

1. Countermeasures against the COVID-19 Infection

(1) Responses after the cancellation of a state of emergency

- In response to the declaration of the cancellation of a state of emergency issued by the national government, the FSA published the Statement by the Minister on May 25 to request financial institutions to continue services while making efforts for infection control.
- Despite the cancellation of a state of emergency, the COVID-19 infection has not completely ended. Therefore, financial institutions are requested to continue efforts to prevent infection of their employees and customers and develop an operation system in preparation for the further spread of infection based on the Guidelines for Measures against COVID-19 published by the Ministry of Health, Labour and Welfare.

(2) Countermeasures against risks of money laundering and terrorist financing amid the spread of the COVID-19 infection

- New types of financial crime taking advantage of the COVID-19 pandemic and risks of money laundering and terrorist financing through non-face-to-face transactions or other unconventional transactions are emerging. Financial institutions are required to take measures in consideration of these new risks.
- The FSA will monitor new risks of money laundering, etc. taking advantage of the COVID-19 pandemic and financial institutions' efforts and will publish and disseminate matters to note in taking countermeasures amid the pandemic as necessary.

(3) Postponement of the FATF Mutual Evaluations due to the spread of the COVID-19 infection

- Due to the spread of the COVID-19 infection, the FATF announced the postponement of all processes of mutual evaluations for four months on April 28.

- Accordingly, the discussion on evaluation of Japan, which was scheduled this June, will be conducted at the plenary session in October.
- The FSA will continuously make the utmost efforts so that Japan's anti-money laundering measures are properly evaluated.

(4) Call for attention concerning cybersecurity, etc. amid the COVID-19 pandemic

- Recently, cyberattacks using e-mail, SNS, phishing websites, etc. are increasing inside and outside of Japan amid confusion due to the COVID-19 pandemic. Additionally, the dissemination of teleworking also increases cyber risks.
- In light of such circumstances, the FSA issued a notice to financial institutions this April to call attention to checking the security of their teleworking environment and securing the availability of their systems, etc.
- Financial institutions are requested to check their current status based on this notice to call attention and take security measures as necessary.

2. Monitoring of Securities Businesses

< Five major securities companies >

- The FSA has reviewed the statuses of implementation and establishment of measures taken by major securities companies, including business strategies, risk management, governance, IT systems as well as conducting in-depth dialogues through on-site interviews and examinations of individual concerns. The following are some of the points that the FSA has noticed during the past year of monitoring.
- Major securities companies have been emphasizing the importance to shift to the asset management-based business for the last several years, and have been changing their strategies from the flow-based revenue business of the past to the fee-based revenue business. In order to promote these strategies, they have adopted the new system of

personnel evaluation of sales representatives, which place importance on increases in their customer assets on a stock basis.

- In light of changes in business styles due to further aging of customers and diversification of products channels with digitalization, major securities companies have been steadily taking cost reduction measures, such as the consolidation of offices and the use of upstairs properties instead of street-level ones, for better utilizing limited business resources. In addition, they have identified segments where they will be able to display their strength and have been concentrating on such segments. There are also moves to shift customers' accounts from face-to-face channels to digital channels in response to customer needs.
- With regard to customer-oriented business conduct and principle-based compliance, major securities companies do not merely conduct rule-based checks formally, but have come to review as to whether appropriate solicitations are being made in line with customers' risk tolerance and needs and whether follow-ups are being done continuously with an understanding of the necessity of risk-based monitoring.
- On the other hand, there were several cases in the past, where explanations were insufficient comparing to the customers' investment experience or for letting customers unaware of specific risks when soliciting customers to invest complicated structured bonds similar to OTC derivatives, such as stock exchangeable bonds and emerging market currencies, Brazilian real and Turkish lira, linked bonds. It was thus found that securities companies were not sufficiently acting to ensure the principle of suitability thoroughly or to make efforts for calling customers' attention when soliciting.
- Currently, securities companies face a severe business environment such as the prolonged impact of the COVID-19 infection, and the trend to waive transaction commissions, major securities companies are required to build a sustainable business model with forward-looking, including restructuring business from conventional face-to-face operations.

In addition, in order to further promote customer-oriented business, it is required securities companies to continue their efforts for establishing business operations prioritizing customer interest, such as expanding high quality financial products and services in response to diversifying customer needs.

- The FSA would like to report the monitoring results, including the above, to the top managements by the end of June and would like to have discussions.

< Other securities companies >

- Securities companies other than the five major ones are diverse in size and mode, etc. Accordingly, the FSA conducted monitoring focused on their business models and systems for protecting investors in consideration of the diversity of their business conditions and problems.
- The following are pointed out through the monitoring from the perspective of investor protection.
 - There were cases problematic from the perspective of customer-oriented business conduct, such as where solicitation was conducted to elderly customers while ignoring their intentions or without making them understand the features of the financial instruments, and frequent transactions thus made caused large amounts of losses or otherwise inappropriate transactions were made apart from customer needs.
 - There were cases of system failures due to access concentration caused by rapid currency exchange and market fluctuations and in some cases, training in preparation for system failures has not been planned or implemented properly.
 - Recently, PTS and dark pools are often used, other than financial instruments exchanges, to execute stock trading orders of individual investors. There were cases where such orders were executed through the smart order routing system without fully considering how to protect investors or how to provide explanations.
- The following initiatives were observed through monitoring focused on business models.

(i) Second-tier and network securities companies

- Under a severer earnings environment due to further population aging and reduction of brokerage commissions, etc., some second-tier and network securities companies have successfully achieved results through their efforts to secure revenue sources, such as the adoption of diverse business models, diversification of business activities, and capital and business partnerships. However, others have failed to bring results despite various

efforts or have only maintained existing business models and have not reviewed their earnings structures.

(ii) Regional securities companies

- Regional securities companies are facing difficulties in continuing conventional face-to-face services amid further population aging, advancement of IT, and a trend of removing transaction fees, but many of them have been unable to take any effective measures. Nevertheless, some regional securities companies are making efforts as follows in order to build sustainable business models.
 - The top management presented a determined direction and the company had made efforts to increase the balance of investment trusts on a long-term basis. As a result, customers have come to hold investment trusts longer and this has worked to stabilize earnings from trust fees or has otherwise exerted a positive impact on the company's business management.
 - The company endeavors to provide financial instruments best suited to customer needs by directly confirming the details of an instrument with the management company or carefully selecting instruments to be recommended to customers while excluding instruments that are considered to be against customer interests even if they sell well.
 - The company continues efforts to diversify financial instruments it deals in while maintaining a certain level of earnings from sources other than stocks, and has been placing importance on local communities and promoting an initiative to assist local companies with their efforts to expand financing methods under a "shareholder community system," etc.
- The FSA will continuously follow up how companies will respond to the problems found through the monitoring for this business year. Considering that ideas of top management teams are especially significant in establishing their companies' sustainable business models, the FSA intends to utilize such occasions as hearings of the top management to have discussions directly.

3. Enhancement of Financial Literacy and Dissemination of Tsumitate NISA (*)

- The Symposium on Financial Education and Asset Building was initially scheduled in April but was decided to be held online on June 20. Specifically, the Symposium will provide an opportunity for participants to think about financial literacy through discussions on people's stable asset building, future challenges in financial education and face-to-face retail businesses in consideration of the impact of the COVID-19 infection. The details will be officially announced later.

(*) Accumulation type Nippon Individual Savings Account

4. Review of Conventional Systems and Practices Requiring Documents and Seals, etc.

- Last month, based on an instruction from the Prime Minister, the Regulatory Reform Promotion Office of the Cabinet Office issued an instruction to the Japan Business Federation, Japan Association of Corporate Executives, Japan Chamber of Commerce and Industry, and Japan Association of New Economy and asked them to seek requests concerning review of conventional document-based and face-to-face procedures requiring seals and to submit responses to those requested matters to the relevant ministries and agencies.
- The FSA appreciates your cooperation for helping them ascertain practices requiring documents and seals currently adopted by securities companies when they prepared responses to matters requested regarding procedures in the private sector. Thank you for having responded promptly and flexibly despite the short notice immediately after Golden Week.
- Based on such new policy of the national government, the FSA will receive applications and notifications from financial institutions by e-mail or otherwise online and will not require seals for the time being. The FSA will take institutional measures to receive applications and notifications online permanently, not as emergency responses, and will proceed with deliberations toward abolition of seals.

- Additionally, in order to review document-based practices requiring seals currently adopted by the financial industry as a whole, the FSA held the first meeting of the Panel for Reviewing Procedures Requiring Documents, Seals and Face-to-Face Contact. We appreciate your participation.
- At the first meeting of the Panel, the Council for Promotion of Regulatory Reform explained the utilization of teleworking in the industry amid the COVID-19 pandemic. The FSA introduced the progress of computerization of the financial industry and problems that hinder computerization.
- The FSA intends to ascertain and compile problems more specifically through deliberations at the Panel and consider how to resolve those problems by having dialogues with the financial industry.
- We appreciate your continued cooperation.

5. In Response to the Enactment of the Act on Facilitating the Use of Telephones by the Hearing Impaired, etc.

- On June 5, 2020, the Act on Facilitating the Use of Telephones by the Hearing Impaired, etc. (so-called "Telephone Relay Service Act") under the jurisdiction of the Ministry of Internal Affairs and Communications was passed by the Diet.
- In order to facilitate the use of telephones by the hearing impaired, the Act stipulates that the Minister for Internal Affairs and Communications shall designate service providers that provide "telephone relay services," which mediate communication between the hearing impaired and others by telephone using sign language, etc., and shall provide grants to such service providers.
- Some financial institutions have already introduced telephone relay services on such occasions as
 - upon suspending transactions due to fraudulent use of an account or cash card, and
 - upon suspending transactions due to a missing cash card, passbook, etc.

- The Act is scheduled to come into effect by March 2021, and there is still some time before the telephone relay service is institutionalized as a public infrastructure, but financial institutions should immediately consider using the service from the perspective of enhancing convenience for the hearing impaired, etc, given that some business operators are already providing the service.

6. Sending of "Dear CEO Letter" for the Permanent Cessation of LIBOR

- Toward the transition from LIBOR, authorities of major foreign countries and regions have sent the "Dear CEO Letter" (the "Letter") to each of the top executives of major financial institutions to encourage them to take measures for the permanent cessation of LIBOR and for the purpose of ascertaining individual financial institutions' concrete measures, and have asked them to make reports.
- The FSA also sent the Letter to top executives of major financial institutions in Japan, jointly with the Bank of Japan, with the aim of further accelerating their efforts toward the permanent cessation of LIBOR scheduled at the end of 2021. With the Letter, we requested those major financial institutions (i) to show what measures need to be implemented and (ii) to submit materials with which the progress of their measures can be confirmed.
- On March 25, amid the spread of the impact of the COVID-19 infection, the Bank of England and the Financial Conduct Authority, jointly with the Working Group, announced that the schedule of the permanent cessation of LIBOR at the end of 2021 would remain unchanged. Accordingly, it is important also for Japan to make preparations on the premise of that deadline.
- The financial institutions that have not received the Letter also need to take measures. They are expected to make preparations for the permanent cessation of LIBOR in consideration of the content of the Letter with the proactive and positive involvement of the top management.
- If you have any questions concerning the content of the Letter, please contact the Risk Analysis Division of the Strategy Development and Management Bureau.

7. Published Materials on Customer-Oriented Business Conduct

- On May 28, 2020, the FSA published the updated list of financial institutions signing up to the Principles for Customer-Oriented Business Conduct and publishing their policies for customer-oriented business conduct and KPIs, as well as the updated implementation status of the conduct taken by financial institutions as of the end of March 2020.

* Information on customer-oriented business conduct:

<https://www.fsa.go.jp/policy/kokyakuhoni/kokyakuhoni.html>

- With regard to reports of the policies for customer-oriented and KPIs, financial institutions are required to make reports to the prescribed contact point^(*) not only when newly publishing common KPIs, etc. but also when additionally publishing common KPIs as of the end of this March.

* Contact point at the FSA:

<https://www.fsa.go.jp/news/28/20170330-1/01.html>