs, through which workers can obtain new knowledge and share diverse values, have great potential to contribute to creating sustainable business models for financial institutions.

When considering companies and local economies affected by the COVID-19 infection in particular, it is time for financial institutions to intensively offer support and consulting services for companies' main businesses, such as for their management improvement and business reconstruction and transformation. Side jobs will help workers have connection with local communities from different points of view and expand networks, which is also expected to strengthen individual financial institutions' management resources.

During the ordinary Diet session in 2021, draft amendments of the Banking Act and other business laws were approved and the legal scopes of banks' services are to be expanded. In response, consulting services, which have been covered by the Guidelines for Supervision, will be clearly defined in a Cabinet Office Order in the future. The details of the consulting services remain unchanged irrespective of being incorporated in the Guidelines for Supervision or in a Cabinet Office Order, but will be clarified with the aim of facilitating services supporting companies' main businesses at this point in time, when an increasing number of companies are in need of support for their main businesses amid the COVID-19 pandemic.

I urge financial institutions to make active and voluntary efforts for developing a favorable environment and positively encourage motivated workers to engage in side jobs or multiple jobs in consideration of the aforementioned trend of the times.

Publication of the Report by the "Task Force to Discuss Optimal Ways to Ensure Best Execution" of the Working Group on Capital Market Regulations under the Financial System Council

SHIGEMOTO Kenya, Market Activities Supervisor, 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 December 18, 2020, the Task Force to Discuss Optimal Ways to Ensure Best Execution (chaired by Mr. KURONUMA Etsuro, Professor, Waseda Law School) was established under the Working Group on Capital Market Regulations, the Financial System Council. The Task Force has had meetings four times to review regulations on financial instruments business operators' best execution policies in light of environmental changes and problems after the introduction of the current system, and published a report compiling the results of the discussions (hereinafter referred to as the "Report") on June 2, 2021. The major points of the Report are summarized below.

1. Developments leading to the introduction of the current system and the outline of the system

In 1998, the on-exchange trading requirement was abolished and an approval system for operating the Proprietary Trading System (hereinafter referred to as the "PTS") as securities businesses was introduced. In 2005, the principle that securities companies must execute trading on an exchange unless a customer clearly selects off-exchange trading was reviewed and a new obligation was introduced from the perspective of investor protection to require securities companies to establish their best execution policies, which are policies and methods for executing customers' orders for securities trading under the best terms and conditions, and to actually execute orders based on those policies. On that occasion, it was provided that the best terms and conditions should be decided by comprehensively taking into account various

factors, such as costs, speed, and enforceability, not limited to prices, in light of the market infrastructure, etc. at that time, and that executing trading on the most liquid market while placing importance on enforceability should be considered as one of the means of best execution. Accordingly, best execution policies currently adopted by many of the financial instruments business operators define the principle of executing orders through major exchanges in consideration of the liquidity, possibility of execution, trading speed, and other factors.

2. Environmental changes and problems after the introduction of the current system

In recent years, trading outside exchange sessions is increasing (increase in the share of PTS trading, and services to provide dark pools for individual investors), and it has also become possible to some extent to execute orders by comparing prices on multiple exchange facilities thanks to the widely use of the Smart Order Routing (hereinafter referred to as the "SOR"), which enables execution of orders by searching an exchange facility presenting the best price from among multiple facilities. However, the following problems are pointed out:

- Structural conflict of interest incidental to the SOR;
- Investment strategy seemed to be adopted by some high-speed traders, taking advantage of price gaps among multiple exchange facilities caused by time lags (hereinafter referred to as "latency arbitrage").

3. How to review the system

(1) Best execution policies placing more importance on prices

The necessity to review the concept utilized at the time of introducing the current system is not so immediate for best execution policies targeting institutional investors, but with regard to those targeting individual investors, the Task Force recommends reviewing them in a manner to place more importance on prices in light of the facts that prices are basically the most important element for individual investors and that it has become possible to some extent to execute orders by comparing prices on multiple exchange facilities in recent years. More specifically, it is recommended to change best execution policies to place more importance on prices by adding, as a legally required statement in the policies,

Major amendments in the past

Year	Exchanges	Proprietary Trading System (PTS)	
1998	<ul style="list-style-type: none">Abolition of the on-exchange trading requirementLifting of the ban on exchanges' opening of multiple markets	<ul style="list-style-type: none">Introduction of an approval system for operating the PTSPublication of contract information, etc. through the Japan Securities Dealers Association	
2000		<ul style="list-style-type: none">Expansion of the method of formation of trading price (addition of a customer order driven system and a market maker system)Publication of market quotes, etc.Introduction of a quantity standard based on trade volume shares	
2005	<ul style="list-style-type: none">Abolition of the principle of on-exchange tradingPublication of market quotes, etc. on a real-time basis	<ul style="list-style-type: none">Expansion of method of formation of trading price (addition of an auction system)Publication of market quotes, etc. through the Japan Securities Dealers Association on a real-time basis	<div>Introduction of regulations concerning best execution policies</div>
2010	<ul style="list-style-type: none">Clarification of the fact that dark pools do not fall under the category of the PTS	<ul style="list-style-type: none">Ban on PTS margin tradingEstablishment of a method and a system to eliminate short selling in violation of relevant regulations	
2018	<ul style="list-style-type: none">Postponement of the introduction of an approval system regarding dark pools		<ul style="list-style-type: none">Introduction of a registration system for high-speed trading
2019		<ul style="list-style-type: none">Lifting of the ban on PTS margin trading	
2020	<ul style="list-style-type: none">Increase of the transparency of dark pool trading		

Working Group on Capital Market Regulations under the Financial System Council

Outline of the Report by the Task Force to Discuss Optimal Ways to Ensure Best Execution (published on June 2, 2021)

Outline of the current system concerning best execution policies (introduced in 2005)

- Best execution policies: Policies and methods for financial instruments business operators to execute customers' orders for securities trading under the best terms and conditions

⇒ Comprehensively taking into account various factors, such as costs, speed, and enforceability, not limited to prices, under the circumstances at the time (Many of the financial instruments business operators define the principle of executing orders through major exchanges in their best execution policies.)

Environmental changes and problems after the introduction of the current system

Environmental changes after the introduction of the current system

- The share of PTS trading increased gradually, and the SOR^(Note 1) became widely used. ⇒ It became possible to execute orders while placing importance on prices.

Problems from the perspective of investor protection

- There are diverse types of SOR services and some involve structural conflict of interest.
- Some high-speed traders are likely to engage in latency arbitrage.^(Note 2)

(Note 1) Smart Order Routing: A system to execute orders by searching an exchange facility presenting the best price from among multiple facilities

(Note 2) Investment strategy taking advantage of price gaps among multiple exchange facilities caused by time lags

Emphasis on prices in best execution policies for individual investors

Place more importance on prices, in principle, for trading of individual investors

(In the case where a customer is an individual:

- When mainly considering the customer's interest other than prices, imposition of the obligation to state the reason thereof in best execution policies
- When using dark pools, imposition of the obligation to state the reason thereof in best execution policies

Responses against problems from the perspective of investor protection

(1) Increase of the transparency of the SOR

(Regarding financial instruments business operators using the SOR:

- Imposition of the obligation to state the rules of executing orders using the SOR in best execution policies
- Imposition of the obligation to state the status of improvements in prices in written explanations of best execution

(2) Clarification of the policies and measures against latency arbitrage

- Imposition of the obligation to state the outline of the policies and measures against latency arbitrage in best execution policies

Appropriate and flexible responses will be made for the Payment for Order Flow in accordance with changes in the situations (At present, no cases involving the PFOF have been found in Japan and relevant regulations are being reviewed in the United States.)

Public Comments Regarding the Draft Cabinet Order and Cabinet Office Orders, etc. Accompanying the 2020 Amendments of the Act on Sales, etc. of Financial Instruments, etc.

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* Official positions are those at the time of the publication.

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

With regard to the Cabinet Order and Cabinet Office Orders, etc. to be developed accompanying the enforcement of the Act Partially Amending the Act on Sales, etc. of Financial Instruments for the Convenience and Protection of Financial Service Users, etc. (Act No. 50 of 2020; hereinafter referred to as the "Amendment Act"), which was promulgated on June 12, 2020, the FSA solicited public comments from February 22 to March 24, 2021. The relevant Cabinet Order and Cabinet Office Orders, etc. were promulgated on June 2, 2021, and the Amendment Act is to come into effect as of November 1, 2021.

This corner outlines the latest amendments and introduces major questions and opinions in accepted public comments and the FSA's responses thereto.

1. Backgrounds leading to the establishment of the financial service intermediary business

The current system concerning intermediaries linking customers and financial institutions has the following problems:

- Regulations are imposed by type of business under different Acts, such as those for bank agents under the Banking Act, those for financial instruments intermediary service providers under the Financial Instruments and Exchange Act, and those for insurance agents under the Insurance Business Act. When intending to engage in intermediary services in multiple types of business (banking, securities and insurance sectors), a service provider is required to obtain multiple registrations depending on fields of business.
- Basically, an intermediary service provider is required to be affiliated to a certain financial institution,^{*1} and when intending to engage in intermediary services regarding financial instruments or services provided by multiple financial institutions, the service provider needs to follow guidance, etc. from the financial institution to which the service provider is affiliated.

In this manner, the current system does not necessarily envisage intermediary services covering multiple types of business or conducted with multiple financial institutions, and it has been pointed out that this imposes a heavy burden on service providers who intend to conduct a business to compare diverse financial services provided by multiple financial institutions and recommend optimal services suited to individual customers.

Accordingly, through the amendment of the Act on Sales, etc. of Financial Instruments,^{*2} the "financial service intermediary business" was established as a new type of business in the financial industry to enable the provision of one-stop customer services covering the entirety of the banking, securities, and insurance sectors with one registration.

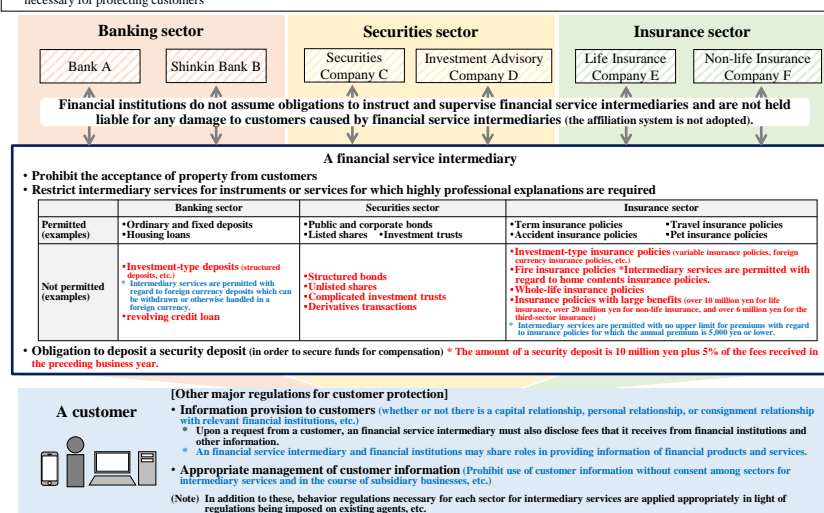
Apart from other existing intermediary service providers, the affiliation system is not adopted for financial service intermediaries, and instead, a cross-industry framework to facilitate flexible collaboration and cooperation with multiple financial institutions is put in place, while preparing the following measures for customer protection in lieu of the affiliation system:

- Prohibit the acceptance of property from customers, thereby preventing damage to customers that may be caused by exhaustion, diversion, etc.;

Outline of the Act on Provision of Financial Services (to be enforced on November 1, 2021)

(The matters in red are provided for in the Cabinet Order. The matters in blue are provided for in the Cabinet Office Order.)

- Establish a new type of business, the "financial service intermediary business," to enable the provision of services covering the entirety of the banking, securities, and insurance sectors with one registration
- Do not require financial service intermediaries to be affiliated to a certain financial institution, apart from existing agents, but put in place regulations necessary for protecting customers



^{*1} This is a mechanism called the "affiliation system" under which individual financial institutions assume obligations to instruct and supervise their affiliate intermediary service providers and are held liable for any damage to customers caused by their affiliate intermediary service providers.

^{*2} The title of the Act was altered from the Act on Sales, etc. of Financial Instruments to the Act on Provision of Financial Services.

- (ii) Restrict solicitation for instruments or services for which highly professional explanations need to be given to customers, thereby preventing troubles with customers concerning financial service intermediaries' selling and soliciting activities;
- (iii) Oblige deposit of a certain amount of security deposit, thereby securing financial service intermediaries' funds for compensation in the event of the occurrence of damage to customers.

Furthermore, with regard to behavior regulations concerning financial service intermediaries, provisions are being developed, in consideration of the consistency with regulations being imposed on existing agents, so as to ensure appropriate application of regulations to all other existing intermediary service providers.

Hereinafter, the scope of covered financial instruments and services and the amount of a security deposit specified by the Cabinet Order and Cabinet Office Order^{*3} are outlined with the content of major public comments. See the figure on the preceding page for the whole picture of the system.

2. Scope of covered financial instruments and services

The Cabinet Order specifies the following as examples of financial instruments and services for which intermediary services are to be restricted as highly professional explanations need to be given to customers.

Banking sector	Investment-type deposits (structured deposits, etc.), revolving credit loan
Securities sector	Structured bonds, unlisted shares, complicated investment trusts, derivatives transactions
Insurance sector	Investment-type insurance policies (variable insurance policies, etc.), fire insurance policies other than home contents insurance policies, whole-life insurance policies, insurance policies with large benefits

On the other hand, the Cabinet Office Order has provisions to expand the scope of covered financial instruments and services, such as the provision permitting intermediary services for foreign currency deposits, which basically fall under the category of investment-type deposits, as long as they can be withdrawn in a foreign currency, and the provision permitting intermediary services with no upper limit for premiums with regard to insurance policies for which the annual premium is 5,000 yen or lower.

There were many public comments questioning the possibility of reviewing the coverage in the future. Regarding this point, the FSA's view is as follows.

[FSA's view]

Regarding the scope of financial instruments and services, as well as partner financial institutions, covered by the financial service intermediary business, the FSA considers it appropriate to examine the need to reconsider them in light of the complexity in designing financial instruments and the level of their prevalence in people's daily lives, customer needs, and the status of business of financial service intermediaries, including their efforts for customer protection.

3. Amount of security deposit

The Cabinet Order provides that the amount of a security deposit, which financial service intermediaries are obliged to deposit from the perspective of securing funds for compensation, is to be calculated as the sum of 10 million yen and 5% of the fees that financial service intermediaries received in the preceding business year.

A number of public comments were submitted both from those considering the specified amount to be too much and those having concerns over the possibility that the amount would turn out to be insufficient. Regarding this point, the FSA's view is as follows.

[FSA's view]

- The amount of a security deposit is determined based on comprehensive consideration of the following:
- The fact that a mechanism under which partner financial institutions assume liability to compensate for loss caused by intermediary services (a so-called affiliation system) is not adopted for financial service intermediaries;
 - Levels of security deposits required to be deposited by other existing intermediary service providers from the perspective of customer protection;
 - The fact that the scope of covered financial instruments and services is limited for financial service intermediary business;
 - Significance of promoting innovation and enhancing convenience of customers through facilitating new entries in the financial service intermediary business; and
 - The purport of the new system to permit intermediary services for financial instruments and services in multiple sectors with one registration.

These are major points pointed out in public comments on the 2020 amendments of the Act on Sales, etc. of Financial Instruments and the accompanying development of the relevant Cabinet Order and Cabinet Office Orders, etc.

The FSA expects various service providers and businesses to develop diverse and highly convenient intermediary services in response to customer needs under the new framework, and will endeavor to operate the new system in an appropriate manner.

^{*3} In this piece, the Cabinet Order refers to the Order for Enforcement of the Act on Provision of Financial Services (Cabinet Order No. 484 of 2000) and the Cabinet Office Order refers to the Cabinet Office Order on Financial Service Intermediaries (Cabinet Office Order No. 35 of 2021).

Publication of Q&As for Financial Institutions Concerning Full Online Identity Confirmation Methods under the Act on Prevention of Transfer of Criminal Proceeds

On May 28, 2021, the FSA published the "Q&As for Financial Institutions Concerning Full Online Identity Confirmation Methods under the Act on Prevention of Transfer of Criminal Proceeds." The background and key points are summarized below.

1. Background

The Act on Prevention of Transfer of Criminal Proceeds originally provided for a method using a public identity verification service or other electronic certificates as a method of identity confirmation that can be completed online.^{*1} In November 2018, the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds was amended from the perspective of introducing measures for FinTech, and new methods using images or IC chip information, etc. of documents for identity confirmation are additionally prescribed therein.

The FSA has supported the introduction of full online identity confirmation methods through providing consultations to financial institutions planning to introduce such methods.^{*2} Furthermore, the Growth Strategy for 2019^{*3} included support of private companies' implementation of innovative identity confirmation and promotion of the sophistication and speeding-up of identity confirmation, as the FSA's continued initiative.

Against such a background, the COVID-19 pandemic broke out in 2020, which triggered the move to make efforts for dissemination of non-face-to-face financial services in the financial industry as a whole from the perspective of promoting digitalization. The significance of full online identity confirmation methods has thus further increased.

Accordingly, the FSA compiled questions collected through public comment procedures and consultations from companies and published the results in the form of Q&As for financial institutions that are considering or planning to introduce full online identity confirmation methods with the aim of further facilitating efforts of the financial industry for the dissemination of non-face-to-face financial services.

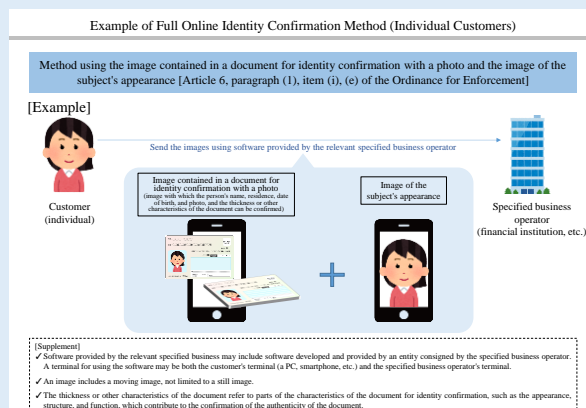
2. Key points

The published Q&As, which mainly target financial institutions that are considering or planning to introduce full online identity confirmation methods, consist of the Q&A section for facilitating understanding of the basics of the system and reference materials illustrating the details of relevant legal provisions with pictures. The Q&A section is an Excel document, instead of a pdf file, and is digitally usable, enabling users to search and extract questions using keywords or based on relevant provisions.

The FSA will continue supporting financial institutions' efforts concerning identity confirmation of customers.

Type	Method	Applicable provisions ^(Note)
For individual customers	Methods using documents for identity confirmation	Method using the image contained in a document for identity confirmation with a photo and the image of the subject's appearance Item (i), (e)
	Method using the IC chip information contained in a document for identity confirmation with a photo and the image of the subject's appearance	Item (i), (f)
	Method using the image or IC chip information contained in a document for identity confirmation and an inquiry about relevant customer information made with a bank, etc.	Item (i), (g), 1.
	Method using the image or IC chip information contained in a document for identity confirmation and transfer of money into the customer's bank account	Item (i), (g), 2.
	Methods using electronic certificates	Method using an electronic signature certificate of a public identity verification service (an electronic signature certificate recorded on an individual number card) Item (i), (m)
For corporate customers	Method using an electronic certificate issued by a private company	Item (i), (l) and (n)
	Method using registration data of the Registration Data Provision Service	Item (iii), (b)
	Method using an electronic certificate issued by an electronic certificate registry	Item (iii), (c)

(Note) All provisions are in Article 6, paragraph (1) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds (hereinafter referred to as the "Ordinance for Enforcement").



^{*1} Here, the term "identity confirmation" refers to what is prescribed as the confirmation of the identification matters under the Act on Prevention of Transfer of Criminal Proceeds. Identification matters refer to the name, residence, and date of birth for an individual customer, and the name and location of the head office or principal office for a corporate customer.

^{*2} These refer to all specified financial institutions under the jurisdiction of the FSA as prescribed by the Act on Prevention of Transfer of Criminal Proceeds.

^{*3} "Follow-up on the Growth Strategy" (Cabinet decision on June 21, 2019)

Global Financial Partnership Center (GLOPAC)

The FSA established the Asian Financial Partnership Center (AFPAC) in April 2014 with the aim of assisting in developing financial sector infrastructure of emerging countries and further strengthening cooperative relationships with financial authorities and reorganized the AFPAC into the Global Financial Partnership Center (GLOPAC) in April 2016, which offers 2-3 months training program by accepting around 10 officials from emerging countries' financial authorities as Visiting Fellows. Four main characteristics of the Program are as follows:

- (i) The Program is conducted three times a year by sector such as banking, securities and insurance.
- (ii) Its contents are tailored to each Visiting Fellow's areas of interest.
- (iii) In addition to lectures provided by FSA officials, the Visiting Fellows visit relevant associations and organizations and attend lectures to understand Japanese financial system in a multifaceted manner (they also go on business trip to a Local Finance Bureau as well as local financial institutes to learn supervision of local financial institutes and others).
- (iv) Not only learning from Japan, they can also learn from other Visiting Fellows in the same group, and this contributes to the creation of networks among financial regulators.

Under the current circumstances where it is difficult to invite the Visiting Fellows to Japan due to the spread of COVID-19, we operate virtual trainings by using a Webinar tool. As they participate in lectures from their home countries, there are a kind of challenges such as differences in time and Wi-Fi condition. Even so, they proactively attend and have interactive discussion session in the course of Program.



〔 Photo: FSA Commissioner HIMINO and GLOPAC Visiting Fellows of the 17th group 〕



〔 Photo: Vice Minister for International Affairs MORITA and GLOPAC Visiting Fellows of the 17th group 〕

Since July 2014, the FSA has accepted a total of 166 officials of financial authorities of 36 countries and regions. We consider it important to maintain and strengthen networks with Visiting Fellows who complete the Program (former Visiting Fellows) and have continued the following initiatives:

- (i) Conduct follow-up interviews with former Visiting Fellows in their home countries when FSA official visits there on business;
- (ii) Hold GLOPAC alumni forums by inviting them to mutually exchange information and opinions, including how they have applied learnings from the Program;
- (iii) Invite them again to Japan so that they can give a lecture to current Visiting Fellows and exchange opinions with FSA officials;
- (iv) Invite them as speakers to international symposiums hosted by the FSA or other organizations;
- (v) Periodically deliver GLOPAC Newsletters.



〔 Photo: Alumni forum in South Africa 〕

Even at present, when overseas travels are difficult due to the COVID-19, the FSA continuously holds alumni forums by using the Webinar tool.

In addition, the GLOPAC Secretariat has fully renovated the GLOPAC webpage of the FSA and has created a platform to further strengthen networks of the GLOPAC through introduction of current and former Visiting Fellows and provision of the latest information. Please visit the brand new website from the following link. The Secretariat will continuously update the website that has been created together with current and former Visiting Fellows and deliver latest information on a timely basis.



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

JFSA's Major Activities in June

(June 1 to June 30, 2021)



- [FSA updated Information on COVID-19 \(Novel Coronavirus\) \(June 3, 2021\)](#)
- [Overview of major banks' financial results as of March 31, 2021 \(June 4, 2021\)](#)
- [Overview of the Japanese regional banks' financial results for the fiscal year ended March 31, 2021 \(June 4, 2021\)](#)
- [Meeting of the Financial Monitoring Council \(June 7, 2021\)](#)
- [The 14th NAIC-FSA Insurance Dialogue \(June 8, 2021\)](#)
- [Exchange of Letters on cooperation in the area of audit oversight with the Federal Audit Oversight Authority \(FAOA\) of Switzerland \(June 10, 2021\)](#)
- [New Location Established for Financial Market Entry Office \(June 11, 2021\)](#)
- [Finalization of the Revised Guidelines for Investor and Company Engagement \(June 11, 2021\)](#)
- [Overview of financial results of major insurance companies as of March 31, 2021 \(June 15, 2021\)](#)
- ["Report by the Expert Panel on Sustainable Finance" Announced \(June 18, 2021\)](#)
- [Joint session of the 46th general meeting of Financial System Council and the 34rd meeting of Sectional Committee on Financial System \(June 18, 2021\)](#)
- [Cash Flow Support for Companies in Consideration of the Spread and Prolongation of the Impact of COVID-19 \(Novel Coronavirus\) Outbreak \(Request\) \(June 23, 2021\)](#)
- [Comment letter on the IFRS Foundation Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards \(June 28, 2021\)](#)
- [Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism \(June 30, 2021\)](#)

- JFSA's official English Twitter account
https://twitter.com/JFSA_en



We are promoting
information
dissemination using
Twitter!

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- Please send your opinions using the following email address to the Public Relations Office's personnel in charge of Access FSA.

E-mail : fsa_kouhou@fsa.go.jp

Editorial Postscript

A new administrative year started in July. How have you been?

The first issue of the 2021 administrative year picks up a broad range of themes, including globalization (Financial Market Entry Office and GLOPAC), regional revitalization (Regional Finance Meeting Tottori), financial literacy (TV Program, "マネーのまなび"), and digitalization (Q&As on online identity confirmation methods), and provides the latest policy commentaries.

As vaccination is progressing worldwide, economic activities are gradually recovering. Many people wonder what the world will be like after the end of the COVID-19 pandemic and these themes will surely increase in importance in the future. We will continue our efforts for easy-to-understand PR activities and wish to hear your opinions. Please email any opinions and comments to the address above.

SAKAI Yoshitaka, Director, Public Relations Office, FSA
Edited and issued by the Public Relations Office, FSA