

8

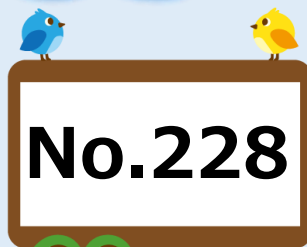
2022

August

**Monthly
magazine**

**Financial Services Agency
Newsletter**

Access FSA



Contents

Conferences (P1-)

P1 Visit to Germany and the United Kingdom by State Minister KIKAWADA

P3 Meeting of Directors-General of Local Finance Bureaus

– Remarks by State Minister KIKAWADA Notice

P4 Visit to the Tokyo Stock Exchange (TSE), Financial Market Entry Office, and FINOLAB,
by Parliamentary Vice-Minister MUNEKIYO

P5 Bilateral meeting between FSA Commissioner NAKAJIMA Junichi and U.S. Treasury
Secretary Janet L. Yellen

Policy Commentary Corner (P6-)

P6 Summary of "Progress Report on the Efficiency of Financial Intermediation

KAJIWARA Kotaro, Chief Analyst

NAKAO Makoto, Deputy Division Chief

Regional Financial Planning Office, Banking Business Division II, Supervision Bureau

P9 Publication of "Research Report Regarding IT Governance of Financial Institutions" and
"Analysis Report on Financial Institutions' IT System Failures"

SAITO Tsuyoshi, Director, Cyber Security Policy Office

YAMADA Yasuaki, Special Inspector

NISHIMURA Toshinobu, Risk Analysis Planning Coordinator

Risk Analysis Division, Strategy Development and Management Bureau

P12 Results of Monitoring Customer-Oriented Business Conduct of Investment Trust
Distributors (2021 Program Year)

SATO Toshiaki, Senior Deputy Director,

Risk Analysis Division, Strategy Development and Management Bureau

JFSA's Major Activities in July (P15)



←Access the online version here

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



Financial Services Agency

Visit to Germany and the United Kingdom by State Minister KIKAWADA

State Minister for Financial Services KIKAWADA Hitoshi visited Germany and the United Kingdom (the UK) from July 11 until 16, 2022.

In Germany, State Minister KIKAWADA visited Frankfurt and exchanged views with officials of Frankfurt Main Finance (FMF), which is striving to turn Frankfurt into a global financial city as its mission, and with officials of Japanese companies operating there.

In the UK, State Minister KIKAWADA discussed issues, such as the disclosure of sustainability-related information, with Andreas Barckow, chairman of the International Accounting Standards Board (IASB), and Sue Lloyd, vice chair of the International Sustainability Standards Board (ISSB). He also exchanged views with Nicholas Lyons, appointed as the next Lord Mayor of the City of London.

1. Germany

- Meeting with Andreas Glänzel, Co-Secretary General of FMF

State Minister KIKAWADA met Andreas Glänzel, Co-Secretary General of FMF, and exchanged views on issues, such as efforts to achieve sustainable finance and a global financial city.

Photo: State Minister KIKAWADA with Andreas Glänzel, Co-Secretary General of FMF



2. The UK

- Meeting with Andreas Barckow, Chairman of IASB

State Minister KIKAWADA met Andreas Barckow, Chairman of the IASB, and discussed the IASB's work under the Ukrainian situation, the disclosure of sustainability-related information, and other issues.

Photo: State Minister KIKAWADA with Andreas Barckow, Chairman of the IASB



○Meeting with Sue Lloyd, Vice Chair of ISSB

State Minister KIKAWADA met Sue Lloyd, Vice Chair of the ISSB tasked with drawing up international standards for the disclosure of sustainability-related information, and mentioned Japan's contribution to the ISSB and the state of affairs concerning the disclosure of sustainability-related information in Japan. The two also exchanged views on the ISSB's policy for future programs and other issues.



Photo: State Minister KIKAWADA with Sue Lloyd, Vice Chair of the ISSB

○Meeting with Nicholas Lyons, the next Lord Mayor of the City of London.

State Minister KIKAWADA met Nicholas Lyons, the next Lord Mayor of the City of London, and exchanged views on issues, such as important factors and necessary efforts to realize an international financial center. The two also agreed to continue deepening cooperation and alignment.

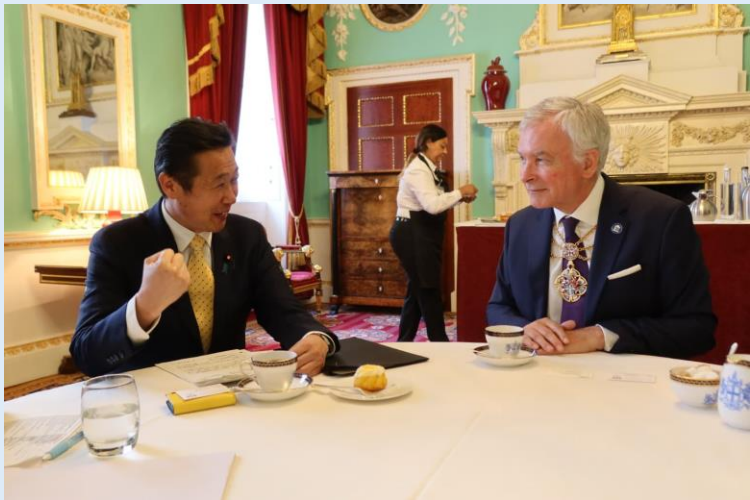


Photo: State Minister KIKAWADA with Nicholas Lyons, the next Lord Mayor of the City of London

State Minister KIKAWADA also exchanged views with officials of Japanese companies and financial institutions in Frankfurt, Germany, and London, the UK, on issues such as economic and business conditions in Europe.

Meeting of Directors-General of Local Finance Bureaus

– Remarks by State Minister KIKAWADA –

The Financial Services Agency (FSA) held the current administrative year's first meeting* with Directors-General of Local Finance Bureaus on July 26, 2022, both face-to-face and online. State Minister for Financial Services KIKAWADA gave remarks in the conference room where the bureau chiefs and senior FSA officials gathered.



Photo: State Minister KIKAWADA gives remarks during the meeting with Directors-General of Local Finance Bureaus.

< Remarks by State Minister KIKAWADA >

State Minister KIKAWADA made the following remarks on two topics -- "important issues in the current administrative year's monitoring" and "promotion of sustainable finance."

First, it is necessary to improve measures against money laundering and other activities as a whole because they target, as their feature, financial institutions with inadequate countermeasures. The local financial bureaus and the FSA have jointly worked to upgrade the countermeasures through the inspection of financial institutions across the country and other means. The matter in question may as well continue to be dealt with as an important issue in the current administrative year.

As, furthermore, there are concerns that the lowering the age of adulthood will prompt young

people to borrow in excess of their repayment ability, authorities are set to monitor lenders' compliance with guidelines set by their industry organizations. The local finance bureaus therefore are expected to cooperate in grasping and inspecting the state of lending to young people.

For the promotion of sustainable finance as the second point, the government is set to settle social problems and achieve a sustainable economy while establishing a virtuous cycle of growth and distribution under its avowed policy of "new capitalism." As the FSA has been implementing programs to promote sustainable finance, the local finance bureaus are expected to cooperate with the FSA and push ahead with efforts to promote regional financial institutions' sustainable finance.



Photo: The meeting with local financial bureau chiefs in progress

During the meeting with local financial bureau chiefs, the Commissioner and other senior officials of the FSA explained current challenges to its financial policy and measures it has taken to address them, among others, in addition to remarks by State Minister KIKAWADA. FSA officials and local finance bureau chiefs shared the recognition of the challenges and other issues and confirmed that the FSA and the local finance bureaus will continue to jointly cope with them.

* The FSA delegates part of its authority over the inspection and supervision of regional private financial institutions, etc. to the 11 Local Finance Bureaus (including the Okinawa General Bureau of the Cabinet Office) based on laws and regulations. In order to ensure sufficient cooperation between the FSA and the Local Finance Bureaus, Directors-General of Local Finance Bureau and senior FSA officials meet once every three months to discuss a variety of issues.

Visit to the Tokyo Stock Exchange (TSE), Financial Market Entry Office, and FINOLAB, by Parliamentary Vice-Minister MUNEKIYO

Parliamentary Vice-Minister MUNEKIYO Koichi visited the TSE and FINOLAB Inc., the Financial Market Entry Office on July 14, 2022.

At the TSE, Vice-Minister MUNEKIYO visited the Market Center, the former trading floor of the bourse, and listened to Chief Executive Officer KIYOTA Akira of Japan Exchange Group Inc. (JPX), President YAMAJI Hiromi and other officials about its activities and system of continuing operations.



Photo: Meeting with Chief Executive Officer KIYOTA and other executives of Japan Exchange Group Inc.

The Financial Market Entry Office* was jointly founded by the FSA and the local finance bureaus in 2021 as part of efforts to create an international financial center. It serves as a one-stop contact point to encourage overseas asset management companies to enter the Japanese market through support for all regulatory processes from pre-application consultation to supervision after registration, with all communication available in English.

Parliamentary Vice-Minister MUNEKIYO visited the office in Nihonbashi Kabutocho and exchanged views with FSA officials about the registration of overseas asset management companies, and challenges for Japan to become an international

financial center.



Photo: Parliamentary Vice-Minister MUNEKIYO, right, visits the Financial Market Entry Office.

FINOLAB is a membership community space in Otemachi, aimed at forming a fintech ecosystem and creating new businesses. It houses many fintech companies and financial institutions.

Parliamentary Vice-Minister MUNEKIYO looked around the facilities of FINOLAB and exchanged views with SHIBATA Makoko, head of FINOLAB, and OKITA Takashi, chairperson of the Fintech Association of Japan, on issues such as progress in Japan's fintech ecosystem and its future prospect.



Photo: At FINOLAB

* For the office to support the establishment of business outlets and other approaches to the creation of an international financial center, visit <https://www.fsa.go.jp/en/financialcenter/financialcenter.html>.

Bilateral meeting between FSA Commissioner NAKAJIMA Junichi and U.S. Treasury Secretary Janet L. Yellen



Photo: U.S. Treasury Secretary Janet Yellen, left, and FSA Commissioner NAKAJIMA Junichi, right.

FSA Commissioner NAKAJIMA Junichi held talks with Ms. Janet Yellen, Secretary of the Treasury of the United States, at the FSA on July 13, 2022. The meeting took place as Secretary Yellen visited Japan on the way to Bali, Indonesia, for the Group of 20 (G20) finance ministers and central bank governors.

Commissioner NAKAJIMA and Secretary Yellen discussed a wide range of issues, including sustainable finance, crypto-assets and stablecoins. They also confirmed that the FSA and the U.S. Treasury will continue to cooperate closely bilaterally and international fora.

Ahead of the meeting, Minister of Finance and Minister of State for Financial Services, SUZUKI Shunichi held talks* with Secretary Yellen on July 12.

*For details of the meeting with Minister SUZUKI, visit the Finance Ministry's website at https://www.mof.go.jp/english/policy/international_policy/convention/bilateral_meetings_between_finance_ministers/20220712.html.

Summary of "Progress Report on the Efficiency of Financial Intermediation

KAJIWARA Kotaro, Chief Analyst
NAKAO Makoto, Deputy Division Chief
Regional Financial Planning Office, Banking Business Division II, Supervision Bureau

The FSA compiles principal programs annually implemented by regional financial institutions and its local finance bureaus to support the exercise of financial mediation functions by financial institutions and releases them as a “Progress Report on the Efficiency of Financial Intermediation.” A brief summary of the report, released on June 30, 2022, follows.

Introduction

The latest report primarily summarizes efforts by financial institutions and authorities to support business operators amid the continuation of effects on regional economies by the novel coronavirus disease (hereinafter "COVID-19") and an expansion of financial mediation functions by financial institutions, based on the diversification and compilation of companies' problems and needs, and authorities' response to them.

COVID-19 infection-related measures (1) (Project to Create Support System for Business Operators)

Now that COVID-19 continues to affect regional economies, it is important for the parties involved in efforts to support the improvement of management and revitalization of operations by companies to cooperate with each other more closely than ever. The local finance bureaus are

therefore promoting, while cooperating with the local bureaus of economy, trade and industry, the "Project to Create Support System for Business Operators," in which the parties concerned share challenges and countermeasures in supporting business operators in each prefecture (Figure 1).

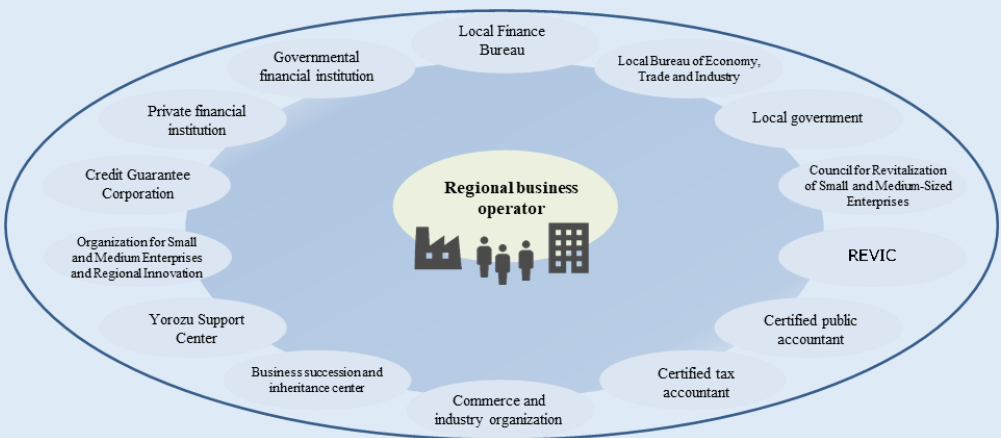
COVID-19 infection-related measures (2) (Efforts to provide effective and efficient support for business operators)

COVID-19 and rises in crude oil and commodity prices are affecting many business operators in a wide range of industries. Given the increased difficulty of securing enough time to support business operators, some financial institutions said that a mechanism that automatically analyzes signs of weakened business performance is needed to provide efficient support.

The FSA, therefore, has launched research and studies to streamline support by means of artificial intelligence (AI) and other technologies so that support can start when signs of weakened performance are detected (Figure 2).

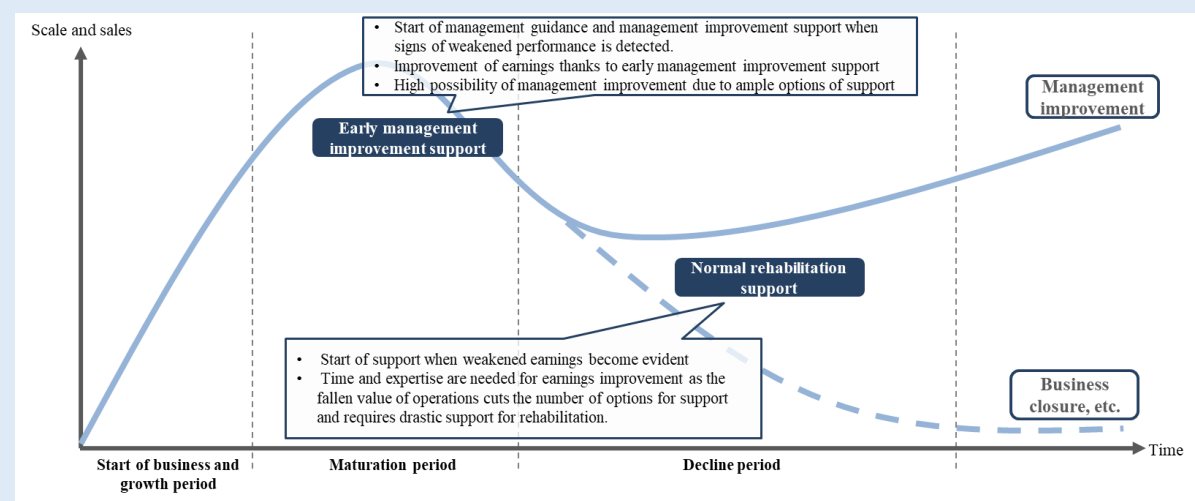
The FSA is considering the publication of a guidebook that will compile knowledge and other information from experts and those shared by "Endeavoring to facilitate sharing of know-how on support companies", then align them in an industry-classified manner.

(Figure 1) Diagram of support system for business operators



(Note) Related organs are not necessarily limited to those mentioned above
(Source) FSA

(Figure 2) Diagram of early detection of enterprises in need of management improvement support



(Source) FSA

Expectations held by regional companies for the post-COVID era (corporate questionnaire survey)

The FSA has conducted a corporate questionnaire survey since administrative year 2015 to confirm the client assessment of regional financial institutions' efforts pertaining to such issues as financial mediation functions. The latest survey checked client companies' financial positions as well as the expectations they place on financial support and other services by regional financial institutions under the influence of COVID-19.

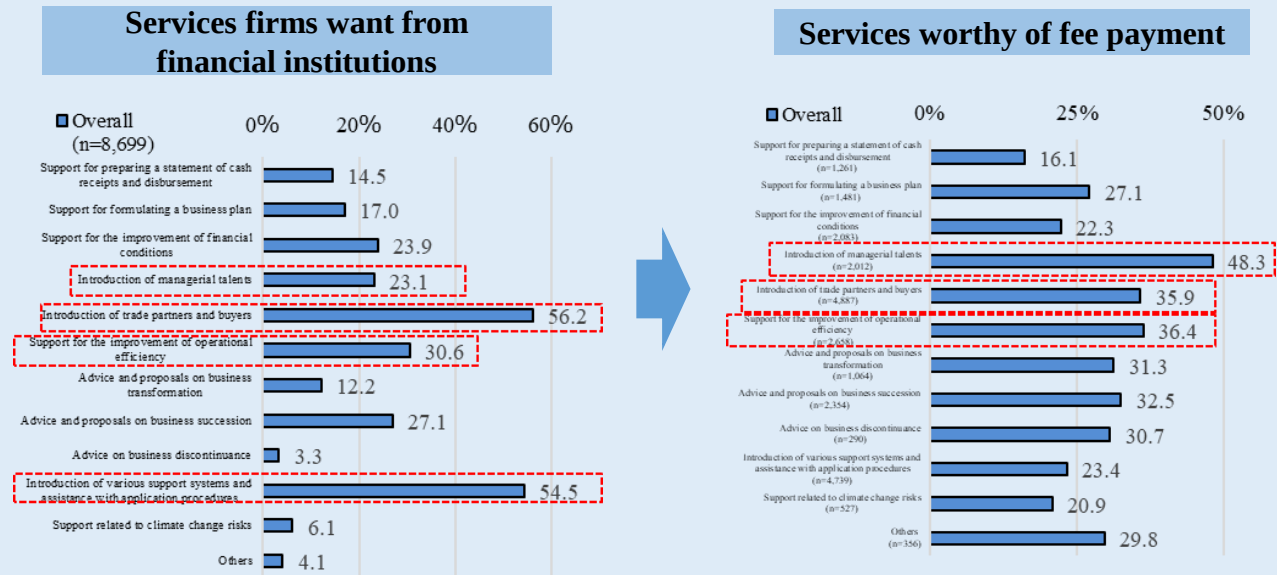
As a result, services that directly lead to the improvement of profit, such as the "introduction of trade partners and buyers," were found to account for a large portion of the services that companies want to receive from financial institutions. The "introduction of managerial talents" and "support for the

improvement of operational efficiency" (introduction of IT and digitization) also ranked high.

Of the respondents, nearly 50%, the highest ratio, said they would pay fees, if necessary, for the "introduction of managerial talents," followed by "support for the improvement of operational efficiency," at nearly 40% (Figure 3).

With regard to shared understanding of companies' problems, nearly 60% of the respondents said financial institutions recognize their management and other problems and provide plausible feedback. Services and feedback provided by such financial institutions are positively appreciated by client companies, enabling them to continue serving as their main banks (Figure 4).

(Figure 3) Services firms want from financial institutions and services firms consider worthy of fee payment



(Source) FSA

Expansion of financial mediation functions (regional financial institutions' support for digitization of business connections)

The use of IT and digitization are becoming more important for the improvement of small and medium enterprises' productivity, and the FSA's questionnaire survey found that more than 80% of them are "promoting digitization" or "interested" in it.

In fact, the provision of consulting services to support digitization is spreading among not only IT companies in each region but also regional financial institutions.

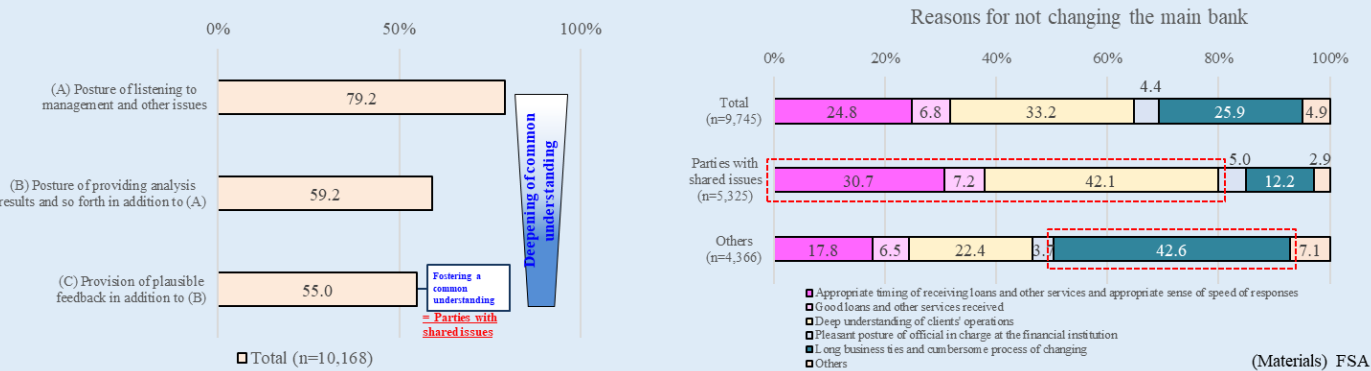
To figure out regional institutions' initiatives from various perspectives, therefore, the FSA conducted sample interviews with regional financial institutions and some 30 small and

medium enterprises that have received digitization support from them. While support services for digitization varied depending on clients' needs and financial institutions' scale, characteristics and other factors, three patterns were confirmed in accordance with services provided, means of providing them and so forth (Figure 5).

Conclusion

The FSA will continue to support the exercise of financial mediation functions by regional financial institutions in cooperation with organs concerned and extensively disseminate information, such as the results of reality checking,

(Figure 4) Possibility of ensuring a stable customer base by fostering a common understanding of client firms' problems



(Figure 5) 3 patterns of regional financial institutions' support for clients' use of IT and digitization

	Business matching type	ICT consulting type	Integrated consulting type
Outline	■ Introduction of partners based on clients' needs and challenges	■ Implementation of business interviews and planning, and introduction of optimum ICT tools	■ Provision of wide-ranging services beyond ICT consulting
Main expectations	■ Smooth implementation by the financial institution ■ Main source of services with low initial cost for small and medium firms	■ High customer satisfaction in general due to time-consuming interviews on users' problems ■ Advances in related conditions, such as subsidies at time of introduction	■ Diversification of earnings opportunities as extension of services from ICT consulting is possible
Main problems	■ Low profit for the financial institution ■ Difficulty of providing optimum services when client's needs are unclear	■ Difficulty of single-handed monetization due to low fees in proportion to current man-hours. What is needed is ingenuity, such as limiting introduction to partners based on clients' conditions. ■ Hurdles to fostering experts at financial institutions	■ Ingenuity is needed in supporting clients' digitization, such as limiting introduction to partners based on their conditions. ■ High cost of preparing wide-ranging services due to hurdles to fostering experts, including those outside ICT. Difficulty of ensuring quality.
Characteristic cases	■ Engagement in service with low initial cost that can be a threshold to small and medium firms' DX	■ Implementation of constant support via IT advice and other contracts ■ Efforts to accumulate know-how and upgrade systems via cooperation with IT firms and participation in training programs, etc.	■ Expansion to various consulting services while centered on clients' business strategy planning

Publication of "Research Report Regarding IT Governance of Financial Institutions" and "Analysis Report on Financial Institutions' IT System Failures"

SAITO Tsuyoshi, Director, Cyber Security Policy Office

YAMADA Yasuaki, Special Inspector

NISHIMURA Toshinobu, Risk Analysis Planning Coordinator

Risk Analysis Division, Strategy Development and Management Bureau

On June 30, 2022, the FSA published the following reports that compiled facts about IT governance, and causes and countermeasures of system troubles at financial institutions.*¹

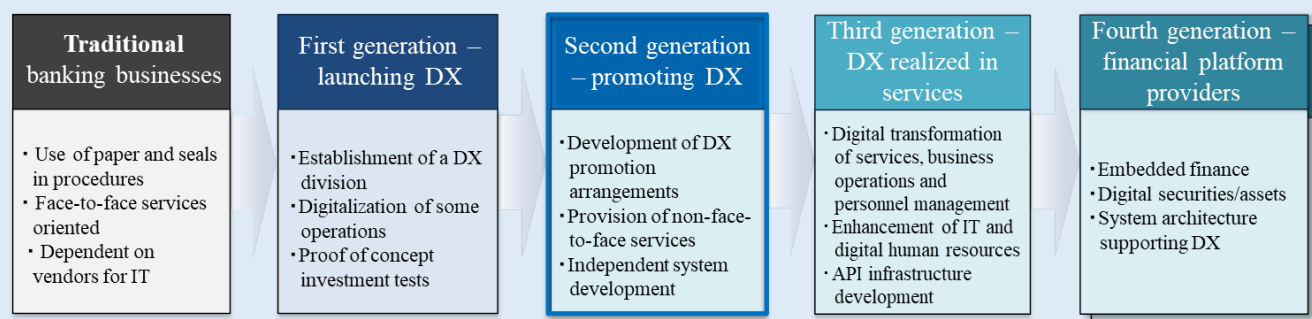
1. "Research Report Regarding IT Governance of Financial Institutions"

It is important for financial institutions to link IT and business strategies and introduce digital transformation (DX) in line with customer needs to develop and enhance IT-related systems in order to secure business model sustainability. "IT governance" is an entire system to create enterprise values by the leadership of management team members.*² In PY 2021 (from July 1, 2021 to June 30, 2022), the FSA conducted a fact-finding survey and analysis on the following issues related to IT governance, based on a PY 2020 survey and progress in DX at financial institutions.

(1) DX status

We divided financial institutions by DX status into generations. For example, we categorized a group that have just launched DX as the first generation. DX-leading regional banks and megabanks are reaching the third generation. Financial institutions in the second and third generations have implemented strategic investment based on medium to long-term DX strategies and organizational reform for DX. At present, however, they have not necessarily taken advantage of digital technologies to expand their businesses. They are still exploring business model that they should specifically pursue, such as a provider of financial platforms.

(Reference) Digital shift in financial institutions



*¹ For the publication of "Research Report Regarding IT Governance of Financial Institutions" and "Analysis Report on Financial Institutions' IT System Failures" on June 30, 2022, access the following URL: <https://www.fsa.go.jp/news/r3/20220630/20220630.html> (Available in Japanese)

*² "Discussion Paper on Dialogues and Practices Regarding IT Governance at Financial Institutions" (published in June 2019) <https://www.fsa.go.jp/en/news/2019/20191028-3.html>

(2) Retaining and developing IT human resources

In the answers to the questionnaire to financial institutions on initiatives for the personal acquisition and development of IT human resources, the item that the most regional and shinkin banks answered “yes” to Question (vii) on whether or not they took initiatives on the improvement of IT and digital literacy of their staff. The portion of regional and shinkin banks that answered “yes” on this item increased from PY 2020. With respect to other questions (see the questions below in the table), the portion of the answer, “yes,” however did not reach the level of 50% in the half of all the questions in regional banks, and did not reach the level of 10% in some questions in shinkin banks. This result indicates that retaining and developing IT human resources still remains a challenge for these regional financial institutions.

When the JFSA interviewed financial institutions about effective ways to promote the securement and development of IT human resources, some answered that given that long-term continuous initiatives are required to secure and develop IT human resources, management team members' engagement and organization-wide

efforts are important for such initiatives.

(3) Next-generation joint system center scheme

Questioned about the next-generation joint system center for regional banks, they indicated that they are trying to improve system cost efficiency by developing a more open, slim system center to cut costs and prevent complication and bloating.

2. Analysis Report on Financial Institutions' IT System Failures

The JFSA receives reports about financial institutions' system failures based mainly on supervisory guidelines^{*3} and has published the annual Analysis Report on Financial Institutions' System Failures based on these reports since 2019. The latest analysis report was published in June 2022, compiling failures in FY2021 and past case studies that are expected to serve as a useful reference in the future.

The latest report classifies failures into the following four groups based on failure triggers and analyzes each group's causes and challenges.

(Reference) A survey result on IT human resources (the numbers show the percentage of respondents answering "yes" to the questions listed below)

Questions	Regional banks		Shinkin banks	
	PY 2020 (%)	PY 2021 (%)	PY 2020 (%)	PY 2021 (%)
(i) Have you formulated a medium to long-term plan to secure and develop IT human resources?	53.4	58.0	20.5	19.3
(ii) Have you formulated a career path for IT human resources?	42.7	48.0	4.3	5.9
(iii) Have you developed standards and methods for assessing the skills of IT human resources?	45.6	47.0	8.3	9.8
(iv) Have you established a training system to develop IT human resources?	43.7	46.0	7.9	7.9
(v) Have you established any recruitment system to secure IT human resources?	55.3	60.0	16.1	18.5
(vi) Have you established any system to encourage employees to acquire IT-related qualifications?	89.3	- (No survey)	35.4	- (No survey)
(vii) Have you implemented measures to all staff to improve their IT and digital literacy?	59.2	79.0	28.0	36.2
(viii) Have you implemented any other initiatives to secure and develop IT human resources?	35.9	47.0	12.2	13.4

^{*3} Based on supervisory guidelines, etc., the FSA receives reports on IT system failures from financial institutions, inquires with them on recovery from failures and gets reports on causes of failures and relevant improvement measures that financial institutions analyze and consider.

(1) System failures accompanying system integration/renewal or function addition

Factors behind failures accompanying core banking system integration/renewal or function addition tend to include a lack of understanding about specifications of old systems, defective design documents, and programming mistakes.

Challenges to reduce the risk of an expert shortage include management teams' accurate ascertainment of system development operations, the maintenance of IT assets such as system specifications and operating procedures, and the securement and development of IT human resources.

(2) System failures triggered by program renewal or any other non-routine or special operations

System failures triggered by setting changes for production environment systems and any other non-routine or special operations tend to originate from setting and operational mistakes.

Challenges to improve operational quality include the development of checking arrangements to accurately reflect goals and conditions in business requirements, the implementation of tests to meet production environments and the creation of a mechanism to prevent personnel changes from causing operational mistakes.

(3) System failures occurring during routine operations and maintenance checks

After failures occurred, the failure of redundancy configurations to work as intended and defective recovery procedures tended to affect many customers. In some cases, failures that occurred during routine operations and maintenance checks at outsourcing contractors affected the services of financial institutions widely.

Relevant challenges include not only the securement of effective redundancy configuration and the identification of failure signs to forestall failures, but also the revision of procedures and arrangements for recovery from failures based on system failure patterns, relevant training, the development of failure response arrangements from customers' point of view, the securement of substitute systems in preparation for failures at outsourcing contractors and cooperation with outsourcing contractors.

(4) Intentional troubles, including cyberattacks and unauthorized accesses

IT systems at financial institutions were found infected with ransomware and malware, such as Emotet, and some financial institutions' websites were manipulated. These troubles originated from defects of basic security measures, such as access control, responses to suspicious emails and security patch application.

As the expansion of outsourcing has widened and complicated the scope of IT asset management, a challenge is to enhance organization-wide cyber hygiene^{*4} arrangements to steadily implement basic measures.^{*5} As cyberattacks have been sophisticated, financial institutions are required to forestall cyberattacks and enhance the resilience of operations and services through training including management team members to limit the impacts of incidents on operations and customers to allowable levels.

The JFSA will continue to analyze the causes and challenges for IT system failures to enhance financial institutions' risk management arrangements.

^{*4} "Policy Approaches for Enhancing Cybersecurity in the Financial Sector (Version 3.0)" cites this as a preparation for new risks.

<https://www.fsa.go.jp/news/r3/cyber/torikumi2022.html> (Available in Japanese)

Given that cyberattack risks have increased recently, the JFSA issued the following warnings to financial institutions on enhancements to cybersecurity measures:

^{*5} "Warning with respect to the recent developments that call for enhancements to cybersecurity measures" (February 23, 2022) <https://www.fsa.go.jp/news/r3/cyber/0224oshirase.html> (Available in Japanese)

"Warning with respect to the recent developments that call for enhancements to cybersecurity measures" (March 1, 2022) <https://www.fsa.go.jp/news/r3/cyber/0301oshirase.html> (Available in Japanese)

"Warning with respect to the recent developments that call for enhancements to cybersecurity measures" (March 24, 2022) <https://www.fsa.go.jp/news/r3/cyber/0324oshirase.html> (Available in Japanese)

"Warning with respect to the recent developments that call for implementation of cybersecurity measures at financial institutions, particularly for the period in and around the national holiday-studded golden week in 2022" (April 25, 2022) <https://www.fsa.go.jp/news/r3/cyber/0425oshirase.html> (Available in Japanese)

Results of Monitoring Customer-Oriented Business Conduct of Investment Trust Distributors (2021 Program Year)

SATO Toshiaki, Senior Deputy Director,
Risk Analysis Division, Strategy Development and Management Bureau

On June 30, 2022, the FSA published the "Results of Monitoring Customer-Oriented Business Conduct of Investment Trust Distributors (2021 Program Year)" (hereinafter referred to as the "Report").^{*1}

The FSA developed and published the "Principles for Customer-Oriented Business Conduct"^{*2} (hereinafter referred to as the "Principles") with the aim of achieving people's stable asset building, and has published the "List of Financial Institutions" by compiling the details of the reports made by financial institutions that have published their own policies, showing correspondence with the Principles. Additionally, the FSA monitors and continues dialogues with major distributors concerning the positioning of customer-oriented business conduct in their strategies for business operations and on ideal medium- to long-term business models for balancing customers' asset building and the sustainability of their business, thereby encouraging financial institutions to provide customers with better financial instruments and services or otherwise implement initiatives for customer-oriented business conduct.

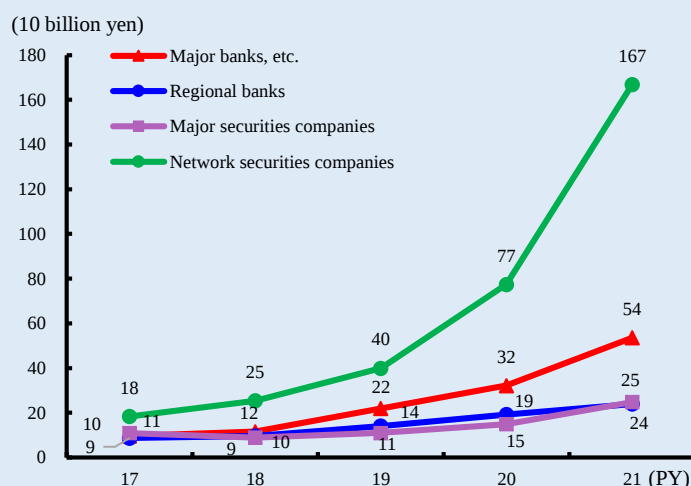
The Report compiles the facts ascertained through such monitoring and dialogues, as well as the details and challenges suggested by those facts. Key points of the Report follow.

1. Key points of the Report

(1) Outline of the business of selling or otherwise handling risk-involving financial instruments

Major distributors (10 major banks, 26 regional banks, and 12 securities companies, etc.) that are selling or otherwise handling risk-involving financial instruments are showing certain moves for securing stable earnings while achieving the customers' best interests. Specifically, they are endeavoring to [i] differentiate sales approaches based on customer segments, [ii] shift their focus from sales (flow) to outstanding amounts (stock), and [iii] promote collaboration between banks and securities companies in the same corporate group.

(Figure 1) Changes in sales amounts of installment investment trusts



(Note 1) Aggregated data from 7 major banks, etc., 22 regional banks, 7 securities companies, and 5 network securities companies, from which valid responses were obtained

(Note 2) The amount of annual reserves is calculated from the following formula: "(the amount in September of the relevant program year + the amount in March of the same program year) × 6"

(Source) FSA

However, although the utilization of installment investment trusts has been spreading, macroeconomic statistics show no significant sign of a shift of personal financial assets from savings to investment. Behind this, there seem to be the following challenges faced by distributors: for banks, materialization of business strategies taking advantage of the characteristics of their face-to-face sales approaches, and responses to problems accompanying collaboration between banks and securities companies; for major securities companies, implementation of business models based on earnings from stock-based business; and for network securities companies, further improvement of customer convenience through devising a means of information provision.

^{*1} For "Results of Monitoring Customer-Oriented Business Conduct of Investment Trust Distributors (2021 Program Year)" published on June 30, 2022, see https://www.fsa.go.jp/news/r3/kokyakuhoni/202206/fd_202206.html (Available in Japanese).

^{*2} For "Principles for Customer-Oriented Business Conduct," see <https://www.fsa.go.jp/news/r2/singi/20210115-1/02.pdf> (Available in Japanese).

(2) Distributors' sales strategies, system development and challenges

Many of the major distributors are exercising ingenuity, such as introducing diverse tools for recommending financial instruments, based on their own business strategies for ascertaining customers' intentions and developing processes for making recommendations, with the aim of optimizing diversification of customers' assets as a whole, including long-term investments. However, due to such reasons as it is difficult to ascertain individual customers' total assets and that developed tools are not fully disseminated among front-line sales personnel, those tools and other ingenuities have yet to be utilized sufficiently.

In order to achieve customer-oriented business conduct, distributors need to comprehensively and retroactively verify the entirety of their related initiatives and utilize the verification results to further improve future initiatives. However, there were no such cases observed in the monitoring.

It is considered important for individual distributors to create a system to retroactively verify whether their initiatives actually lead to the customers' best interests to make improvements (so-called PDCA cycle).

(3) Current status of financial institutions' efforts for visualization of their initiatives and information provision and their challenges

The Report explains the results of the FSA's comparison and analysis of policies for

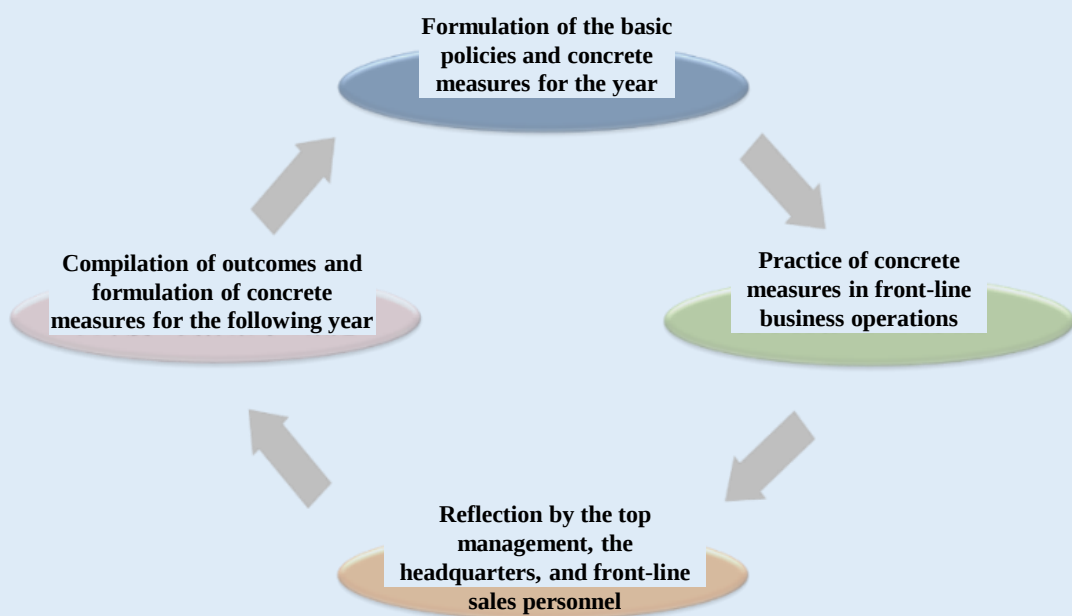
implementing the Principles of individual financial institutions, centered on banks, and the FSA's measures in response to the recommendations presented in the Report by the Working Group on Financial Markets, Financial System Council (published in August 2020).

For banks and other financial institutions to make their initiatives visible, it is important for them to communicate their business strategies and various initiatives based thereon directly to customers. Nevertheless, statements in their policies often lack detail and there still are many points to be improved.

Accordingly, the Report describes the analysis results, examples of ingenuities, and expected levels to be achieved, and encourages financial institutions to review how to carry out concrete measures based on their actual front-line business operations and provide information on their initiatives to customers concretely in an easy-to-understand manner.

When conducting a review of the policies and concrete measures, financial institutions are expected to repeat a cycle of [i] formulation, [ii] practice, [iii] reflection, and [iv] consideration of initiatives for the following year, and periodically reexamine the appropriateness of their policies. Therefore, in order to put into practice such a cycle, more detailed descriptions of the policies and outcomes are required.

(Figure 2) Cycle for reviewing policies for implementing the Principles

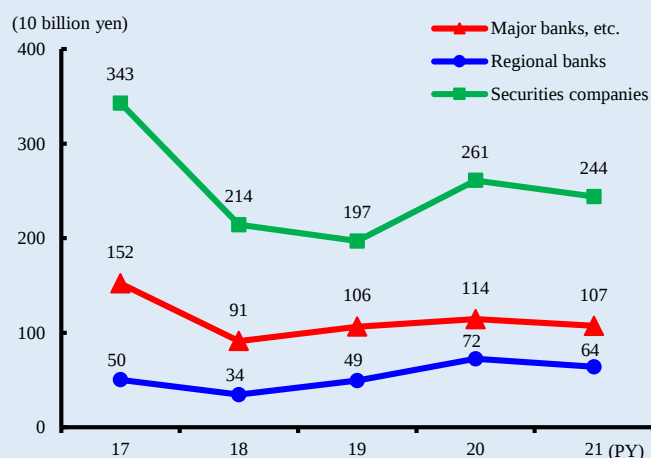


(4) Trends and problems in sales of individual financial instruments

An analysis of fast-selling financial instruments of individual distributors revealed cases including the following: [i] a distributor depends on the sale of financial instruments and services that are not necessarily consistent with a business model prioritizing outstanding balances or its expected mission of supporting customers' long-term investments, and [ii] the focus of sales activities has changed from investment trusts to foreign currency-denominated single premium policies and to structured bonds in a short period of time and such change is so unnatural that it raises a doubt as to whether the change actually resulted from a response to the actual needs of customers. These cases suggest the existence of problems from a customer-oriented perspective and high compliance (conduct) risks. Room for improvement was observed in some distributors as to whether they are making recommendations and selling financial instruments under systems that they have developed appropriately depending on risks.

Therefore, this Report picks up structured bonds as an example and points out the following two problems.

(Figure 3) Changes in sales amounts of structured bonds



(Note 1) Aggregated data from 7 major banks, etc., 23 regional banks, and 6 securities companies, from which valid responses were obtained

(Note 2) For banks, on a basis of sales through brokers and referral sales; For securities companies, including sales through brokerage and referral from other companies

(Source) FSA

First, regarding financial instruments linked to stock indexes, domestic and foreign stock prices, and foreign exchanges, it is difficult for customers to understand returns proportionate to their risks and costs unless they have sufficient financial knowledge, and profits in accordance with the

associated risks are not often secured. Therefore, they are not appropriate as financial instruments fitting the needs of general customers who aim to build their assets on a medium- to long-term basis.

Second, some distributors have a problem in their sales approach to recommend and sell structured bonds to a relatively broad range of customers, without clarifying specific targets, in a manner where disclosure and comparative explanation of information, such as cost, are not necessarily sufficient.

These are possibly inconsistent with the perspective of customer-oriented business conduct. The Report states that distributors that are currently selling structured bonds and intend to continue dealing with them need to discuss these problems at the top management level.

2. Key points for future monitoring, etc.

The FSA compiled points to be focused on in future monitoring as follows in light of the problems, etc. that it confirmed through monitoring in the 2021 Program Year.

(1) Whether the top management considers sustainable business strategies on a long-term basis and clarifies and materializes the details thereof in their policies for implementing the Principles

In particular, for regional financial institutions, how they position the retail business in their business strategies, and whether their performance evaluation systems are not such that cause sales personnel to excessively recommend financial instruments with high sales charges to seek short-term earnings

(2) Whether the policies have been fully disseminated among front-line sales personnel and are yielding results

(3) Whether a system to verify the effectiveness and appropriateness of own business models is put in place under the principle of three lines of defense

(4) When the FSA finds any financial institutions that are suspected to carry out business activities against the concept of customer-oriented business conduct as a result of its analysis of complains and data, the FSA will point out relevant problems to them.

The FSA will continue monitoring and dialogues with distributors, mainly focusing on these points, and facilitate moves to promote people's asset building.

JFSA's Major Activities in July (July 1 to July 31, 2022)



- [Open Policy Lab Initiative \(July 28, 2022\)](#)
- [Bilateral meeting between Commissioner Nakajima and Ms. Janet Yellen, Secretary of the Treasury of the United States \(July 13, 2022\)](#)
- ["The Second Report by the Expert Panel on Sustainable Finance" Announced \(July 13, 2022\)](#)
- [Publication of "Discussion Paper – Study on Climate-related Scenarios Analysis: Characteristics of NGFS Scenarios and their Applications in Climate-related Financial Risk Analysis" \(July 12, 2022\)](#)
- [Report of the Technical Committee for ESG Evaluation and Data Providers \(July 12, 2022\)](#)
- [Invitation for Public Comments regarding "the Code of Conduct for ESG Evaluation and Data Providers" \(July 12, 2022\)](#)
- [Partial revision of the "Reference Cases" regarding the "Independent Agent Exemption" of fund managers \(July 8, 2022\)](#)
- [Partial revision of the notice regarding the tax treatment of Carried Interest \(July 8, 2022\)](#)
- [Progress in Initiatives for Further Strengthening Coordination between the Financial Services Agency and the Bank of Japan \(July 8, 2022\)](#)

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



We are promoting information dissemination using Twitter!

- 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

I am pleased to introduce myself. I am Moriya, newly appointed as Director of the Public Relations Office this July.

It was around 19 years ago that I first saw Access FSA. I picked up an issue placed in the FSA's waiting room for recruitment interviews, where I was waiting for my turn. Since then, Access FSA always reminds me of that moment when I was hastily considering what I would ask during the interview.

At that time, I never thought I would one day take charge of editing and issuing Access FSA in the future. I am filled with deep emotions and also feel a strong sense of responsibility as the Director of the Public Relations Office as I should take over the long history of Access FSA created by all staff members involved so far.

We will continue efforts to further enhance the content to ensure that many people will continue to refer to Access FSA. Thank you very much for reading the August issue as well.

MORIYA Takayuki, Director,
Public Relations Office, FSA