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Contents

Conferences (P1-)

- P1 Holding of a Meeting for Exchange of Opinions on Promotion of Support for Business Operators and Facilitation of Finance
- P2 Summary of 2023 International Association of Insurance Supervisors (IAIS) Annual General Meeting and Annual Conference

Policy Commentary Corner (P5-)

- P5 Outline of the Act to Partially Amend the Financial Instruments and Exchange Act, etc.

SUDO Takashi, Deputy Director
WAKE Hiroaki, Deputy Director
YABE Saori, Section Chief

Policy and Markets Bureau, Financial Markets Division

OZAWA Hiroshi, Deputy Director
YAMAMOTO Tatsuya, Section Chief

Policy and Markets Bureau, Corporate Accounting and Disclosure Division

- P7 Progress Report for "Improving Internal Audits of Financial Institutions" (Interim Report)

NAGANO Yasuaki, Deputy Director, Office of Inspection on Risk Management,
Risk Analysis Division, Strategy Development and Management Bureau

ASAKURA Masato, Deputy Director, Large Banks Monitoring Office, Risk Analysis Division,
Strategy Development and Management Bureau

Notices (P10-)

- P10 FSA Hosted Delta Wall VIII - Financial Industry-Wide Cybersecurity Exercise
- P12 Publication of the "Reference Casebook of Financial Institutions' Practices Taken in FY2022 Based on the Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises"
- P14 Publication of Videos on Anti-Money Laundering Measures

JFSA's Major Activities in November (P15)

Holding of a Meeting for Exchange of Opinions on Promotion of Support for Business Operators and Facilitation of Finance

On November 27 this year, the FSA held a meeting for exchange of opinions on promotion of support for business operators and facilitation of finance, which was attended by government officials, including Minister of State for Financial Services Suzuki, State Minister of the Cabinet Office Ibayashi, Parliamentary Vice-Minister of the Cabinet Office Kanda and representatives from financial industry associations. On the same day, the government issued a letter of request for thorough efforts toward management improvement and business rehabilitation support.*

At the meeting for exchange of opinions, in addition to requesting financial industry associations to smoothly supply funds to business operators toward the end the calendar year and the end of the fiscal year, when fund demand grows, Minister Suzuki conveyed to them the need to shift their support for business operators from the stage of devoting efforts to financing support under the COVID-19 crisis to a new stage of looking one step ahead and extending support for management improvement and business rehabilitation in accordance with business operators' circumstances at a time when repayments of effectively interest-free, collateral-free loans provided by private-sector financial institutions are starting in earnest.



Photo: Minister of State for Financial Services Suzuki speaking at the meeting for exchange of opinions

He also explained that the revision of the Comprehensive Guidelines for Supervision of Small- and Medium-Sized and Regional Financial Institutions, which was announced the same day, has been made for the same purpose.

Representatives from financial industry associations mentioned the associations' intention to provide financing support for business operators that are in a difficult situation due to the effects of inflation and other factors, as they have already done, and to improve the enforcement of and promote the use of the Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises in order to further promote early business restructuring.



Photo: State Minister of the Cabinet Office Ibayashi speaking at the meeting for exchange of opinions



Photo: Parliamentary Vice-Minister of the Cabinet Office Kanda speaking at the meeting for exchange of opinions

Financial industry associations, etc. that participated in the meeting for exchange of opinions

- Japanese Bankers Association
- Regional Banks Association of Japan
- Second Association of Regional Banks
- National Association of Shinkin Bank
- Shinkumi Banks Association of Japan
- Trust Companies Association of Japan
- National Association of Labour Banks
- Norinchukin Bank
- Japan Finance Corporation
- Okinawa Development Finance Corporation
- Shoko Chukin Bank
- Development Bank of Japan
- Japan Federation of Credit Guarantee Corporations
- Japan Housing Finance Agency

1 * "Promotion of Support for Business Operators and Facilitation of Smooth Finance" (published on November 27)
<https://www.fsa.go.jp/news/r5/ginkou/20231127.html> (Available in Japanese)

Summary of 2023 International Association of Insurance Supervisors (IAIS) Annual General Meeting and Annual Conference

November
6 to 10

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From November 6 to 10 this year, a series of meetings by the International Association of Insurance Supervisors (IAIS), including the IAIS 2023 Annual General Meeting and Annual Conference, were held in Tokyo. This was the first time since the FSA became an IAIS member that those meetings were held in Japan. Below, outlines of the meetings held over the one-week period are described, with a particular focus on the Annual Conference, which private-sector stakeholders also joined.

1. Outline of the committee meetings and the Annual General Meeting

IAIS Committees meetings were held from November 6 to 8. The Executive Committee, which held its meeting on November 8, is the IAIS's highest-level committee that is in charge of substantive discussion and decision making.

The Annual General Meeting, attended by all IAIS members, was held in the morning of November 9. At this meeting, Shigeru Ariizumi, Vice Minister for International Affairs of the FSA, assumed the Chair role of the Executive Committee.*¹

2. Outline of the Annual Conference*²

The Annual Conference was held from the afternoon of November 9 through November 10, as a forum for discussion involving private stakeholders. More than 400 participants, including the IAIS members and stakeholders, joined the event.

■ Opening speeches and the keynote speech

At the beginning of the conference on November 9, Prime Minister Kishida delivered an opening speech and Minister of State for Financial Services Suzuki sent a video message. Prime Minister Kishida mentioned his expectations for the role of insurance and insurance companies in addressing various social challenges, the significance of the role of an effective regulatory and supervisory framework by the supervisory authorities, and the importance of cooperation between the public and private sectors.*³

Thursday, November 9	
11:00-12:15	Roundtables
13:00-13:30	Welcome Remarks
13:30-15:00	IAIS Executive Committee Town Hall
15:20-16:15	The role of supervisors in helping to address natural catastrophe protection gaps
16:15-16:35	In conversation with Gillian Tett
16:35-17:30	Evolving risks in the global insurance sector

Friday, November 10	
9:00-9:15	Keynote speech
9:15-10:15	Embedding customer-centric outcomes in the insurance sector
10:15-12:45	Roundtables
13:30-14:30	Data, transparency and disclosure: Evolving supervisory practices to tackle climate risk
14:30-15:30	Insurance Capital Standard: One year to finalisation
15:30-15:45	Closing remarks

*¹ "Selection of New Executive Committee Chair of the International Association of Insurance Supervisors (IAIS)" (published on October 20)

<https://www.fsa.go.jp/en/news/2023/20231020/20231020.html>

*² Regarding detailed information on the individual sessions of the Annual Conference and the people who delivered speeches, please see the IAIS's website.

<https://www.iaisweb.org/news-and-events/2023tokyo/>

*³ See the web page where the speech delivered by Prime Minister Kishida is presented.

https://www.kantei.go.jp/jp/101_kishida/actions/202311/09iais.html (Available in Japanese)



Photo: A commemorative photo

(From left) Former Chair Victoria Saporta of the IAIS Executive Committee, Prime Minister Kishida, Shigeru Ariizumi, Vice Minister for International Affairs of the FSA (New Chair of the IAIS Executive Committee), and IAIS Secretary General Jonathan Dixon.



Photo: The video message from Minister of State for Financial Services Suzuki

In addition, Minister Suzuki mentioned his expectations for insurance-related stakeholders to share knowledge and views from different regions and respective roles, and deepen discussions to confront challenges that are common to all of us.^{*4}

On November 10, Keiko Honda, an adjunct professor at Columbia University, delivered a keynote speech. She mentioned the impact of climate change on the insurance sector and expressed her expectations for the supervisory authorities and insurance companies to deepen discussions on data usage, affordability (appropriateness of insurance premiums), consumer education, etc.

■ Panel discussions and roundtable sessions

At the IAIS Executive Committee Town Hall following the opening speeches on November 9, the Chair and Vice Chair of the Executive Committee, the chairs of each committee, and the Secretary General shared recent major issues related to the IAIS. Then panel discussions and roundtable sessions were held.

At the session regarding natural catastrophe protection gaps^{*5} held on November 9, based on a report^{*6} published by the IAIS on November 6, discussions were held on the actions that insurance supervisory authorities can take to address natural catastrophe protection gaps amid the increasing

severity of natural catastrophe and approaches to cooperation between the public and private sectors. At the session regarding risks surrounding the global insurance sector, discussions were held on the impact of the global macroeconomic environment on the insurance sector and structural changes in the life insurance sector. Between those two sessions, a talk session involving Gillian Tett of the Financial Times was held, and trends related to the insurance sector, including cyber risks and climate change, were discussed.

At the session regarding customer-centric outcomes, held on November 10, discussions were held on how to make explanations and provide insurance services to customers while taking account of diverse customer attributes and needs. At the session regarding climate-related risks, discussions were held on the importance of disclosure, the challenges and responses related to data quality, and responses to greenwashing risk. In the final session, which concerned the Insurance Capital Standard, updates were given on the current state of work by the IAIS and the state of debate on the implementation of ICS in individual jurisdictions.

^{*4} See the web page where the message by Minister Suzuki is presented.

https://www.fsa.go.jp/en/announce/state/index_speeches.html

^{*5} Generally, this is interpreted as the "gaps between economic losses caused by natural disasters and the amount of insurance coverage."

^{*6} <https://www.iaisweb.org/2023/11/iais-outlines-actions-for-insurance-supervisors-in-addressing-natural-catastrophe-protection-gaps/>

In addition to the panel discussions, there were roundtable sessions, in which participants selected and discussed themes that suited their own interests (e.g., emerging consumer risks, protection gaps, and the IAIS Strategic Plan). At these sessions, participants, including representatives from the supervisory authorities and insurance companies, exchanged opinions with each other on the respective themes.

3. Conclusion

In addition to the abovementioned meetings, social events intended to promote in-depth communication among IAIS members and a side event*7 hosted by the FSA were also held. The series of events held over the one-week period were successfully concluded. The FSA will continue to make active contributions to international discussions on insurance regulation and supervision.



Photo: A scene of the panel discussion



Photo: A scene of the roundtable session

*7 Regarding detailed information on the speakers in the FSA's side event and the event themes, see the relevant FSA press release.

Outline of the Act to Partially Amend the Financial Instruments and Exchange Act, etc.

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YABE Saori, Section Chief

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OZAWA Hiroshi, Deputy Director

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On November 20 this year, two FSA-related laws on which examination continued from the previous ordinary Diet session (the Act to Partially Amend the Financial Instruments and Exchange Act, etc. and the Act to Partially Amend the Act on Book-Entry Transfer of Corporate Bonds and Shares, etc. in Response to the Advance of Information and Communication Technology and Other Changes in the Surrounding Environment) were enacted.^{*1}

The main points of amendment of those laws and the status of activities to prepare for enforcing the amendments, which are intended to increase convenience for and protect financial service customers and to make capital markets more efficient and vigorous are as described below.

■ Improvement of financial literacy

The government and relevant organizations have already been conducting activities concerning financial and economic education. However, not only has there been a survey finding that merely around 7% of the respondents recognized that they had received financial and economic education, but also there continue to be investment fraud activities. Moreover, recently, troubles have been found, caused by inappropriate investment solicitation activity through social media. It has been pointed out that, as indicated by this situation, financial and economic education has not yet spread widely among the people. It has also been pointed out that there has not been sufficient coordination between activities related to financial and economic education conducted by the government and relevant organizations and that financial and economic education programs implemented by private-sector tend to be avoided. Therefore, Japan Financial Literacy and Education Corporation (J-FLEC) will be established in order to bring together the knowhow accumulated by various public- and private-sector organizations while avoiding unnecessary overlaps of activities conducted by them and provide opportunities for financial and economic education from a neutral position on a nationwide basis.

In addition to engaging in financial and economic education in a broad range of areas, including household finances management, life

planning, and appropriate use and choice of financial instruments, this agency will develop an environment in which people have easy access to quality advice from advisors who are not biased.

On November 24, the FSA established a new office responsible for the establishment of the new agency with a view to realizing the establishment in the spring of 2024 and enabling the agency to start operation in earnest in the summer of the same year. In cooperation with relevant organizations, the FSA will promote activities to enhance financial literacy.

■ Revision of quarterly disclosure

Regarding corporate disclosure, the importance of non-financial information related to mid-to long-term corporate value is growing, so the FSA has strived to enhance the disclosure of sustainability information. In this situation, with respect to quarterly disclosure, it has been pointed out that there are overlaps between the quarterly securities report required under the Financial Instruments and Exchange Act and the quarterly earnings report required under securities exchange rules. In light of that, the legally required quarterly securities report will be abolished from the viewpoint of improving the efficiency of corporate disclosure.

Even after the unification of quarterly reports into the quarterly earnings report, it will continue to be important that information necessary for investors be provided. Therefore, the Tokyo Stock Exchange conducted a study on the criteria for a mandatory review by an accounting auditor in cases of inappropriate disclosure in a quarterly earnings report and in cases of accounting misconduct while taking account of the opinions from investors and companies, and on November 22, it published the Practical Policy Concerning the Revision of the Quarterly Disclosure System,^{*2} which was worked out based on the results of the study.

^{*1} Bills submitted to the Diet (211th Diet session)

<https://www.fsa.go.jp/common/diet/index.html> (Available in Japanese)

^{*2} "Practical Policy Concerning the Revision of the Quarterly Disclosure System" (published on November 22)

<https://www.jpx.co.jp/english/news/1023/20231122-01.html>

While seeking the opinions of domestic and foreign investors and companies, the FSA will closely cooperate with the Tokyo Stock Exchange and other organizations to ensure that this revision will not be regarded as a setback for corporate disclosure in Japan. At the same time, the FSA will make necessary preparations ahead of the entry-into-force of the revision on April 1, 2024.

■ **Securing customer-oriented business conduct and responding to digitalization**

Regarding customer-oriented business conduct, the FSA has so far encouraged proactive efforts by financial business operators based on the Principles for Customer-Oriented Business Conduct, but there is still more remaining to be done, with many business operators not adopting the principles. Therefore, financial business operators will be universally obligated to execute

business operations in a conscientious and fair manner while taking account of customers' best interests in order to ensure that customer-oriented business conduct further takes hold and is enhanced.

In addition, the FSA has developed legal provisions for customer protection with respect to documents that securities companies are required to provide to customers, administrative hearing proceedings, adaptation to the digitalization of investment securities issued by the Bank of Japan (BOJ investment securities), social lending, and the rights based on tokenized contracts for specified joint real estate ventures. To smoothly implement those provisions, the FSA will cooperate with relevant organizations.

Outline of the Act to Partially Amend the Financial Instruments and Exchange Act, etc.

Develop institutional systems regarding "customer-oriented business conduct and financial literacy" and "corporate disclosure" in order to increase convenience for and protect customers in response to changes in the financial environment, including the advance of digitalization.

Customer-oriented business conduct and financial literacy

- Implement the following activities in order to realize a positive financial cycle of the benefits of growth being distributed to households and encourage households to engage in stable asset building

Ensure customer-oriented business conduct

- Introduce an obligation to execute business operations in a conscientious and fair manner while taking account of the best interests of customers and pension plan members who are final beneficiaries, which is applicable broadly to relevant entities, including financial business operators and corporate pension funds.
- Introduce a legal obligation to provide explanations in accordance with customers' attributes and develop provisions regarding the use of digital technology in providing information to customers.

Improve financial literacy

- Develop a "basic policy" for implementing measures related to support for asset building in a comprehensive manner.
- Establish a Financial and Economic Education Promotion Agency in order to widely provide financial and economic education with due consideration given to users' standpoint.
[Operations] Prepare teaching materials and contents for financial and economic education, provide lectures at schools and companies, provide one-on-one consultations to individuals, etc.
[Form] An authorized corporation
[Board of directors] Chairman (one person), directors (up to three persons), etc.
[Governance] Executive committee (committee members, the chairman of the board, and directors)
(Reference) In addition to conducting the above operations, the agency will be responsible for developing an environment conducive to easy access to consultations and advice related to asset building.

Corporate disclosure

- In addition to requiring efforts to enhance the disclosure of non-financial information,^(Note 1) abolish the quarterly securities report required under the Financial Instruments and Exchange Act from the viewpoint of improving the efficiency of corporate disclosure^(Note 2)
(Note 1) Enhance the disclosure of sustainability information through the revision of a relevant Cabinet Office ordinance.
(Note 2) Regarding the disclosure of information in the first and third quarters, unify disclosure reports into the quarterly earnings report required under securities exchange rules.
- Extend the period of public viewing for semiannual and extraordinary securities reports^(Note) by five years (to the same period as the period of statute of limitation for administrative monetary penalty)
(Note) The current period of public viewing is three years for semiannual securities reports and one year for extraordinary securities reports.

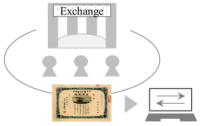


Other measures related to increasing convenience for and protection of customers in response to the advance of digitalization

- Regarding Type II financial instruments business operators engaging in social lending,^(Note) develop a provision regarding investment reports in light of cases of failure to appropriately provide information to investors.
(Note) A scheme to provide loans using funds collected via the internet.
- Apply rules under the Financial Instruments and Exchange Act to tokenized contracts for specified joint real estate ventures,^(Note) as in the case of other electronically recorded transferable rights, in light of the emerging trend of tokenizing such contracts.
(Note) A scheme to invest funds contributed by a number of investors and distribute the return to them.
- Introduce an obligation for online disclosure—via the websites of financial instruments business operators or other sites—of information identical in substance to the one indicated in signs posted at their sales offices.
- Digitalize the procedures for the administrative hearing proceedings related to orders for administrative monetary penalty issued to companies that have disclosed falsified financial documents.

Outline of the Act to Partially Amend the Act on Book-Entry Transfer of Corporate Bonds and Shares, etc. in Response to the Advance of Information and Communication Technology and Other Changes in the Surrounding Environment

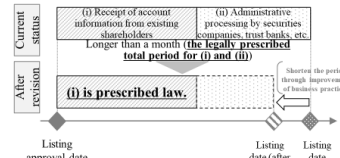
Develop institutional systems related to "response to digitalization" and the "shortening of the timeframe for listing by startup companies" in order to make capital markets more efficient and vigorous amid changes in the environment surrounding the markets, including digitalization.

Response to digitalization

- Digitalize BOJ investment securities, the only securities listed on exchanges that have not been digitalized.
[Points of amendment]
 - Add special corporation investment securities, including Bank of Japan investment securities, to the scope of securities under the book-entry transfer system.
- Publish online the registry of investment corporations, specified purpose companies, and limited liability audit corporations (information on officers, business offices, etc.).
[Points of amendment]
 - Develop a provision to exclude personal information (addresses of officers) from online publication.
- Digitalize administrative hearing proceedings related to administrative monetary penalty orders issued to certified public accountants, etc. who have made false certification of financial documents, etc.
[Points of amendment]
 - Enable online service and application, online administrative hearing proceedings and digitalize case records

Shorten the timeframe for listing by startup companies

- In order to enable unlisted companies, including start-ups, to determine their IPO price more appropriately,^(Note) review the period between the listing approval date and the listing date, which is legally required to be at least one month under the Act on Book-Entry Transfer of Corporate Bonds and Shares, with a view to possible shortening of the period through improvement of business practices while protecting shareholders.
(Note) Due to the long period between the listing approval date and the listing date, it has been pointed out that the IPO price is set lower in light of price volatility risk.



*Make the revisions to the provisions of Article 48 of the same law that should have been made in 2006, when Article 12, Paragraph (2) of the Act on Book-Entry Transfer of Corporate Bonds and Shares was amended.

Progress Report for "Improving Internal Audits of Financial Institutions" (Interim Report)

NAGANO Yasuaki, Deputy Director, Office of Inspection on Risk Management, Risk Analysis Division, Strategy Development and Management Bureau

ASAKURA Masato, Deputy Director, Large Banks Monitoring Office, Risk Analysis Division, Strategy Development and Management Bureau

1. Introduction

In June 2019, the FSA published a document compiling the current situation and issues regarding financial institutions' internal audits based on the results of the relevant monitoring under the title of the "Current Situation and Issues for Improving Internal Audits of Financial Institutions"^{*1} (Available in Japanese; the "Current Situation and Issues"). In this document, it is stated that in order for financial institutions to build their sustainable business models and thereby secure the appropriateness of business operations and the soundness of financial conditions and contribute to stabilizing the financial system, it is important to ensure that their governance is functioning effectively, and their internal audit departments need to properly perform their missions for that purpose.

More specifically, the "Current Situation and Issues" requires individual financial institutions' internal audit functions to respectively evaluate the effectiveness of organizational activities from a risk-based and forward-looking perspective and to improve internal audits depending on environmental changes. Additionally, it also states that staged evaluation is possible for the levels (maturity) of internal audits, and presents four stages, namely, administrative deficiency audit (1st phase), risk-based audit (2nd phase), management audit (3rd phase), and being a trusted advisor (4th phase).

Improvement of internal audits in such a manner is becoming more and more important for all financial institutions while risks are becoming increasingly diversified and complicated amid changes in the financial environment and the globalization of group companies are progressing.

Even after the publication of the "Current

Situation and Issues," the FSA has been conducting monitoring of financial institutions for improving their internal audits. With regard to large banking groups, the FSA has had dialogues with their top management regarding their efforts for and challenges in improving internal audits as part of the all-year inspections.

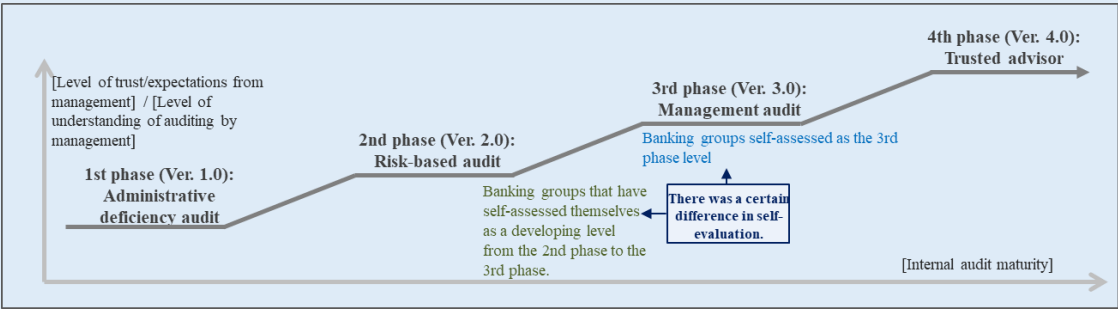
Based on the aforementioned monitoring, the FSA compiled the status of efforts regarding internal audits and awareness of challenges of large banking groups into the "Progress Report "Improving Internal Audits of Financial Institutions" (Interim Report)"^{*2} (Available in Japanese; the "Report") and published it in October 2023 with the expectation that the Report would be of some help for not only large banking groups but also other financial institutions in making efforts for enhancing their internal audits.

The Report contains many specific examples and adopts easy-to-understand expressions so that it can be understood broadly by financial institutions irrespective of their business categories.

2. Results of the monitoring (overall evaluation)

Through the monitoring of large banking groups, it could be confirmed that they have been generally making positive efforts to improve internal audits continuously after the publication of the "Current Situation and Issues." Incidentally, certain gaps were observed in self-evaluation of the levels of internal audits among large banking groups [Fig. 1].

[Fig. 1] Self-evaluation by large bank groups regarding their levels of internal audits



^{*1} https://www.fsa.go.jp/news/30/20190628_naibukannsa.html (Available in Japanese) (published on June 28, 2019)

^{*2} <https://www.fsa.go.jp/news/r5/ginkou/20231024/20231024.html> (Available in Japanese) (published on October 24, 2023)

- a. Management teams, audit committee members, corporate auditors, etc. are to be strongly aware of the importance and effectiveness of internal audits and positively offer support.
- b. Internal audit functions are to make efforts to improve internal audits and reinforce audit infrastructure in accordance with environmental changes.
- c. Management teams, audit committee members, corporate auditors, and internal audit functions are to endeavor to deepen and disseminate

Through the monitoring of large banking groups, the FSA found cases where management teams, audit committee members, and corporate auditors were considered to fully understand the importance and effectiveness of internal audits, and it was able to confirm that they expect the internal audit functions to further improve internal audits. The FSA was also able to confirm that internal audit functions have been making efforts to improve internal audits, deepen and disseminate understanding of internal audits and develop the concept of risk ownership among audited departments [Fig. 2].

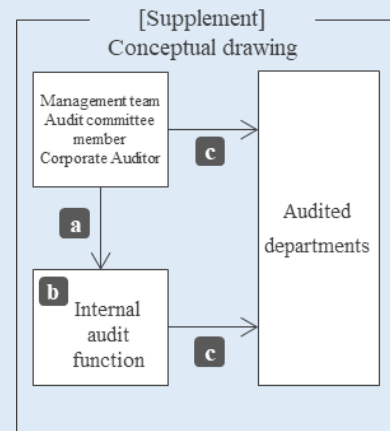
In the meantime, the FSA was able to understand the challenges regarding audit structures, audit foundations (human resources for audits), etc. recognized by internal audit departments [Fig. 3].

- a** **Support for the internal audit function by management teams, audit committee members, and corporate auditors**

 - **Growing awareness of the importance and usefulness of internal audit.**
 - Discuss the role of internal audit, including the management team, increase the number of officers and staff and the budget
 - Opinions have been requested more often by the chairs of various conference bodies, etc.
- b** **Initiatives for improvement in the internal audit function**

 - **Audit from the management perspective, flexible response to risk changes, and improvement of audit quality**
 - **Develop systems on a group/global basis, etc.**
- c** **Initiatives for audited departments**

 - **Understanding and penetration of internal audit for the audited department**
 - **Foster risk ownership in audited departments**



a Support for the internal audit function by management teams, audit committee members, and corporate auditors	b Initiatives for sophistication of the internal audit function	c Initiatives for audited departments
<p>Banking groups that assessed themselves as 3rd phase level</p> <p>[Expectations from management teams, audit committee members, and corporate auditors]</p> <ul style="list-style-type: none"> ● Flexible audit ● Audit targeting management strategy, etc.* ● Recommendations from the perspective of strategic execution issues and operational efficiency, etc. <p>*Status of development, implementation, and penetration of management strategies, sufficiency, and appropriateness of management resource allocation, etc.</p>	<p>Banking groups that assessed themselves as being on the way from the 2nd phase to the 3rd phase</p> <ul style="list-style-type: none"> ● Audits that consider the perspectives of all stakeholders ● Identifying the root cause of management issues ● Establishing a virtuous cycle of human resources between the 1st, 2nd and 3rd lines ● Initiatives for transition to the 4th phase, etc. 	<p>Banking groups that assessed themselves as 3rd phase level</p> <p>[Expectations from outside directors to management teams]</p> <ul style="list-style-type: none"> ● Explanation and penetration of the significance of “audits that contribute to management” from management and internal audit function to audited departments <p>[Management team's self-identified issues]</p> <ul style="list-style-type: none"> ● Fostering a culture in which audited departments actively accept and cooperate with internal audits <p>[Issues recognized by the internal audit department]</p> <ul style="list-style-type: none"> ● Understanding and penetration of the role of internal audits for audited departments
<p>Banking groups that assessed themselves as being on the way from the 2nd phase to the 3rd phase</p> <p>[Expectations from management teams, audit committee members, and corporate auditors]</p> <ul style="list-style-type: none"> ● Even if it is difficult to say, speak freely from third party's perspective based on the facts. ● Fulfillment of an assurance function for the internal control system ● Audit from a management perspective, etc. (Expectations from outside directors) 	<p>Banking groups that assessed themselves as being on the way from the 2nd phase to the 3rd phase</p> <ul style="list-style-type: none"> ● Transition from compliance audits to audits that verify the maintenance and operational status on business processes ● Pursuing the root cause of issues using frameworks for analysis ● Building a system to comprehensively understand and accurately evaluating risks across the entire group. ● Securing and developing human resources responsible for management audits, etc. 	<p>Banking groups that assessed themselves as being on the way from the 2nd phase to the 3rd phase</p> <p>[Management team's self-identified issues]</p> <ul style="list-style-type: none"> ● Fostering a culture in which audited departments actively accept and cooperate with internal audits <p>[Issues recognized by the internal audit function]</p> <ul style="list-style-type: none"> ● Understanding by the audited departments that internal audit function is colleagues in achieving a common goal, etc.

3. Main issues and direction for future monitoring

Based on the aforementioned three perspectives, the Report presents major points in conducting monitoring from now on as follows.

[Issue 1]

Support for internal audit functions by management teams, audit committee members, and corporate auditors

Main actors: Management teams, audit committee members, and corporate auditors

- (i) Examining the ideal state of internal audits
- (ii) Supporting the improvement of internal audits
- (iii) Status of initiatives regarding the utilization of internal audit functions

[Issue 2]

Improving the system and strengthening the infrastructure of the internal audit function

Main actors: Internal audit functions

[Improvement of an auditing system]

- (i) Exchange of opinions and information with management teams, audit committee members, and corporate auditors
- (ii) Ensuring independence
- (iii) Identifying risks and narrowing down the scope of audits
- (iv) Flexible responses to risk changes
- (v) Deepened audits (including root cause analysis)
- (vi) Utilization of IT and data analysis
- (vii) Continuous improvement of audit quality
- (viii) Status of initiatives of group/global system development

[Strengthening of an audit infrastructure]

- (i) Status of initiatives to secure and develop human resources
- (ii) Status of implementation of the audit system

[Co-sourcing]

- (i) Utilization policy
- (ii) Responsibility regarding final evaluations
- (iii) Status of initiatives for obtaining knowledge and know-how

[Issue 3]

Understanding and penetration of internal audits for audited departments and fostering risk ownership

Main actors: Management teams, audit committee members, and corporate auditors, as well as internal audit functions

- (i) Understanding and penetration of internal audits for audited departments
- (ii) Status of initiatives regarding evaluation and fostering of risk ownership in audited departments, and communication with audited departments

The FSA will conduct deepened monitoring based on these major points*³ not only for large banking groups but also for regional banks, securities companies, insurance companies and other types of financial institutions, and will encourage them to enhance their internal audits.

Additionally, in order to improve the efficiency of financial administration, the FSA will decide the coverage and depth of monitoring depending on the levels of internal audits of individual financial institutions.

The FSA will also deliberate on the necessity to update the "Current Situation and Issues" (including the necessity to review the staged evaluation), also from the perspective of encouraging further improvement of internal audits for group companies on a global basis, in light of the global trends concerning monitoring of financial institutions and on internal audits, and it is aiming to compile the deliberation results as the final report.

Please provide your opinions on the Report. The FSA will use them as reference in compiling the final report.

[Contact information]

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^{*3} The FSA will not use the points and viewpoints presented in the Report and the "Current Status and Challenges" as a formal checklist for monitoring.

FSA Hosted Delta Wall VIII - Financial Industry-Wide Cybersecurity Exercise

The FSA hosted the eighth Financial Industry-Wide Cybersecurity Exercise, the so-called "Delta Wall VIII" on October 19-26, 2023.

1. Increasing cybersecurity threats to the financial industry

Large-scale cyberattacks are increasingly observed across the world. Techniques used by attackers become further sophisticated and complicated. Similarly, in Japan, cyberattacks increasingly cause disruption of business operations, compromise of confidential information and financial losses.

Threats of cyberattacks potentially pose significant risks that could undermine financial stability.

2. Overview of this year's exercise - Delta Wall VIII

This year's exercise, Delta Wall VIII, expanded its coverage to include insurance companies, and from the perspective of increasing the participation rate of critical infrastructure operators, a total of 165 financial institutions in various business categories participated in the exercise. The number marked a record high. Local Finance Bureaus and other stakeholders took part in the exercise to simulate exchanges with affected financial institutions during the exercise.

Based on recent cyberattack trends, the exercise scenarios assumed halts in operation systems (including halts in part of the industry's common infrastructure systems), triggered by the vulnerability of network equipment. As the level of maturity in cybersecurity is higher in banks, the exercise was a blind test for them, under which the exercise scenarios were not disclosed in advance. For other business categories, the exercise scenarios were outlined in advance.

Furthermore, severer scenarios were developed for banks than other types of financial institutions, which exert an influence on their

important business operations.

The exercise checked those financial institutions' capabilities to continue business operations upon an incident, such as capacities for investigating the details of an attack, including technical responses for initial responses, treatment of customers, and the recovery of services.

3. Speech by Parliamentary Vice-Minister Kanda

At the beginning on the first day of the exercise, Parliamentary Vice-Minister Kanda delivered a speech, stating as follows: "The threat of cyberattacks is increasing day by day, and it is crucial for financial institutions not only to defend against increasingly sophisticated cyberattacks but also to respond to and recover from attacks, and to ensure resilience of business operations. Through this exercise, we would like to further enhance the incident response capabilities of the financial industry as a whole."



Photo: Parliamentary Vice-Minister Kanda delivering a speech



Financial Industry-Wide Cybersecurity Exercise (Delta Wall VIII)

Landscape of Cyber Risk Faced by the Financial Sector

- Large-scale cyberattacks are increasingly observed across the world. Techniques used by attackers become further sophisticated and complicated.
- Similarly, in Japan, cyberattacks increasingly cause disruption of business operations, compromise of confidential information and financial losses.
- Threats of cyberattacks potentially pose significant risks that could undermine financial stability.

Overview of Previous Exercises

- ✓ Delta Wall (DW) has annually been conducted since 2016. The number of participants were:
 - Approx. 900 individuals from 77 financial institutions (FIs) at DW I in 2016
 - Approx. 1,400 individuals from 101 FIs at DW II in 2017,
 - Approx. 1,400 individuals from 105 FIs at DW III in 2018,
 - Approx. 2,000 individuals from 121 FIs at DW IV in 2019,
 - Approx. 1,700 individuals from 114 FIs at DW V in 2020,
 - Approx. 2,700 individuals from 150 FIs at DW VI in 2021, and
 - Approx. 3,500 individuals from 160 FIs at DW VII in 2022.
- ✓ Feedback from the participants indicates that DW has contributed to improving FIs' capabilities to respond to incidents. For example, many of the participating FIs indicated that they reviewed their policies and procedures, or would do so, and that they strengthened information sharing (incl. internal and external information sharing) or would do so.

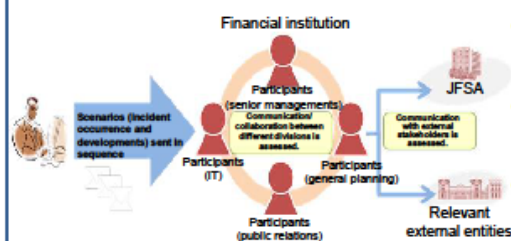
Delta Wall VIII (2023)

- In October 2023, **Financial Services Agency (JFSA) conducted Delta Wall® VIII.**
 - * The name "Delta Wall" represents the triad (delta) of "self-help," "mutual assistance," and "public assistance," which are key elements of cybersecurity
- The coverage was expanded from the previous fiscal year to include insurance companies. From the perspective of increasing the participation rate of critical infrastructure operators, **165 FIs participated** (an increase of 5 FIs from the previous fiscal year).
- For banks, by using severer scenarios that would exert an influence on their important business operations, in consideration of the maturity assessment of past exercises, the content and sufficiency of their discussions with the involvement of top management, such as priorities in business operations in the event of an incident, are to be verified. For other scenarios as well, the content of the exercise will be enhanced by raising levels of difficulty, such as including halts in infrastructure systems.
- As in the previous fiscal year, **FIs are free to choose to participate in their workplaces or under their actual teleworking environments** to improve their response capabilities, including those under teleworking environments.

Features of the Exercise

- ✓ One of the aims is to check financial institutions' **initial responses upon an incident, how they investigate and analyze the attack, including technical responses, how they contain and eliminate the impact of the attack, and how they respond to customers and business continuity, including the recovery of services.**
- ✓ **The participants join the Delta Wall VII from their workplace**, which encourages participation not only from IT divisions, but also from other relevant divisions, such as public relations, various business lines, and senior management.
- ✓ Participants are required to submit a self-analysis report regarding items to which they could not properly respond. It is intended to enhance the outcomes of the exercise by clarifying lessons learned through the analysis.
- ✓ The DW **emphasizes ex-post evaluation** by presenting concrete remedial measures and best practices so that participating FIs can improve their response capabilities while following the plan-do-check-act (PDCA) cycle.
- ✓ **The lessons learned will be shared with the entire industry,** not just with the participants.

Illustration of the Exercise



Examples of the scenarios:

- **Banks**
 - ✓ The exercise was conducted by a blind method.
- **Shinkin Banks and Credit Associations**
 - ✓ Halts in operation systems and terminals occurred (including halts in their common infrastructure systems).
- **Securities Companies**
 - ✓ Halts in operation systems, etc. occurred (including halts in part of the securities infrastructure systems).
- **Life Insurance Companies, Non-Life Insurance Companies, Funds Transfer Service Providers, Issuers of Prepaid Payment Instruments, and Crypto-asset Exchange Service Providers**
 - ✓ Halts in operation systems were triggered by the vulnerability of network equipment.

4. Assessment of exercise results and feedback to the industry

The exercise gives priority to post facto assessment so that participating financial institutions can follow the PDCA (plan-do-check-act) cycle and further improve their incident response capabilities. When informing assessment results to individual financial institutions, specific improvement measures and good practices are also provided. Additionally, participating financial institutions are

to submit the results of self-analysis regarding matters that they failed to address during the exercise, thereby encouraging them to clarify their own problems and aiming at the greater effects of the exercise.

The lessons learned will be shared not only to participating financial institutions individually but also to the entire financial industry to improve cybersecurity measures on an industry-wide basis.



Photo: During the exercise

Publication of the "Reference Casebook of Financial Institutions' Practices Taken in FY2022 Based on the Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises"

In March 2022, the Study Group on "Business Revitalization, etc. of Small- and Medium- sized Enterprises," for which the Japanese Bankers Association serves as the secretariat, published the "Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises" (hereinafter referred to as the "Guidelines") as the guidelines to help small- and medium-sized enterprises (SMEs) and financial institutions to understand each other's standpoints and make efforts for SMEs' business revitalization with common recognition in an integrated manner.*1

The Guidelines clarify the roles to be played by SMEs and financial institutions at the respective stages of "normal times" and "emergencies," and also provide for "Private Liquidation Procedures for Business Revitalization, etc. of Small- and Medium-sized Enterprises," new rules for private liquidation procedures, to facilitate swifter engagement by SMEs in business revitalization, and so forth.

As one year passed from the commencement of the application of the Guidelines, for further

facilitating the utilization of the Guidelines, the FSA collected examples how private financial institutions had been utilizing the Guidelines in FY2022, compiled the outlines thereof and published them as the "Reference Casebook of Financial Institutions' Practices Taken in FY2022 Based on the Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises" on October 17, 2023.*2

The Reference Casebook introduces multiple examples of three types of procedures, namely revitalization-type private liquidation procedures with and without debt reduction or write-off, and business closure-type private liquidation procedures that were newly introduced in the new rules for private liquidation procedures. Financial institutions are expected to further promote their efforts for providing companies with support for business improvement and business revitalization while also referring to the Reference Casebook.

[(i) Revitalization-type private liquidation procedures (with debt reduction/write-off)]

Case

2

Business revitalization support by the second company method

Revitalization-type

With debt reduction/write-off

Without debt reduction/write-off

Business closure-type

Assignment of claims

Second company method

III Group company

I Freshkeeping

II DDS

I business closure support

Company profile

Business type	Auto parts manufacturing	Number of employees	10
Support method	Second company method (sponsor-type)		
Corresponding financial institutions	A regional bank		

Status of borrowing

Amount of money borrowed	540 million yen (of which, 300 million yen from a Credit Guarantee Corporation (CGC))
Breakdown	Regional Bank A: 540 million yen (of which, 300 million yen from a CGC)

Status of personal guarantee provided by business owners

Status of guarantee: Two guarantors (the representative and his wife) provide personal guarantee for all amounts borrowed.

Status of assets: Cash and deposits: 12 million yen; Real estate: 45 million yen; Other assets: 8 million yen; 65 million yen in total (of which 44 million yen has been provided as collateral)

Factors causing the difficult situation

- Due to the impact of COVID-19 and the shortage of semiconductors, earnings declined significantly. The company has coped with the difficulty by the use of loans under various systems. In order to secure profitability, the company negotiated on price with its major business partner but the negotiations ended in failure, and eventually, transactions with that business partner were discontinued.
- As a result, the company suffered a significant reduction in earnings and has become unable to view the possibility of securing business continuity through its own efforts.

Developments leading to the utilization of the Guidelines

- The company approached multiple companies when selecting a sponsor but could not reach an agreement. **As it was clear that the company would face a fund shortage in the end if it were to keep on running the business without change, the company started to consider utilizing the Guidelines (business closure-type) while it still had cash reserves.**
- In the process of business closure-type procedures, some business partners presented their intention to be a sponsor. Accordingly, the company **decided to shift from business closure-type private liquidation to revitalization-type private liquidation and commenced the procedures for the latter.**

Schedule up to closing

Feb. to early May 2022	The company commenced the selection of a sponsor. It approached multiple companies, but could not reach an agreement, as existing sales were sharply decreasing.
May 2022	The company started to consider the utilization of business-closure type private liquidation procedures in the Guidelines.
Late May to early Jun. 2022	The company filed an application for subsidies.
Mid-Jun. 2022	The company issued notices of dismissal to employees and notices of business-closure to business partners, but some business partners presented their intention to be a sponsor.
Jul. 2022	A sponsor was decided through a tender, and the company canceled dismissal of employees and decided on business succession to the sponsor (shift from business closure-type private liquidation to revitalization-type private liquidation)
Late Jul. 2022	A third-party support specialist was appointed.
Aug. 2022	A business revitalization plan was formulated.
Oct. 2022	Relevant creditors agreed on the business revitalization plan.
Late Oct. 2022	The business transfer was executed. The payment of unsecured credits and payment by guarantors were made.

Selection of a th.rd-party support specialist

- An attorney who is an external specialist was consulted, and **an attorney outside the relevant prefecture with rich knowledge on business revitalization was appointed as a third-party support specialist.**
- As an external specialist, Regional Bank A used an accounting firm that is an external specialist.

Financial Services Agency

2

*1 Publication of the "Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises" and the "Revitalization Package for Small- and Medium-Sized Enterprises" (published on March 4, 2022)
<https://www.fsa.go.jp/news/r3/ginkou/20220304.html> (Available in Japanese)

*2 Publication of the "Reference Casebook of Financial Institutions' Practices Taken in FY2022 Based on the Guidelines for Business Revitalization, etc. of Small- and Medium-sized Enterprises" (published on October 17, 2023)
<https://www.fsa.go.jp/news/r5/ginkou/20231017.html> (Available in Japanese)

[(ii) Revitalization-type private liquidation procedures (without debt reduction/write-off)]

Case 1

Business revitalization support by rescheduling

Revitalization-type

With debt reduction/write-off

Without debt reduction/write-off

Business closure-type

I Assignment of status
II Second company method
III Group company
I Rescheduling
II DDS
I Business closure support

Company profile

Business type	Manufacturing	Number of employees	50
Support method	Rescheduling; Business improvement; Support by a sponsor		
Correspondent financial institutions	Banks, a servicer, government-affiliated financial institutions, and a Credit Guarantee Corporation		

Status of borrowing

Amount of money borrowed	560 million yen (of which, 45 million yen from a Credit Guarantee Corporation)
Breakdown	Bank A: 170 million yen Bank B: 100 million yen Government-affiliated Financial Institution C: 100 million yen Servicer D: 100 million yen Government-affiliated Financial Institution E: 45 million yen Credit Guarantee Corporation: 45 million yen

Factors causing the difficult situation

- The company fell into a difficult situation due to a loss from derivatives transactions and implemented fundamental business revitalization by the second company method accompanying a credit reduction in 2017. However, partly due to COVID-19, the company's business performance was below the goal set in the business revitalization plan. The company continuously lost money from 2020 and **its liabilities exceeded its assets** (but the company moved back into the black in 2021).

Developments leading to the utilization of the Guidelines

- At first, the company intended to formulate a business revitalization plan with the involvement of the Small and Medium-Sized Enterprise Revitalization Council as an exit strategy from the COVID-19 Special Rescheduling Support. However, the conditions presented by the sponsor included a time limit for obtaining consent from all financial institutions. **As the company was required to speedily cope with the situation, it decided to utilize the Guidelines instead.**

Selection of a third-party support specialist

- Bank A selected a specialist with whom it had discussed initiatives under the Guidelines as a third-party support specialist, introduced the specialist to the company, and appointed it as a third-party support specialist.

Outline of the business revitalization plan

Outline of the plan

- Business operation: Expansion of sale of high value-added goods and expansion of sales destinations
Productivity increase by repairing and updating old equipment
- Financial management: Elimination of excessive liabilities with funds from a sponsor

Financial support

- Rescheduling and support for equipment funds in cooperation among all related financial institutions**

Bottlenecks in the case

- At first, creditors did not agree on support methods.
- There was a time constraint for introducing a sponsor (time limit for obtaining consent).

Schedule up to closing

May 2022	Bank A proposed the utilization of the Guidelines. Bank A introduced a third-party support specialist to the company.
Jun. 2022	It was decided to utilize the Guidelines.
Aug. 2022	A business revitalization plan was presented.
Sep. 2022	Relevant creditors agreed on the business revitalization plan.

Key point in utilizing the Guidelines

- In the past, the company conducted debt reduction/write-off by the second company method (financial support), **but the Guidelines can be utilized in cases where further support measures are difficult and cases where support by a sponsor is required although without debt reduction/write-off.**

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3

[(iii) Business closure-type private liquidation procedures]

Case 1

Smooth support for business closure by the use of the Guidelines

Revitalization-type

With debt reduction/write-off

Without debt reduction/write-off

Business closure-type

I Assignment of status
II Second company method
III Group company
I Rescheduling
II DDS
I Business closure support

Company profile

Business type	Manufacturing of articles for personal use	Number of employees	3
Support method	Business closure-type		
Correspondent financial institutions	A Shinkin bank, a government-affiliated financial institution, and a leasing company		

Status of borrowing

Amount of money borrowed	80.5 million yen (of which, 40 million yen from a Credit Guarantee Corporation (CGC))
Breakdown	Shinkin Bank A: 55 million yen (of which, 40 million yen from a CGC) Government-affiliated Financial Institution B: 25 million yen Leasing Company C: 0.5 million yen

Status of personal guarantee provided by business owners

Status of guarantee: The guarantor (the representative director) provides personal guarantee for all amounts borrowed.

Status of assets: Cash and deposits: 0.86 million yen; Own house: No real estate

Factors causing the difficult situation

- Under such circumstances as where stores to which the company sells products decreased or closed and internet retailing has been prevailing, the company could not cultivate new sales channels and came to receive fewer orders.
- Since before the spread of COVID-19, the company had kept recording operating losses. In addition, as the company's liabilities exceeded its **assets as a result of decreases in revenues due to COVID-19, the company came to have cash-flow problems.**

Developments leading to the utilization of the Guidelines

- As the company had kept recording losses over years and it was considered difficult for the company to revitalize business through its own efforts, **the representative gave up on continuing business.**
- The company presented its intention to undertake business closure-type private liquidation procedures by the use of the Guidelines, via its attorney, and the procedures were commenced.

Schedule up to closing

Apr. 2022	The company published business closure by the use of the Business Revitalization Guidelines.
May 2022	A request for a temporary halt was made. Support for procedures was commenced.
Jul. 2022	1st Bank Meeting (report on the survey)
Nov. 2022	2nd Bank Meeting (presentation of a liquidation plan)
Dec. 2022	All related banks agreed on the liquidation plan. The liquidation was conducted.
Sep. 2023	Registration of dissolution (scheduled)
Dec. 2023	Special liquidation (scheduled)

Selection of a third-party support specialist

- After consulting with the company's attorney, the obligor selected a third-party support specialist from the list of third-party support specialists.**
- As an external specialist, a certified public accountant was appointed through consultation with the company's attorney.

Financial Services Agency
4

Publication of Videos on Anti-Money Laundering Measures

In recent years, there have been cases where funds that were obtained through crime, such as fraud, illicit drug trading, or gambling, or through unjust transactions are transferred among multiple financial institutions with the aim of making them look like funds obtained lawfully (money laundering) and cases where funds are provided to terrorists to support their terror attacks (terrorist financing). If these acts are left unaddressed, further criminal acts and acts of terrorism may be encouraged. In addition, as such criminal syndicates may exert adverse effects on lawful economic activities, reinforcement of countermeasures is required.

Many people may think that crime and terrorism have nothing to do with their everyday life, but in Japan, phone fraud cases targeting many people at random ("it's me" fraud) are increasing, and there have also been cases of illegal remittance through unauthorized access to internet banking services by crime groups consisting of visiting foreigners. In these cases, money laundering was conducted by using various tactics, such as using fictitious bank accounts or bank accounts in other people's names.

Therefore, the FSA has been positively promoting AML/CFT measures, etc. (anti-money laundering, counter-terrorist financing, and proliferation financing) taken by financial institutions. As part of such measures, financial institutions periodically check user (customer) information (address, job, etc.) and purpose of transactions in order to prevent financial crime effectively in response to employed tactics of money laundering that are becoming more and more complicated and sophisticated.

Financial institutions conduct periodic checks of user information by such means as sending postcards, but some users wonder whether it is all right to provide answers or for what purposes they need to provide answers, or they complain that they have nothing to do with money laundering.

Recently, the FSA prepared videos to ask for users' cooperation for updating user information by financial institutions and briefly explain why it is necessary to update information (how this leads to

anti-money laundering measures) and published them on the FSA's website and official YouTube channel (FSA's channel), thus conducting PR activities on the internet.

FSA's YouTube channel



<https://www.youtube.com/watch?v=ozL0h8jYkyw>

(Available in Japanese)

FSA's website



<https://www.fsa.go.jp/news/30/20180427/20180427.html> (Available in Japanese)

Criminal syndicates and terrorist organizations intend to conduct transactions without being noticed by pretending to be ordinary users. Accordingly, it is very important that financial institutions periodically check information of individual users and keep it updated. Promoting financial institutions' initiative to update user information smoothly on a nationwide basis is important to prevent money laundering, etc. and it is necessary to obtain answers from all users without omission. We appreciate your kind cooperation!

JFSA's Major Activities in November (November 1 to November 30, 2023)

- [Commissioner Kurita's Meeting with GFANZ Co-Chair Mr. Mark Carney \(November 30, 2023\)](#)
- [The second Meeting of the Japan-UK Financial Regulatory Forum\(November 27, 2023\)](#)
- [Selection of New Vice-Chair of the International Financial Consumer Protection Organization \(FinCoNet\) \(November 24, 2023\)](#)
- ["Launching Japan's Impact Consortium" Announced\(November 22, 2023\)](#)
- [Finalization of the Revised Draft of "Guidelines for Creating, Recordkeeping and Reporting of Transaction Information specified in Article 4\(1\) of the Cabinet Office Order on the Regulation of Over-the-Counter Derivatives Transactions, etc." \(November 21, 2023\)](#)
- [Japan Fintech Week 2024 and FIN/SUM2024 in Tokyo, Japan\(November 15, 2023\)](#)

JFSA's official English X(formerly Twitter) account
https://twitter.com/JFSA_en



**We are promoting
information dissemination
using X (formerly Twitter) !**

Editorial Postscript

It is becoming very chilly in the morning and at night. Considering the circadian rhythm, I go for a walk in my neighborhood every morning as soon as I wake up, but the sunrise is late these days and I see the sky in the distance only becoming slightly red and am rather dazzled by LED street lamps. However, believing that this habit will surely get my circadian rhythm back on track, I keep walking in light clothing, and I gradually become fully awake thanks to the chilly air.

This month's issue introduces videos on anti-money laundering measures that the FSA has published. As measures for so-called ongoing customer due diligence, financial institutions are required to periodically check user information. We appreciate your cooperation for financial institutions' routine checks in order to maintain Japan's reliable and sound financial system.

This year, I feel that autumn leaves in Tokyo are somewhat more vivid than usual. Seasons change rapidly. We look forward to your continued cooperation in the coming year as well.

YANO Shohei, Director of the Public Relations Office, FSA
Edited and issued by the Public Relations Office, FSA