

**The main issues raised by the FSA at opinion exchange meetings with  
trade associations  
[held on June 14, 2022, with the Japan Securities Dealers Association]**

**1. Results of the monitoring for this business year**

- For this business year, the FSA conducted monitoring, in accordance with the business categories and characteristics of individual securities companies, centered on deepened talks on such themes as their efforts for building a sustainable business model, development of a system for customer-oriented business conduct therefor, establishment of an appropriate compliance system, and fulfilment of governance functions. The FSA found the following through monitoring over the last one year.

- First of all, matters found across business categories are as follows.

- Amid domestic and international market fluctuations, knock-ins of structured bonds have been observed. When soliciting customers to purchase risk-involving products, it is necessary to fully explain properties of those products and make suggestions in line with individual customers' risk tolerance and preference.

It should be said that customers' agreements need to be obtained truly in line with their needs, not merely as confirmation based on insufficient understanding. Even if customers show their intention to purchase, this should not be immediately considered as proof of having satisfied their needs. Rather, the top management and front-line sales personnel at branches should be thoroughly aware of the necessity to have customers fully understand those products, including the risks inherent thereto and levels of fees for accompanying services.

Regarding structured bonds, in particular, securities companies are required to reconsider their sales policies, such as whether targeted customers are properly set in light of the properties of individual products.

- Some securities companies are expanding the outsourcing of business to IFAs or other financial institutions, but they need to appropriately manage outsourcees' operation systems and compliance systems. Those securities companies are requested to reconfirm their own responsibility for management to check whether

outsourcers' customer management systems are not inferior to their own systems or whether they have put in place a mechanism to properly keep outsourcers in check, and make further improvements in their management systems.

- The FSA also checked some securities companies as to how they respond to the Japan Securities Dealers Association's Rules concerning the prevention of unauthorized access, etc. As individual companies' systems are their core infrastructures for providing services, further attention needs to be paid to countermeasures, while continuing efforts for ensuring security in offline procedures.

- You are required to continue taking appropriate measures against these problems.

#### << Large securities companies >>

- Large securities companies are generally making efforts to shift to approaches to prioritize the expansion of deposited customers' assets through sales activities based on portfolios or consulting, such as by ascertaining customers' risk tolerance and needs and making suggestions based thereon, and continuously conducting follow-up activities, in order to ensure customer-oriented business conduct. These approaches and awareness prioritizing customers' intentions are found to have been spread among front-line sales personnel to a certain degree. However, there have been cases where, although structured bonds are apt to be reimbursed earlier in the recent market environment, solicitations for similar structured bonds are being repeated to customers who have received reimbursements. Securities companies therefore need to examine whether structured bonds are really the best choices to be recommended based on individual customers' risk tolerance and substantial needs. Thus, there still are problems to be solved for achieving customer-oriented business conduct.
- With regard to internal management, there were cases where market manipulations were suspected and where some problems were found in customer information management systems. Securities companies are required to recognize their expected roles to actively contribute to ensuring fairness of the market and stand up straight to conduct business operations appropriately as gatekeepers in the market.
- Regarding governance and risk management on a global level, in light of the case

where a US investment fund, Archegos Capital Management, fell into default in March 2021 and caused enormous losses to multiple financial institutions, the FSA issued a letter compiling supervisory focus points in April 2022.

- While governance and risk management on a global level are becoming more and more important, it is indispensable for large securities companies conducting business globally to develop a system to enable the top management to accurately ascertain and control risks at overseas affiliates, in other words, a risk management system commensurate with their risk-taking levels. The FSA will continue monitoring, while taking into account the content of the aforementioned letter, in collaboration with foreign authorities.

#### << Second-tier and regional securities companies >>

- Through the monitoring, we have confirmed cases where second-tier securities companies are making efforts for expanding business bases and improving operational efficiency, such as through building business partnerships with other securities companies and financial institutions, developing digital strategies in accordance with changes in market environments and customer needs, integrating management of group securities companies, and creating business strategies after management integration. The FSA will continue monitoring as to whether such efforts for expanding business bases and improving operational efficiency through business partnerships and organizational restructuring are actually resulting in achieving customer-oriented business conduct.
- We checked regional securities companies' efforts for building sustainable business models and their achievement status and have confirmed cases where they are endeavoring to select and provide better products from customers' perspective and to concentrate resources on core businesses or businesses with high growth potential. On the other hand, there are also cases where system development seems to financially affect their businesses, and we would like to keep an eye on such cases.

#### << Network securities companies >>

- Competition for customers, such as through reducing or partially eliminating various service fees or granting loyalty points, is becoming increasingly fierce among

network securities companies. Under such circumstances, some companies are actively diversifying their earnings structure by increasing their types of services and products or starting new businesses for the purpose of differentiating themselves from others and independently securing stable revenue sources. However, while the diversification of earnings structure is not achieved easily, there are cases where efforts for acquiring customers have cost more than expected or otherwise problems are observed in building sustainable business models.

- Additionally, network securities companies are also required to take appropriate measures continuously for further strengthening their information security management and cybersecurity management systems to ensure system risk management.
- Regarding large-scale unauthorized access and unauthorized withdrawal cases, individual companies are expected to follow up the latest countermeasures, including concrete examples in foreign countries, as much as possible, not only maintaining the ability to cope with tactics similar to those employed in past cases.
- The FSA will continue monitoring to check statuses of individual companies' countermeasures depending on their own circumstances. Please refer to past cases and improve your initiatives to bear fruit.

## 2. Survey on JBA TIBOR Exposures

- The JBA TIBOR Administration (JBATA), which is the entity to publish the Japanese Yen TIBOR and the Euroyen TIBOR, has been continuing deliberations to further enhance their transparency, robustness and trustworthiness. On May 31, 2022, the JBATA published key results of the Survey on JBA TIBOR Exposures as of end-December 2021.
- Following the results of the survey, the JBATA plans public consultations on issues of setting fallback rates for the Japanese Yen TIBOR and Euroyen TIBOR and a public consultation on the abolition of Euroyen TIBOR's abolition which could be scheduled at around end-December 2024.

- The FSA would like to support these initiatives in light of improving the robustness of the Japanese Yen Interest Rate Benchmarks. Also, while hearing opinions of market participants, the FSA will deliberate its policies on promoting financial institutions' preparedness for the transition given the possibility of the Euroyen TIBOR abolition, and policies on fallback clauses introduction to contracts referring to the Japanese Yen TIBOR or the Euroyen TIBOR.

### 3. Public Pension Simulator

- On April 25, the Ministry of Health, Labour and Welfare (MHLW) commenced test operations of the Public Pension Simulator. This is a tool to easily calculate the amount of public pension that an eligible person is expected to receive in the future depending on changes in his/her work styles and lifestyles. What is required is only to have a smartphone or a tablet read a two-dimensional barcode that is printed on a notice served through the Pension Benefits Bulletin Regular Notification Service (PBBRNS) individually in or after April 2022, and to input one's birth date.
- This tool, which makes individuals' pension amounts visible, is expected to be utilized effectively also when you make suggestions depending on customers' life plans and needs. Its active utilization is recommended.
- As other tools contributing to customers' asset building, there are preferential tax systems, such as NISA, Tsumitate NISA and iDeCo. Securities companies are requested to also utilize these systems for making suggestions in line with customer needs and continue efforts for customer-oriented business conduct.

(Note) According to MHLW, it has repeated test operations for the simulator at the same level as full-fledged operations and does not envisage any fundamental corrections in its function of calculating estimated pension amounts. Now is the period for mainly verifying the accuracy of reading two-dimensional barcodes that are printed on notices individually served through P B B R N S with the aim of increasing user satisfaction. Therefore, the function of calculating estimated pension amounts is already available even during test operations ahead of full-fledged operations of the simulator.

### 4. Thorough measures based on the revision of the Guidelines for Protection of Personal Information in the Finance Sector, etc. and the Q&A

- In accordance with the amendment of the Act on the Protection of Personal Information, the Guidelines for Protection of Personal Information in the Finance Sector and the Practical Guideline on the Security Control Actions under the Guidelines for Protection of Personal Information in the Finance Sector, etc. were partially revised and were put into effect on April 1, 2022, together with the amended Act.
- Accordingly, the FAQs Regarding Protection of Personal Information by Financial Institutions were also revised and applied from the same day.
- Based on these amendment and revisions, please continue efforts to develop an appropriate system for managing personal information.

#### **5. Economic Security Promotion Act**

- On May 11, the Economic Security Promotion Act was enacted at the 208th Ordinary Session of the Diet. As one of the four pillars of this Act, the system for securing stable provision of critical infrastructure services is introduced. Under this system, critical infrastructure companies, including financial institutions, are required to receive a prior examination upon introducing important equipment.
- The details of the system, including the standards for designating covered businesses and the scope of important equipment, are discussed from now on based on the status of business operations to be ascertained through interviews with related parties in the industry, in consideration of the system's policy to minimize the regulatory coverage.
- It should be noted that small and medium-sized businesses are generally excluded from the regulatory coverage.

#### **6. "Analysis Report on Financial Institutions' Computer System Failures"**

- Regarding the system failures that occurred in FY2021, the FSA is analyzing the causes and problems with the focus placed on "timings of failures" and will publish the results by the end of June.

- Financial institutions are requested to check and further strengthen their system risk management systems in reference to this analysis report.

#### 7. "Research Report Regarding IT Governance of Financial Institutions"

- The FSA is surveying the status of efforts for IT governance being made by financial institutions (mega banks, regional banks, and Shinkin Banks) in FY2021 and will publish the results by the end of June.
- Financial institutions are requested to further promote DX and other efforts by exercising their ingenuity in reference to this report.

#### 8. Publication of the English version of the Frequently Asked Questions Regarding "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism"

- The FSA published the English version of the Frequently Asked Questions Regarding "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" (FAQ) on its website on May 31.
- This English version was prepared with to help foreign financial institutions and authorities understand the FSA's anti-money laundering guidelines and underlying ideas. Also it was for coming fifth FATF's mutual evaluation of Japan scheduled after 2025. The FSA encourages financial institutions to make good use of the FAQ.

#### 9. Request for comments on the draft partial revision of the Frequently Asked Questions Regarding "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism"

- The FSA is considering revision of the FAQ and sent the draft to the financial business associations on May 20 and has asked for comments on the draft FAQ.
- The FSA will review all opinions and comments we've already received and will send back the answers to each association later.

## 10. Sustainable finance

- Since the publication of a report in June 2021, the FSA has implemented measures regarding sustainable finance in line with the recommendations presented in the report, such as enhancing corporate disclosure and demonstrating capital market functions and role of financial institutions.
- Progress of the relevant measures is briefly introduced below.
  - Regarding corporate disclosure, the Working Group on Corporate Disclosure of the Financial System Council compiled a report on the improvement of the disclosure of sustainability information in June, and the FSA will develop related Cabinet Office Ordinance by around the end of this year.
  - Regarding the fulfilment of market functions, the Japan Exchange Group, Inc. (JPX) established an information platform to integrate information on ESG bonds in July, and the FSA will consider integration and improvement of corporate data taking into account the enhancement of corporate disclosure.
  - The FSA compiled recommendations for each of the ESG evaluation and data providers that evaluate companies' ESG-related efforts, institutional investors and companies, and published them as a report. In particular, the FSA is now compiling matters expected for ESG evaluation and data providers as the Code of Conduct for ESG Evaluation and Data Providers, aiming to create the final version this summer and then make efforts to disseminate it.
  - The FSA also conducted a fact-finding survey on ESG funds and compiled problems to be solved into a progress report recently, and is considering taking measures, including the revision of the Comprehensive Guidelines for Supervision.
  - Regarding the fulfilment of financial institutions' functions, the FSA started to seek public comments on a draft supervisory guidance for financial institutions at the end of April and will publish the final version later. We would like to have dialogues with financial institutions using the finalized guidance.
- In addition to these challenges and initiatives, other issues are pointed out including the need for strengthening functions of asset owners, fostering human resources



specialized in sustainable finance, and supporting climate tech startups.

The FSA will continuously promote sustainable finance as one of the priorities. The Expert Panel on Sustainable Finance is considering compiling the current status of these issues, progresses of related measures, and future challenges in around June. We would applicate your continued cooperation in various ways, for example, vitalizing the primary market in light of these initiatives as a whole.

#### **11. Progress Report on Enhancing the Asset Management Business**

- The FSA published the "Progress Report on Enhancing the Asset Management Business 2022" on May 27, following the previous year. The report compiles the problems in enhancing the entirety of the investment chain and countermeasures. There are three major points, as follows:

- First, with regard to the ideal forms of product origination, delivery and monitoring (product governance) for achieving business operations giving top priority to customers' advantage,

⇒ In order to ensure appropriate functioning of product governance, it is important for individual asset management companies to make efforts to improve performance and develop an appropriate system for quality control for each product. Additionally, distributors are also expected to give top priority to customers' advantage, offer cooperation for asset management companies' premature redemptions, and consider proper cost levels.

- Second, regarding the "supervisory expectations for asset management firms providing ESG funds" based on the FSA's survey and analysis, as responses to the issue of greenwashing in relation to ESG investment trusts,

⇒ Also from the standpoint of distributors that have direct contact with customers, it is important to verify ESG investment trusts created by asset management companies in reference to the supervisory expectations so that customers can correctly understand the details of individual products and can make appropriate investment decisions.

- Third, regarding the analysis and problem presentation concerning structured bonds, fund wraps, and asset owners (corporate pensions), etc.,
- ⇒ Asset management companies are requested to review properties of structured bonds and fund wraps that are provided to customers via securities companies from the perspective of whether they truly contribute to customers' advantage. It is also important for financial institutions and industry associations to collect data on structured bonds, publish information regularly and improve ways of information provision.

## 12. Promotion of acquisition and utilization of individual number cards

- We appreciate your cooperation in promoting acquisition and utilization of individual number cards.

(Reference) Dissemination of individual number cards (from June 2021 to June 2022)

Number of issued cards: approx. 40.44 million → approx. 56.60 million

Dissemination rate among the overall population: 31.8% → 44.7%

- According to the data presented by the Digital Agency at the Meeting of Relevant Ministries and Agencies on Dissemination and Utilization as Health Insurance Cards of Individual Number Cards held in March, the acquisition rate in the financial instruments business is approximately 60%, ranked at the 40th place among the 98 business types in total.

(Reference) Acquisition rate by business type in the latest survey (January 25 to February 4, 2022)

Overall acquisition rate: 58.9%

Secondary financial business, etc.: 62.4% (22nd place)

Banking business: 60.9% (29th place)

Financial instruments business and commodity derivatives business: 59.4% (40th place)

Money lenders and credit card and other non-depository credit institutions: 56.4% (68th place)

Insurance business (including insurance brokerage agency services and insurance service business): 54.5% (84th place)

Cooperative financial business: 51.0% (97th place)

- As the acquisition rate is increasing in other business types, the FSA is planning to issue a request for cooperation. Please continue your efforts to promote people's acquisition and utilization of individual number cards.
- The national government started to accept applications for the registration of accounts

for receiving public benefits by the use of the Mynaportal app and will grant Maina-Points equivalent to 20,000 yen at the maximum per person upon registration as the second campaign. Please encourage the use of these privileges as well.

### 13. Achievements of the G7 Finance Ministers and Central Bank Governors Meeting in May

- From May 18 to 20, the G7 Finance Ministers and Central Bank Governors Meeting was held in Germany. The joint Communiqué announced coordinated sanctions against Russia in response to its aggressive war against Ukraine, and also referred to the issues of [i] digitalization and [ii] sustainable finance.
- Regarding [i] digitalization, in particular, the Communiqué gets further into regulations on crypto-assets, in light of the recent confusion of the crypto-asset market. More specifically, the Communiqué requests the Financial Stability Board (FSB) to promptly establish and implement consistent and comprehensive regulations on crypto-assets. The FSB is now monitoring the influences of crypto-assets on the stability of the financial system and is considering making required policy responses.
- Regarding [ii] sustainable finance, the meeting welcomed the progress having been made by the International Sustainability Standards Board (ISSB) concerning works on the global baseline, and called for the participation of all related parties in consultative discussions on the draft standards.

Additionally, the establishment of net zero commitments and the alignment with the sustainability goals by market players were also welcomed. Discussions are to be held on how to strengthen the reliability of these commitments. The FSA would like to contribute to international discussions while hearing the opinions and ascertaining the efforts of financial institutions.

(Reference) The G7 Summit is scheduled to be held at Elmau, Germany, from June 26 to 28.

### 14. Trends of NBFI-related Works

- The Financial Stability Board (FSB) and the International Organization of Securities

Commissions (IOSCO) have continuously been prioritizing works concerning non-bank financial intermediation (NBFI).

- Regarding money market funds (MMFs), based on the final report published by the FSB in October 2021, we have had discussions with you and your association members for materializing measures for Japanese money reserve funds (MRFs), etc. We would like to continue efforts in close collaboration with related parties and appreciate your continued cooperation.
- Work has also been underway concerning a wide range of topics on non-bank financial intermediation other than MMFs. With regard to the project to analyze liquidity risk management of funds amid the COVID-19 pandemic, the FSA plans to compile a report by the end of 2022.
- Additionally, with regard to the project to analyze practices concerning deposits amid the COVID-19 pandemic, the final report will be compiled based on comments on the analysis results presented through the consultative discussions.

15. Publication of the IOSCO's Report "Market Data in the Secondary Equity Market: Current Issues and Considerations"
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- The IOSCO published the "Final Report on Market Data in the Secondary Equity Market" on April 28.
- This report compiles the significance of market data and operational concerns in the recent secondary equity market, aiming to be used by the authorities as a helpful information source. It was completed based on feedback obtained during the period of consultative discussions from December 2020 to February 2021.
- Diverse views of market players are compiled in the report in terms of the content, usage, access and prices of market data and the comparability of data among exchanges. Then, it is pointed out that pre-trade data, such as orders and quotes, and post-trade data, such as contract information, are both important, that the perspective of ensuring fair access to all market participants is required for the provision of market data, and that when the same issue is traded at multiple exchanges, data

integration is potentially beneficial.

- The report is interesting as a document compiling discussions on market data and is expected to be fully utilized.

#### 16. Results of the international symposium, "Transition to Net-Zero: The Role of Finance and Pathway toward Sustainable Future"

- On May 26, the international symposium hosted by the FSA, "Transition to Net-Zero: The Role of Finance and Pathway toward Sustainable Future," ended successfully.
- The symposium attracted approximately 850 participants who joined directly or indirectly online. Photos taken on the day are available on the FSA's website. If you were unfortunately unable to participate on the day, please access the website.

(Note) Photos taken on the day are available at the following:

<https://www.fsa.go.jp/en/refer/symposium/20220614/20220614.html>

- Through this symposium, major domestic and foreign stakeholders, including people from the industrial arena, financial sector, government organizations, and external ratings agencies, were able to have cross-sectoral talks and reconfirm the significance of cooperation for solving the urgent issue of the transition to net-zero emissions.
- It is important to further deepen cooperation and continue efforts for promoting the transition to net-zero and transitional finance. We would like to continue exchanging opinions with financial institutions.

#### 17. Progress report by the NGFS, "Capturing risk differentials from climate-related risks"

- The Network for Greening the Financial System (NGFS), which is a network of financial authorities regarding climate-related risks, published its progress report on risk differentials from climate-related risks on May 19.
- In order to update the report published in May 2020, the NGFS expanded the coverage to conduct a survey targeting 97 financial institutions and three credit rating agencies

and compiled the results thereof.

- The survey results show no risk differentials between green assets and non-green assets, as in the case of the previous survey. Compared with the previous survey, financial institutions adopting green and non-green classifications in risk management were fewer and it was found that many financial institutions are taking more granular approaches, such as differentiating counterparties based on the statuses of their preparation for transition and the credibility of their transition strategies.
- The report contains concrete examples of measures being taken by financial institutions. Please utilize it as a reference.