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## Financial Services Agency Newsletter

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Access the online version here

<https://www.fsa.go.jp/en/newsletter/2023a.html>



Financial Services Agency

# G7 Finance Ministers and Central Bank Governors Meeting in Niigata

The G7 Finance Ministers and Central Bank Governors Meeting (FMCBGs) was held in Niigata, Japan, from May 11 to May 13, 2023.\*1

The meeting is outlined below, with a focus on financial sector issues.



## G7 High-Level Corporate Governance Roundtable

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The Financial Services Agency (FSA) and the Organisation for Economic Co-operation and Development (OECD) jointly organized the G7 High-Level Corporate Governance Roundtable in Niigata on May 11, 2023. The roundtable, which took place at the time of the G7 FMCBGs Meeting, and brought together high-level discussants from government authorities, international organizations and private companies, and discussed and disseminated Japan's initiatives to attain substance of corporate governance reforms and the review of the G20/OECD Principles of Corporate Governance.

The roundtable was open online to the public and the video recording is available at the FSA's website.\*2 The outline of the roundtable is provided as follows.



( Photo: Minister Suzuki delivering opening remarks )

These opening remarks were followed by lead presentations on the review of the G20/OECD Principles of Corporate Governance and Japan's efforts to substantially promote corporate governance reforms.

### 1. Outline of the G7 High-Level Corporate Governance Roundtable

At the beginning, three speakers from G7 member countries and the OECD at the ministerial level, including Minister Suzuki, delivered the opening remarks.

#### Presenters:

Mr. KANDA Masato (Ministry of Finance, Japan)  
Ms. Patricia Pollard (U.S. Department of the Treasury, United States)  
Mr. INOUE Toshitake (Financial Services Agency, Japan)

\*1 The Group of Seven (G7) is a framework in which the seven countries – France, the United States, the United Kingdom, Germany, Japan, Italy and Canada – and the European Union (EU) participate.

\*2 Related information is available on the following websites.

- "G7 High-Level Corporate Governance Roundtable": <https://www.fsa.go.jp/en/news/2023/20230405/20230405.html>
- Remarks by Minister Suzuki and Parliamentary Vice-Minister Suzuki:  
[https://www.fsa.go.jp/en/announce/state/index\\_speeches.html](https://www.fsa.go.jp/en/announce/state/index_speeches.html)
- Video recording(YouTube "FSA Channel"): <https://www.youtube.com/watch?v=DYyywuZMP4c>

The main initiatives introduced in the opening remarks and presentations are as follows.

- The OECD has been reviewing the G20/OECD Principles of Corporate Governance, the single global standard in the area of corporate governance. The launch of the review was endorsed in the G20 Rome Leaders' Declaration. The review of the Principles aims to provide a framework for corporate governance that will support enhancing the sustainability and resilience of companies that face changes in the economic and social environments due to climate change and the COVID-19 pandemic. Many advanced countries, including Japan and the United States, as well as emerging countries are actively engaged in the review.

- The Japanese government has actively promoted corporate governance reforms from the perspective of enhancing corporate value over the mid- to long-term.

In September 2022, in his speech delivered at the New York Stock Exchange, Prime Minister Kishida highlighted the commitment, by saying, “we will accelerate and further strengthen corporate governance reforms in Japan.”

Based on inputs from overseas investors and other market participants, the FSA published the Action Program for Corporate Governance Reform in April 2023.

Going forward, it is important to effectively implement the Action Program. The FSA



Photo: Deputy Director-General Inoue making a presentation

continue to make efforts to attain the effective corporate governance reforms

Following the lead presentations, four panelists had a panel discussion and shared their insights and experience in corporate governance reform.

Panelists:  
Ms. Kerrie Waring (ICGN)  
Mr. Toby Rodes (Kaname Capital)  
Mr. Luca Enriques (University of Oxford)  
Ms. Monica de Virgiliis (Snam S.p.A.)



Photo: At the roundtable

After the panel discussion, discussants with various expertise such as institutional investors, academia, international organisations had lively discussions. After the active exchange of views, Parliamentary Vice-Minister Suzuki delivered closing remarks. The roundtable was successfully closed.



Photo: Parliamentary Vice-Minister Suzuki delivering closing remarks



## 2. Staff's comment

The roundtable was held as the only side event of the G7 FMCBGs Meeting in Niigata. The audiences of the roundtable included the G7 delegates. We are glad that the roundtable was a success thanks to the cooperation of many stakeholders, despite the limited preparation time. We received words of appreciation for Japan's hospitality from the discussants and the audiences. We hope that the roundtable has certainly contributed to discussions to promote global corporate governance reforms, and we will continue our efforts to make a positive contribution to global discussions.



Photo: Group photo of the roundtable discussants

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## Summary of the Communiqué from the G7 Finance Ministers and Central Bank Governors Meeting

MAGARIFUCHI Kimiko, Deputy Director  
AKIMOTO Koki, Section Chief  
INOUE Daisuke, Official  
TAGUCHI Hiroto, Official,  
International Affairs Office

### 1. Introduction

Japan serves as the G7 presidency for one year from January 2023. In addition to the Summit, which brings together the G7 Leaders, the G7 holds a number of ministerial-level meetings for each policy area. Among them, the G7 FMCBGs Meeting is the platform to broadly discuss policies on various issues affecting the world economy, including those related to the financial sector. Under the Japanese presidency, financial sector developments were discussed considering the recent series of banking sector turmoil, in addition to the priority financial issues, namely, (i) crypto-assets and stablecoins, (ii) sustainability disclosures, (iii) transition finance, and (iv) natural disaster risk financing.

From May 11 to May 13, 2023, the G7 FMCBGs Meeting was held in Niigata, chaired by Minister

Suzuki and BOJ Governor Ueda. The summary of the Communiqué published after the G7 FMCBGs Meeting<sup>\*3</sup> is presented below.



Photo: Minister Suzuki serving as the chair

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<sup>\*3</sup> See the following website for the G7 FMCBGs Meeting Communiqué.  
[https://www.mof.go.jp/policy/international\\_policy/convention/g7/g7\\_20230513\\_2.pdf](https://www.mof.go.jp/policy/international_policy/convention/g7/g7_20230513_2.pdf)

2. Outline

[Developments in the financial sector]

G7 FMCBGs reaffirmed that the financial system is resilient, supported by the financial regulatory reforms implemented after the 2008 global financial crisis. Based on the reaffirmation, they agreed to continue to monitor financial sector developments and stand ready to take appropriate actions to maintain financial stability and the resilience of the global financial system. Additionally, they expressed their intent to support the Financial Stability Board (FSB)'s ongoing efforts to draw out lessons learned from the recent episodes and the consequent priorities for its future work to enhance financial stability.



Photo: At the session

[Crypto-assets and stablecoins]

G7 FMCBGs shared the recognition that effective monitoring, regulation and oversight are critical to addressing financial stability and integrity risks including the risk of money laundering posed by crypto-asset activities, while supporting responsible innovation. Then, they expressed their commitment to implement effective regulatory and supervisory frameworks, which are consistent with the FSB's high-level recommendations.<sup>\*4</sup> Furthermore, they

supported initiatives by the Financial Action Task Force (FATF) in order to cope with money laundering and other risks.

[Sustainability disclosure]

G7 FMCBGs supported the International Sustainability Standards Board (ISSB) finalizing the first two standards (general sustainability-related disclosures and the climate-related disclosures), and expressed their expectation for the ISSB's future work on disclosure on biodiversity and human capital.<sup>\*5</sup> Such disclosures are expected to provide investors with useful information for assessing companies' value creation from activities related to biodiversity, investment in their workforce, diversity, and equity and inclusion (DEI).

[Transition finance]

The G7 FMCBGs shared the awareness that transition finance has a significant role in advancing the decarbonization of the economy as a whole, and expressed their intent to encourage the public and



Photo: At the session

<sup>\*4</sup> In October 2022, the FSB published its high-level recommendations for the international regulation of crypto-asset activities and global stablecoin arrangements. Following the public consultation procedures, the recommendations will be finalized by July 2023.

“FSB proposes framework for the international regulation of crypto-asset activities”: <https://www.fsb.org/2022/10/fsb-proposes-framework-for-the-international-regulation-of-crypto-asset-activities/>

<sup>\*5</sup> On May 4, 2023, the ISSB launched a public consultation on agenda priorities for future standards development and identified four potential projects (biodiversity, ecosystems and ecosystem services, human capital, and human rights and integration of (corporate) reporting).

“Consultation now open: The ISSB seeks feedback on its priorities for the next two years”: <https://www.ifrs.org/news-and-events/news/2023/05/issb-seeks-feedback-on-its-priorities-for-the-next-two-years/>



private sectors to enhance the availability and credibility of transition-related information regarding financed emissions – greenhouse gas (GHG) emissions attributable to investments and loans made by financial institutions, – which have come to be used as a metrics for assessing the efforts made by financial institutions to achieve net-zero targets. Transition-related information includes information that is obtained through transition plans supported by credible pathways. Furthermore, the Communiqué states that the enhancement of the availability and credibility of transition-related information would help promote investment that is aligned with an orderly net-zero transition by enabling assessment of the progress on transition in a forward-looking manner and accounting for the trajectory of financed emissions that are associated with real economy emission reductions.

**[Natural disaster risk financing]**

Given increased frequency and severity of natural disasters that are exacerbated by climate change,

the G7 FMCBGs shared the view that enhanced coordination by the private and public sectors is critical in promoting disaster risk finance, including insurance, in order to narrow protection gaps – gaps between economic losses caused by natural disasters and the amount of insurance coverage. They also expressed their expectation for a report by the International Association of Insurance Supervisors (IAIS), in collaboration with the OECD, on how to strengthen economic and financial resilience against natural disaster risks, which will be completed by the end of 2023.\*6

At the G7 FMCBGs Meeting in Niigata, significant consensus was reached on a wide range of financial sector issues. The FSA will continue to make positive contributions to international discussions.



Group photo of G7 finance ministers and central bank governors with the Shinano River in the background

\*6 The IAIS is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions. Its Annual General Meeting for 2023 will be held in Tokyo in November 2023.



Photo (above): Minister Suzuki and Governor Ueda welcoming G7 finance ministers, etc.

Photo (right): Welcome reception co-hosted by the Japanese government and the local promotion council in Niigata



Photo: Dinner hosted by the Japanese government



Photo (above): Minister Suzuki having a chat at a lunch seminar

Photo (left): Main venue for the G7 Finance Ministers and Central Bank Governors Meeting in Niigata



# Holding of the Meeting of Directors-General of Local Finance Bureaus

On April 26, 2023, the FSA held the current business year's fourth meeting with Directors-General of Local Finance Bureaus. State Minister Fujimaru and Parliamentary Vice-Minister Suzuki delivered speeches at the meeting room where the Directors-General of Local Finance Bureaus and senior FSA officials gathered.

## < Speech by State Minister Fujimaru >

We appreciate your cooperation in carrying out the Doubling Asset-based Incomes Plan, bringing about changes in the people's behavior based on correct information and financial knowledge, increasing individual investors, and having people achieve stable asset building.

The plan for emergency measures against robbery and special fraud cases involving the recruitment of perpetrators on social media and other matters, which was formulated by the Ministerial Meeting Concerning Measures against Crime, incorporates such matters as the strengthening of measures for preventing illegal use of saving accounts, strengthening of account management, and deliberations on a system for sharing information on residential visa expiration dates. We also appreciate your cooperation for monitoring from these perspectives.



Photo: State Minister Fujimaru delivering a speech

## < Speech by Parliamentary Vice-Minister Suzuki >

We are planning to hold briefing sessions in various areas, targeting public and private financial institutions, for introducing business support measures, such as support for business rehabilitation. We ask for your cooperation.

We have been making efforts for early creation of a system to enable companies to use their entire business operations as security for raising growth capital from financial institutions (business growth security interests (provisional)). Any opinions presented by regional financial institutions should be shared among all related parties.

Regarding sustainable finance, we expect that you would offer support for regional initiatives for solving social and environmental problems and creating new businesses, including startups, and that you would make imaginative efforts for coping with climate change issues.



Photo: Parliamentary Vice-Minister Suzuki delivering a speech

At the Meeting of Directors-General of Local Finance Bureaus, in addition to speeches by the State Minister and the Parliamentary Vice-Minister, the FSA Commissioner and senior officials explained current challenges in financial policies and FSA's initiatives. Meeting participants confirmed that the FSA and Local Finance Bureaus will share those challenges and initiatives and continue efforts in an integrated manner.



Photo: Meeting of Directors-General of Local Finance Bureaus



# Holding of the G7 Cybersecurity Seminar 2023

## 1. Outline

On May 9, 2023, the FSA held the G7 Cybersecurity Seminar 2023 in Tokyo. As a result of calling for in-person or online participation, over 400 people in the field of cybersecurity joined from home and abroad.

The FSA invited foreign and domestic government officials and practitioners in financial institutions, including one of the Co-chairs of the G7 Cyber Expert Group (G7 CEG),\* to partake in an active discussion from diverse viewpoints under the themes of the two G7 CEG Fundamental Elements (FEs) (Updated Third Party Cyber Risk Management and Ransomware Resilience) published in 2022, and cybersecurity in regional financial institutions, with the aim of strengthening cybersecurity in the financial sector.

## 2. Agenda

### [i] Opening remarks

Mr. KURITA Teruhisa, Director-General, Strategy Development and Management Bureau, FSA, delivered opening remarks and explained the G7 CEG's activities, awareness of the issues, and future prospects toward

strengthening cybersecurity.

### [ii] Session 1: G7 CEG Fundamental Elements

With regard to the two G7 CEG FEs, which were published in 2022, details of individual elements and key points for revision were explained. In the panel discussion and Q&A session, fruitful discussions were held based on the knowledge of the speakers regarding measures for enhancing resilience of third parties and the importance of backup of data in preparation for ransomware attacks.

#### [Moderator]

- Mr. Todd Conklin (G7 CEG Co-chair; Deputy Assistant Secretary, Cyber Security/Critical Infrastructure, U.S. Department of the Treasury (UST))

#### [Speakers]

- Mr. Matthias Rest (Co-lead of the Workstream on the Updated G7 FEs for Third Party Cyber Risk Management; Senior Supervisor, Deutsche Bundesbank)
- Mr. Tim Paulowitz (Co-lead of the Workstream on the Updated G7 FEs for Third Party Cyber Risk Management; Senior Payments Expert, Deutsche Bundesbank)
- Mr. Andrew Huddart (Co-lead of the Workstream on the G7 FEs of Ransomware Resilience, Senior Manager, Sector Resilience Team, Bank of England)



Photo: Director-General of the Strategy Development and Management Bureau Kurita delivering opening remarks

\* G7 Cyber Expert Group: The G7 CEG was founded in 2015 based on approval of the G7 Finance Ministers and Central Bank Governors Meeting with the aim of fostering cybersecurity and enhancing cooperation among G7 jurisdictions. The FSA and other financial authorities, finance ministries and central banks of G7 member countries and the EU participate in this group as members.



( Photo: Session 1 )

### [iii] Session 2: Cybersecurity in Regional Financial Institutions

The latest trends and challenges regarding cyber threats faced by small-to-mid-sized and regional financial institutions, the FSA's initiatives for solving those challenges, and the collaboration between the public sector and the private sector were explained, and in the Q&A session, many questions were raised by audiences and online participants. Lively discussions were held on approaches taken in the United States and in Japan for addressing the shortage of human resources well-versed in cybersecurity and the importance of strategic information sharing, including both the public and private sectors.



( Photo: Session 2 )

#### [Moderator]

- Mr. SAITO Tsuyoshi (Director of Cyber Security Policy Office, FSA)

#### [Speakers]

- Mr. KAMATA Keisuke (Managing Director & CTO, Financials ISAC Japan)
- Mr. MIURA Shun (Coordinator and Head of Cyber Security Planning Group, FSA)
- Mr. TAKAHASHI Akira (Managing Director of Cybersecurity Group, Minna Bank, Ltd.)
- Mr. Wilson Co (Deputy Director, International Policy (Acting), Office of Cybersecurity and Critical Infrastructure Protection, UST)

#### [iv] Closing remarks

At the end, Mr. Todd Conklin (G7 CEG Co-chair) summed up the sessions as a whole, mentioning the importance of initiatives with the involvement of the entirety of the financial industry and emphasizing the need for national governments to fulfil their leadership while securing the promptness and accuracy of information in the process of information sharing.



( Photo: Mr. Todd Conklin delivering closing remarks )

The FSA will continuously endeavor to strengthen cybersecurity in the financial sector together with related parties at home and abroad.

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

## – First IFIAR Chair Appointed from Asia –

At IFIAR Plenary Meeting, which was held in Washington D.C. in the United States from April 25 to April 27, 2023, the incumbent Vice Chair, NAGAOKA Takashi, Deputy Commissioner for International Affairs at Japan's Financial Services Agency (FSA) and Secretary General of Certified Public Accountants and Auditing Oversight Board (CPAFOB), was elected new Chair of IFIAR for a two-year term. This is the first time that the Chair was appointed from Asia since the establishment of IFIAR in 2006. On this occasion, we would like to introduce the outline of IFIAR and our contributions/future policies in relation to IFIAR.



( Photo: Deputy Commissioner Nagaoka making an inaugural address as IFIAR Chair )

### 1. Outline of IFIAR

IFIAR is an international organization consisting of audit regulators of 54 jurisdictions and was established with the mission to serve the public interest, including investors, by enhancing audit oversight globally. It is the first international organization in the financial sector headquartered in Japan (the permanent secretariat was established in Tokyo in April 2017). IFIAR is endeavoring to enhance audit quality globally and eventually increase the fairness and transparency of capital markets through [i] sharing knowledge among the authorities and enhancing the capabilities of member

jurisdictions and [ii] cooperating and having dialogue with internationally important parties related to audits. The FSA and CPAFOB are the foundation member of IFIAR.

### 2. Japan's past contributions to IFIAR

The FSA and CPAFOB have continuously made active contributions to IFIAR's activities through sharing knowledge among member authorities and having dialogue with parties related to audits. Mr. Nagaoka has supported the secretariat from the standpoint of Japan, the host country, and has assumed offices of chair of a working group within IFIAR and Vice Chair of IFIAR. Those contributions made by Japan and Mr. Nagaoka to IFIAR's activities and organizational operations were highly evaluated, and thus, Mr. Nagaoka became the first IFIAR Chair appointed from an Asian jurisdiction.

### 3. Future policies

Japan will continue contributing to IFIAR's activities so that IFIAR can further grow as an international organization and can enhance audit quality globally. Also, Japan will endeavor to bring about concrete contributions so that IFIAR can further diversify the member composition through increasing members from emerging jurisdictions, including those in Asia.

The environment surrounding audits is changing significantly, and IFIAR needs to cope with various challenges, such as the need to secure and foster auditors and provide ESG assurance, in addition to making efforts for enhancing audit quality. Aiming to enrich discussions on topics around audit quality by added member engagement and enhanced outreach as one of Mr. Nagaoka's focus during his chairmanship, Mr. Nagaoka is keen to take appropriate measures to emerging various challenges by seeking contributions and experiences from various members including Japan.

\* For details of IFIAR, see the dedicated website of the FSA.  
<https://www.fsa.go.jp/ifiar/20161207-1.html> (Available in Japanese)



# Action Program for Accelerating Corporate Governance Reform: From Form to Substance

MATSUI Akira, Deputy Director, Corporate Accounting and Disclosure Division,  
Policy and Markets Bureau

## **1. Developments of the corporate governance reform initiatives**

The FSA has promoted corporate governance reform initiatives, including the formulation and revision of the Stewardship Code and the Corporate Governance Code, to achieve sustainable corporate growth and increased corporate value over the mid-to long-term.

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

There were positive opinions as follows: many companies have shared the view that the function of the board is crucial for increasing corporate value, and; corporate governance reform is moving in a positive direction, even if it does not immediately show positive corporate performance. However, some pointed out slowness in progress in certain areas or specifically pointed out problems for individual matters.

Specifically, the following were pointed out.

- [i] Management issues, such as encouraging the management with an awareness of profit making and growth based on the cost of capital and the promoting initiatives relating to sustainability, including investment in human capital
- [ii] Issues related to the effectiveness of the board, the nomination committee, and the remuneration committee, and improving the quality of independent directors

- [iii] Issues related to dialogues between companies and investors, such as enhancement of information disclosure as well as dealing with legal issues, and market environment issues.

## **2. Formulation of the Action Program**

From the perspective of promoting sustainable corporate growth and increased corporate value over the mid-to long-term, it is important not only to develop a formal structure but to take substantial measures for resolving the aforementioned problems.

Further revision of the Corporate Governance Code will contribute to developing a formal structure, but some point out a risk that the original purpose of the “comply or explain” approach principle may be undermined through detailing the Code and that this may cause the corporate governance reform initiatives to lose substance.

Therefore, it is preferable that effective means for resolving these problems are deliberated in light of existing conditions, while examining issues of individual companies in depth through constructive dialogues between companies and investors and through their self-motivated changes in the mindsets.

At the meeting of the Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code<sup>\*1</sup> (the “follow-up meeting”) held on April 19, 2023, discussions were held on these ideas and measures to be taken from now on.

After discussions at the follow-up meeting, the Action Program for Accelerating Corporate Governance Reform: From Form to Substance (the “Action Program”) was published on April 26.<sup>\*2</sup>

<sup>\*1</sup> Meeting of the Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code (28th) held on April 19, 2023: <https://www.fsa.go.jp/en/refer/councils/follow-up/index.html>

<sup>\*2</sup> Publication of the “Action Program for Accelerating Corporate Governance Reform: From Form to Substance” (April 26, 2023): <https://www.fsa.go.jp/en/news/2023/20230426.html>

Specific measures presented in the Action Program are as follows.

The FSA will sequentially take these measures, assess the implementation status, and consider additional measures as necessary.

The FSA will continue the initiatives for making corporate governance reform have more substance in collaboration with the Tokyo Stock Exchange and other related parties.

1. Issues for promoting sustainable corporate growth and increased corporate value over the mid- to long-term	
Item	Details of measures and considerations
A) Encouraging the management with an awareness of profit-making and growth	<ul style="list-style-type: none"> <li>● Encourage the management with an awareness of profit-making and growth based on the cost of capital (such as the proper allocation of management resources toward risk-taking, including a business portfolio review and investments in human capital, intellectual property and R&amp;D). [Implementation from spring 2023]</li> </ul>
B) Encouraging the management with an awareness of sustainability issues	<ul style="list-style-type: none"> <li>● Encourage companies to take actions on sustainability issues through the statutory disclosure framework of sustainability information, including human capital, intellectual property and diversity, which was newly established in the Annual Securities Report (including the publication of companies' good disclosure practices). [Implementation from 2023 to 2025]</li> <li>● Actively participate in the international discussion for the formulation of sustainability disclosure standards, and as a part of that, promote "human capital" to be included in the agenda priority of international sustainability disclosure standards. [Implementation from 2023]</li> <li>● Consider whether additional measures are needed to improve the diversity of the board and core human resources, such as increasing the percentage of female executives (target of 30% or more by 2030), depending on the evaluation of the achievement.</li> </ul>
C) Improving the effectiveness of independent directors (improvement of the effectiveness of the board, nomination committee and remuneration committee)	<ul style="list-style-type: none"> <li>● In light of the enhanced disclosure of information on the activities of the board, the nomination committee, and the remuneration committee in Annual Securities Reports, investigate, compile and publish the actual status and examples thereof and, through these initiatives, promote the establishment of a "PDCA" cycle based on the evaluation of the effectiveness of the board and strive to further demonstrate its functions. [Fall 2023]</li> <li>● Conduct educational activities, including skill development through training, to promote understanding of the roles expected of independent directors. [Spring 2023]</li> </ul>

2. Issues related to dialogues between companies and investors	
Item	Details of measures and considerations
A) Effective implementation of stewardship activities	<ul style="list-style-type: none"> <li>● Promote the efforts of asset managers and asset owners to deal with the issues involved in the effective implementation of stewardship activities (including allocating sufficient resources at asset managers, devising engagement methods, providing incentives for stewardship activities, establishing governance structures of asset owners such as pensions). [Implementation from spring 2023]</li> </ul>
B) Enhancing the quality of disclosure as a basis for dialogue	<ul style="list-style-type: none"> <li>● Request companies listed in the Prime Market to disclose the status of dialogues with their investors and the content of such dialogues. [Spring 2023]</li> <li>● Re-emphasize the purpose of the "Comply or Explain" principle and make clear sufficient and insufficient cases of "Explain." [Spring 2023]</li> <li>● Continue to consider measures to provide investors with the information they need prior to general shareholders meetings in an effective and efficient manner, including enhancing the efficiency of disclosure of duplicate information in Annual Securities Report required by the Financial Instruments and Exchange Act and Business Report required by the Companies Act.</li> <li>● Consider measures to enhance timely disclosure of information that can serve as a basis for dialogues between companies and investors.</li> </ul>
C) Promoting dialogues with global investors	<ul style="list-style-type: none"> <li>● Promote dialogues between companies and investors by "visualizing" companies that willingly and actively respond to the expectations of global investors (such as the ratio of independent directors, diversity, and disclosure in English). [Implementation from summer 2023]</li> <li>● In particular, expand the coverage of English disclosure practices, including making English disclosure of relevant documents of the companies listed in the Prime Market mandatory. [Fall 2023]</li> </ul>
D) Resolving legal issues	<ul style="list-style-type: none"> <li>● Clarification of "act of making important suggestions" and "joint holders" under the large shareholding reporting rule.</li> <li>● Consider what beneficial shareholders transparency should be.</li> <li>● Consider how to protect minority shareholders in the case of a partial takeover bid.</li> </ul>
E) Resolving market environment issues	<ul style="list-style-type: none"> <li>● Continue to consider the disclosure and corporate governance issues with regard to quasi-controlled listed companies.</li> <li>● With regard to the reduction of cross-shareholdings, continue to follow up on the progress made in light of the strengthening of disclosure rules in Annual Securities Reports, the change of continued listing criteria due to the reorganization of market segments by Tokyo Stock Exchange, and transitional measures therefor, and consider whether further measures are called for. [Implementation from 2023 to 2025]</li> </ul>

# Measures for Ensuring Operational Resilience

SONODA Akira, Deputy Director  
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KANAMORI Satoshi, Section Chief

Prudential Standards Office, Risk Analysis Division, Strategy Development and Management Bureau

## 1. Background

Operational resilience is the ability of financial institutions to deliver critical operations even in disruptive events, such as natural disaster, infectious diseases, cyberattack or system failure.

In an international context, the Basel Committee on Banking Supervision (the "Basel Committee") published documents to promote a principle-based approach to improving operational resilience in 2021, and the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS) also published related documents.

The draft version of "Discussion Paper on Ensuring Operational Resilience" (the "DP") was published for consultation in December 2022, and the FSA finalized it in April 2023.\*

## 2. Basic steps

Based on the principles published by the Basel

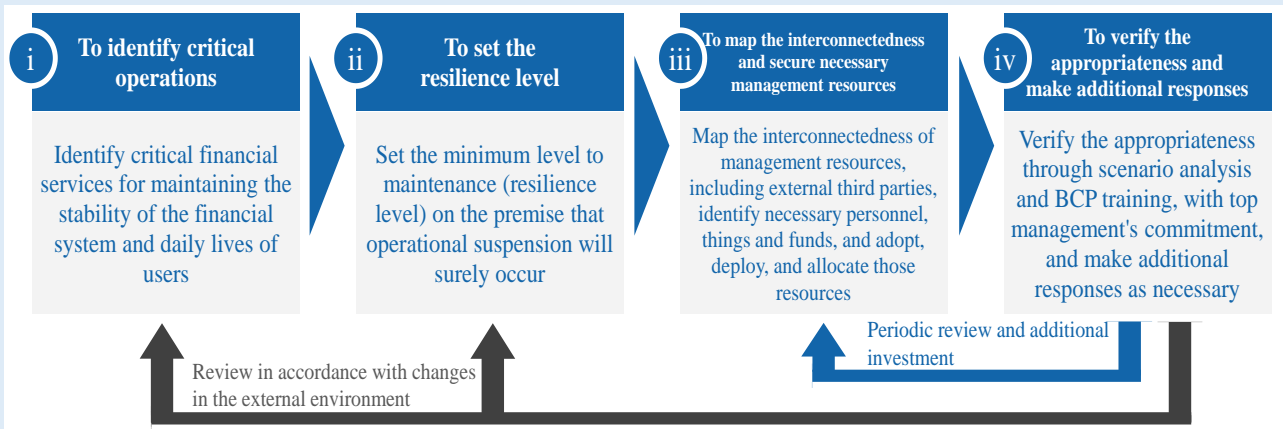
Committee, the DP introduces four steps to ensure operational resilience.

Through these steps, financial institutions are expected to reconsider their operation from the perspective of users, streamline their business processes, and consider allocating management resources to the offices or sections where needed. In order to secure the effectiveness of the frameworks they have deliberated, management's commitment to ensuring operational resilience is indispensable, and it will also be necessary to establish such risk management culture that disseminates the importance of operational resilience throughout the organization.

## 3. Key points

Comparing with existing Business Continuity Plans (BCPs) that have been developed by individual financial institutions, ensuring operational resilience has several different aspects as explained below.

### Basic actions for operational resilience



• For details, see a news release titled "Publication of the results of public comments regarding the 'Basic Idea for Ensuring Operational Resilience' (draft)" (April 27, 2023).  
[https://www.fsa.go.jp/en/laws\\_regulations/index.html](https://www.fsa.go.jp/en/laws_regulations/index.html)

• This June, the Comprehensive Guidelines for Supervision of Major Banks, etc. will be revised based on the DP.



**(1) To shift to the all-hazard approach, from the conventional approach of assuming specific crises** A BCP is generally developed as a plan to respond to individual crises while envisaging specific cases (causes), such as an earthquake, pandemic, or blackout. However, as risk environment is changing rapidly, such a BCP may not be sufficient when making responses to unexpected event. Accordingly, for critical financial services, it is necessary to assume the possibility of unexpected event and secure procedures for initial responses at the time of business disruption and for restoration work, as well as alternative procedures.

**(2) To set critical operations and tolerance for disruptions from the perspective of users**

Financial institutions are required to set the minimum level to deliver critical operations (tolerance for disruption). This may be set as Recovery Time Objective of business disruption in the same manner as in the case of a BCP. However, from the perspective of mitigating the impact on the financial system and users' everyday lives within a certain range, financial institutions can also consider other factors such as the scope of business disruption, the number or amount of transactions, and the number of users affected (for example, the number of complaints from users during business disruption).

**(3) To secure management resources including external ones (i.e. third-parties)**

There may be numerous cases where collaboration with external third-parties and fourth-parties is indispensable for carrying out critical operations. This includes collaboration with IT vendors that are entrusted with system development and operation, cloud vendors that use the services, and FinTech companies that are partners of API integration.

Therefore, financial institutions need to take into consideration not only how to continue their own business operations but also how business disruption of critical third-parties may exert influence on users. Specifically, they are expected to map the interconnectedness and interdependencies of internal

and external management resources, identify necessary ones in the entire operational processes, and make necessary investments and allocations on those resources under the initiative of management.

**(4) To streamline and digitalize operational processes**

The need to ensure operational resilience is an opportunity to promote streamlining and digitalization of operational processes. For example, if a financial institution avoids taking measures for streamlining and simplifying its existing complicated operational processes, this may result in raising costs due to complexity in system development and replacement, and it may also face problems in ensuring resilience. Therefore, digitalization can contribute not only to the provision of user value and cost reduction but also to ensuring resilience through streamlining and simplifying operational processes.

**(5) To develop open corporate culture**

In order to ensure the effectiveness of operational resilience, it is indispensable to continue adapting to environmental changes and make efforts not to make a sham of the PDCA (plan-do-check-act) cycle. Accordingly, corporate culture, which is not covered by existing BCPs, becomes one of the critical factors. In other words, in order to update crisis responses from a user's viewpoint, it is necessary to develop an open corporate culture where people with different backgrounds and expertise, including from the system department, operational department, business management department, public relations department and external third parties, have open dialogues while deepening mutual understanding and collaboration. Excessive demerit points system or zero tolerance also needs to be altered to ensure realistic operational resilience.

# Outline of the Progress Report on Enhancing Asset Management Business 2023

SUZUKI Gaku, Section Chief  
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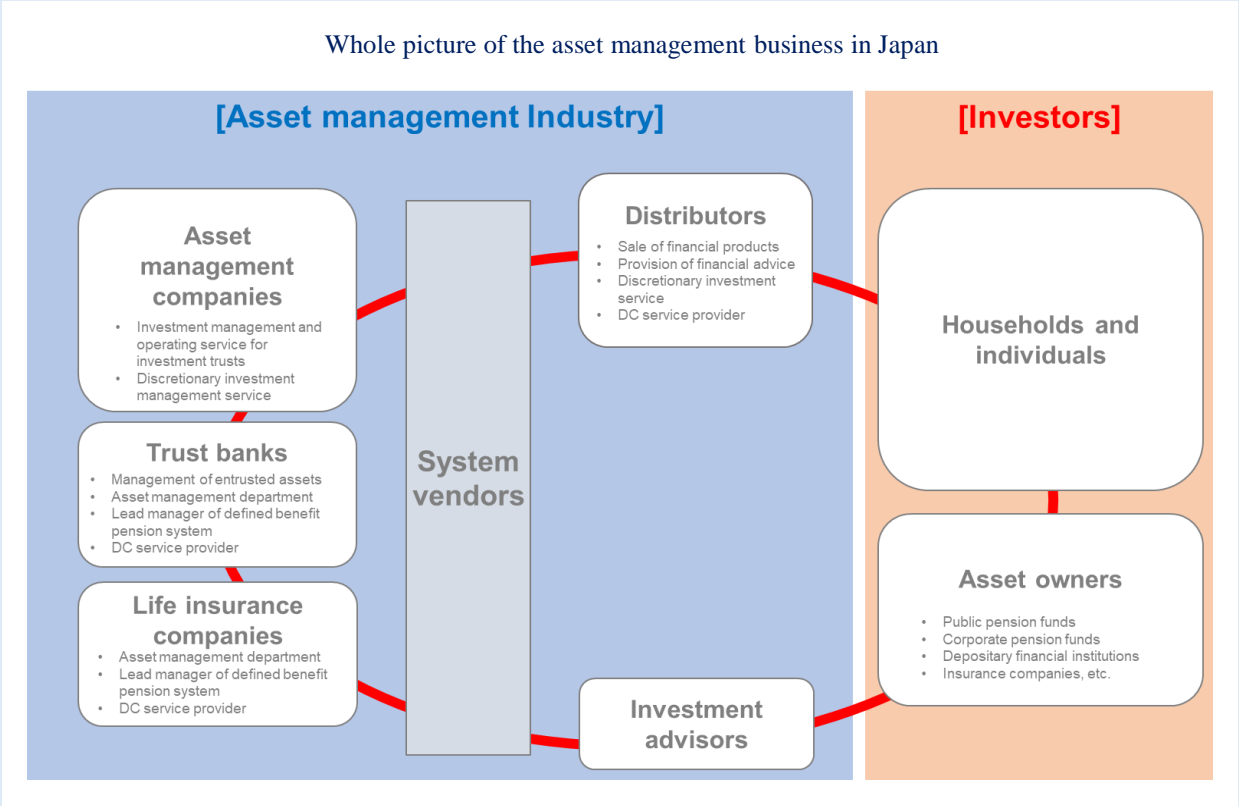
◎ **Introduction**

This April, the FSA published the Progress Report on Enhancing Asset Management Business 2023 for the purpose of promoting efforts for enhancing the asset management business.\* The report compiles matters considered to be necessary for the asset management business in Japan to achieve growth as an important industry which has the public trust, while improving the expertise and transparency in their business operations and services. In the report, the asset management business is defined broadly, while covering trust banks, life insurance companies, distributors and system vendors, etc., in addition to asset management companies, and as investors, asset owners are included. The report broadly analyzes challenges for each of those entities. From the report, details of the representative points are briefly explained below.

**1. Challenges in enhancing the asset management business**

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

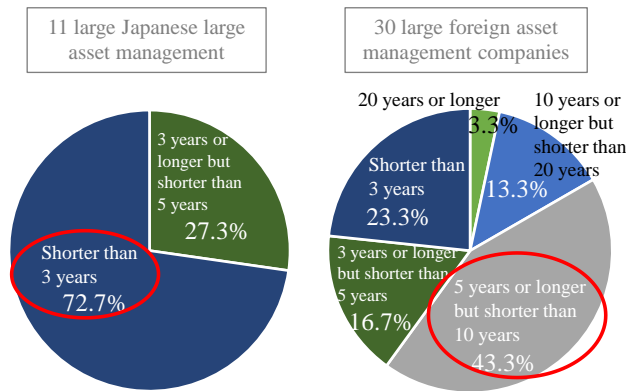
Many of the large asset management companies in Japan are affiliated with banks or securities companies, and it has long been pointed out that there is a risk that short-term profits of distributors may get preference over the long-term profits of asset management companies, depending on circumstances. Therefore, the report made comparisons between 11 large Japanese large asset management companies and 30 large foreign asset management companies regarding their top executives' terms of office, numbers of years of experience of working for asset management companies, and former positions. As a result, it was found that top executives of Japanese asset management companies have served for shorter terms,



\* Publication of "Progress Report on Enhancing Asset Management Business 2023" (April 21, 2023): <https://www.fsa.go.jp/news/r4/sonota/20230421.html> (Available in Japanese)

have had less experience of working for asset management companies, and were more likely to be appointed from other companies within the same group, compared with those of surveyed foreign asset management companies. In order for Japanese asset management companies to obtain the trust of customers and expand assets under management on a long-term basis, they need to eliminate concerns over conflict of interest through ensuring the independence and transparency in their business management and have top management well-versed in the asset management business remain in their leadership positions. For that purpose, individual asset management companies are expected to make concrete actions, such as formulating succession plans for sophisticating their businesses and positively disclosing grounds for appointing their top executives.

Terms of office of top executives of large asset management companies



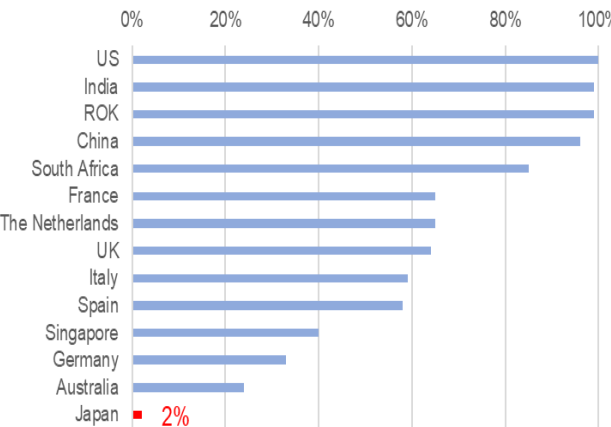
(Source) The pie chart for 11 large Japanese asset management companies is prepared by the FSA based on data as of the end of December 2022 provided by individual companies. The pie chart for 30 large foreign asset management companies (including one Japanese asset management company) is prepared by the FSA while referring to individual companies' websites, etc.

(2) To ensure transparency in investment management structures

According to the survey by the US company, Morningstar, disclosure of names of fund managers for individual investment trusts is becoming common in many countries and regions. On the contrary, in Japan, publicly offered investment trusts for which names of fund managers are disclosed only account for around 2% of the total, which is the lowest among major 26 countries. In reality, changes of major fund managers sometimes affect operational performance and it is pointed out that investors cannot make investments with security unless the status of investment management structures are made clear. Disclosure of such information as fund managers'

names will also increase data for fund evaluation companies, etc. and information provided thereby can serve as significant reference data in selecting good quality investment trusts that will contribute to customers' asset building. In Japan, disclosure of fund managers' names is not required under laws and regulations. Therefore, it is preferable that individual asset management companies make efforts on a voluntary basis.

Percentage of mutual funds disclosing fund managers' names (against the total number of funds)

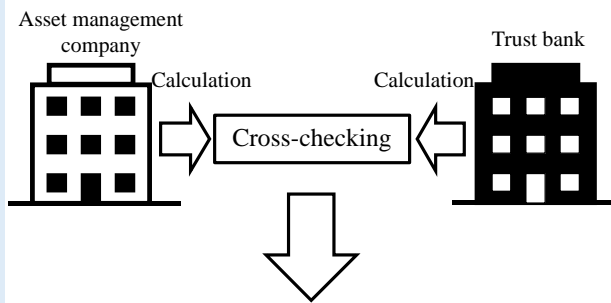


(Source) FSA, based on the "Global Investor Experience Study Disclosure" published by Morningstar (December 14, 2020)

(3) To promote new entries of asset management companies

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

Conceptual figure describing double calculation



Publication of constant value



competition among system vendors in comparison with other countries are also pointed out. For vitalizing Japan's asset management business, it is necessary to review such unique practice in Japan and develop an environment to make it easier for asset management companies to newly enter the Japanese market or to become independent.

## **2. Challenges in sophisticating asset owners' investment management**

The share of pension funds in Japan is large and their trends attract attention globally. In Japan, while public pension funds particularly have a significant presence, many of the corporate pension funds are small and it is said that some funds have problems such as personnel in charge of investment that lack expertise, labor shortage, or failure to manage risks relating to investment management appropriately. Under such circumstances and a low-interest rate environment in recent years, Japanese corporate pension funds have tended to make high-returning alternative investments. However, alternative investments have highly individual characteristics

and proper risk management is said to be more difficult for them than for traditional assets partly due to limited information disclosure. Pension funds need to raise companies' awareness regarding developing their investment management structures in a manner corresponding to their asset size and the details of their investment management services.

## **◎ Conclusion**

In 2024, the new NISA program will be launched, and the role to be played by the asset management business in people's asset building is becoming larger and larger. Japan's asset management business is currently not without problems, and related parties are expected to make efforts on the matters pointed out in the report. The FSA will follow up the progress of their efforts continuously. The asset management business as a whole should aim to enhance corporate value over the medium to long term and vitalize capital markets in Japan through these efforts to enable households and individuals to enjoy the resulting benefits.

# Awareness-Raising Week for Gambling Addiction, etc.

Gambling addiction, etc., is one of the psychiatric disorders in which a person becomes preoccupied with gambling, etc. and becomes unable to control his/her craving. Heavy dependence on gambling, etc. may result in disrupting addicts' daily and social lives and may cause further serious problems, such as family quarrels, abuse, suicides, or crimes.

During the Awareness-raising Week for Gambling Addiction, etc. from May 14 to May 20, 2023, the FSA intensively posted Twitter advertisements and introduced points to note for gambling addicts and their families and information on counseling services, which are published on the FSA's website.\* Initiatives of relevant ministries and agencies and industry organizations during the Awareness-raising Week are also introduced on the FSA's website.

- ◆ Initiatives for raising awareness of gambling addiction, etc. (Cabinet Secretariat)
  - "Awareness-raising video – Do not worry by yourself alone or do not try to solve trouble only within your family. Visit a counseling office first! –"
  - "Actual experiences of former gambling addicts"
  - Poster of the Awareness-raising Week for Gambling Addiction, etc.
- ◆ Video advertisements during the Awareness-raising Week for Gambling Addiction, etc. (Japanese Bankers Association)
  - "Haven't you become a *Card Lion* before you knew it? (re. gambling)"
  - "Haven't you become a *Card Lion* before you knew it? (re. voluntary lending restriction system)"
- ◆ Test for gambling addiction, etc. (Japan Financial Services Association)



Gambling addiction, etc., is a disease that can be cured through appropriate treatment and support. However, there may be cases where addicts themselves are unable to be correctly aware of their statuses while insisting that they are not addicts. In such cases, if left untreated, their symptoms will worsen and large debts and other problems may become more and more serious.

Anyone could suffer from addiction. It is not that addicts are weak or sloppy. If you have trouble, visit a counseling office and ask for a consultation instead of worrying by yourself alone or trying to solve trouble only within your family.



\* For details of this year's Awareness-raising Week for Gambling Addiction, etc., see the FSA's website.  
<https://www.fsa.go.jp/policy/kashikin/gambling/20230514.html> (Available in Japanese)

## JFSA's Major Activities in May (May 1 to May 31, 2023)



- [The first meeting of the Working Group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council \(May 29, 2023\)](#)
- [Washington D.C. Meeting of the International Forum of Independent Audit Regulators \(IFIAR\) \(May 18, 2023\)](#)
- [The List of Notifiers of Specially Permitted Business for Foreign Investors, etc. \(May 10, 2023\)](#)
- [Updated statistics of money lending business \(May 10, 2023\)](#)
- [Updated : G7 High-Level Corporate Governance Roundtable \(May 9, 2023\)](#)
- [Stewardship Code : 324 institutional investors have signed up to the Principles for Responsible Institutional Investors as of April 30, 2023 \(May 9, 2023\)](#)

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



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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](mailto:fsa_kouhou@fsa.go.jp)

### Editorial Postscript

We are approaching the end of BY2022 (July 2022 to June 2023). In the March issue, I made a fine-sounding statement: I would act in a planned manner because "... over and over again, I have felt that those 'four more months' seem to pass in an instant." However, this year again, I just noticed that June has come. I am disappointed with myself.

This month's Access FSA is rich in content, featuring the G7 meeting in Niigata by using the first six pages and also explaining the "Action Program for Accelerating Corporate Governance Reform: From Form to Substance" and the "Progress Report on Enhancing Asset Management Business 2023." These topics all relate to the matters to be addressed in the next business year.

Please enjoy them.

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Public Relations Office, FSA