

Main Topics Presented by the Financial Services Agency (FSA) at a Dialogue with the Industry Association

Held on January 16, 2024, with the Japan Securities Dealers Association (JSDA)

1 . Response to the Noto Peninsula Earthquake of 2024

- At the beginning of the meeting, I would like to say a few words about the Noto Peninsula Earthquake of 2024, which occurred on the evening of January 1. I would like to offer my deepest condolences for those who passed away owing to this earthquake and express my deepest sympathies to all those who have suffered from the earthquake.
- Following the application of the Disaster Relief Act to Ishikawa, Toyama, Fukui, and Niigata Prefectures after the earthquake, the Hokuriku and Kanto Local Finance Bureaus, which have jurisdiction over the areas to which the Act is applied, issued a request for financial measures to related financial institutions and other organizations under joint signature with the Bank of Japan.
- We would like to ask financial institutions operating in the affected areas again to take this request into consideration, obtain a clear understanding of the voices and needs of victims of the disaster, and provide carefully thought-out support from their viewpoint.
- We received a report that the head office and branches of securities firms located in the municipalities to which the Disaster Relief Act is applied started operation normally on January 4, but we would like to ask financial institutions operating in the affected areas again to take the request into consideration, obtain a clear understanding of the voices and needs of victims of the disaster, and provide carefully thought-out support from their viewpoint.
- In addition, we added new special pages related to the earthquake to our website to provide disaster victims with useful information and at the same time opened the FSA Consultation Hotline for the Noto Peninsula Earthquake of 2024 to accept disaster victims' requests for consultation, etc. concerning transactions with financial institutions and other organizations.

(Japanese) <https://www.fsa.go.jp/ordinary/earthquake202401/press.html>

(English) <https://www.fsa.go.jp/en/ordinary/earthquake202401/press.html>

- Finally, as a special measure that takes the recent earthquake into consideration, a new government order was promulgated and enforced on January 11. Under this order, if, owing to the earthquake, financial institutions and other organizations located in the affected areas fail to submit reports or notifications that are legally required to be submitted by pre-determined deadlines, they shall not be held administratively and criminally responsible for such failure if they do so by April 30 of this year. For details, please inquire at the FSA or the Local Financial Bureaus

2. Initiatives to promote Japan as a leading asset management center

- The government aims at realizing a “virtuous cycle of growth and distribution” under the slogan “New Form of Capitalism,” and since the autumn of last year, the subcommittee established under the Council of New Form of Capitalism Realization has discussed initiatives to promote Japan as a leading asset management center, and on December 13, 2023, the Policy Plan for Promoting Japan as a Leading Asset Management Center was publicly announced.

*1 Policy Plan for Promoting Japan as a Leading Asset Management Center (Cabinet Secretariat’s website)

https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/bunkakai/sisanunyou_torimatome/plan.pdf

*2 FSA’s initiatives to promote Japan as a leading asset management center (FSA’s website)

<https://www.fsa.go.jp/policy/pjlamc/20231214.html>

- Securities firms are expected to play a major role as supporters which encourage stable asset building for family finances and, of course, maintain the fairness and transparency of markets. This year is particularly important in ensuring smooth operation of the new NISA (tax exemption program for retail investors) program, which was launched in January, and implementing the Policy Plan for Promoting Japan as a Leading Asset Management Center, which was publicly announced at the end of 2023.

We will continue to work with you closely to promote Japan as a leading asset management center.

- The new NISA program is designed so that a wide range of people can utilize it

flexibly for stable asset formation through long-term, installmenttype and diversified investment. Following the launch of the new program, as an increasing number of people are expected to start new investments, we would like to ask you to create an environment that enables them to build assets with a sense of security. Events hosted by the Japan Securities Dealers Association are scheduled for NISA Day (February 13), and Parliamentary Vice-Minister Kanda and other officials plan to participate in the events, and we will continue to explain to people about the new NISA program in an easy-to-understand way through public-private partnership.

- With the passage of the bill for the revision of the Financial Instruments and Exchange Act, etc. at an extraordinary session of the Diet in 2023, we plan to establish Japan Financial Literacy and Education Corporation in the spring of 2024 and start to operate the financial literacy and education program in earnest in summer. Up to now, you have worked hard for financial literacy and education in various ways, but in the future, the Corporation will further enrich financial literacy and education, and therefore, we would like to ask you to energetically support stable asset building for family finances.
- The revised Act also requires financial institutions to take the best interests of customers into consideration, and based on this statutory obligation, we would like to ask you to work harder for customer-oriented business administration so that high-quality and appropriate financial instruments and financial services spread to a wide range of people.
- In addition, we will strive for realization of more effective corporate governance, aiming toward sustainable growth and increased corporate value of Japanese companies over the medium- and long-term so that they are chosen as attractive entities targeted for investment.
Furthermore, revitalizing the supply of growth funds for start-ups is an important initiative to ensure sustainable economic growth through the development of start-ups. We will continue to work with you to take necessary measures.
- Asset management sector and asset owners (such as pension and insurance funds), those responsible for managing household assets entrusted to them, etc. in fund management mainly through pension, insurance, and investment trusts, need to take measures, including enhancing their investment management capabilities, and improving governance.

- In particular, in order to ensure that people can divert savings to investments with a sense of security, it is essential that asset management business is trusted by them and that asset management firms enrich their specialist knowledge and raise their management ability levels. First, in order to raise the overall standard of the asset management industry, the FSA requests major groups of financial institutions to identify the position of asset management business in their group management strategy. In addition to this, we also request them to formulate and publicly announce plans to raise their management ability levels, improve governance, and strengthen their systems from the viewpoint of enriching specialist knowledge and developing/maintaining capable asset managers, and thus, we would like to ask you to take the initiative in striving to achieve these goals on a group-wide basis.
- We are considering disclosing a list of each company's initiatives on some pages of our website by the end of January so that it can be widely viewed by visitors.
- Moreover, in order to promote new market entry from Japan and overseas for competition, we will push initiatives for deregulation such as the relaxation of entry requirements applied, if middle and back office operations are outsourced, as well as for the establishment of special zones for financial and asset management businesses and active utilization of emerging asset management firms.
- We plan to work with related government ministries and agencies to consider efforts that support special zones for financial and asset management businesses from a broad point of view in collaboration with aspiring local governments. Examples of such efforts include reforming regulations on finance, business, and living environments and enriching administrative services such as support in English.
- It is difficult for emerging asset management firms to obtain initial investment funds (seed money) because they do not have a track record of asset management, and this is pointed out as an issue to be addressed. We would like to ask you to actively utilize emerging asset management firms and not to exclude them simply because of their short business history. Also, the FSA will collect and publicize examples of initiatives by financial institution groups and back up their further efforts.
- The Asset Management Forum will be launched to advance initiatives for promoting Japan as a leading asset management center in line with the needs of related businesses and investors in Japan and abroad. At the end of 2023, the Preparatory

Committee for the forum was established. We hope that all of you will cooperate with us in stepping up the dissemination of information through the holding of events and other efforts.

- Through these efforts, we hope to set up an environment in which excellent domestic and foreign businesses and talents will gather in Japan and compete among them to provide better products and services to investors, including households. We would like to ask for your continued cooperation in realizing their steady asset building by households. We would also appreciate it if we could continue to hear your various opinions.

3. Giving wide publicity to NISA

- First of all, I would like to express my gratitude for your daily efforts to give wide publicity to NISA. It is important to explain to people about the new NISA program in an easy-to-understand way through public and private partnerships.
- Under these circumstances, the FSA and the Local Finance Bureaus are currently working on three points to ensure the proper dissemination and publicity of NISAs.
- First, an online seminar on NISAs was held in late November. This was done on a trial basis for national and local government officials, and a total of more than 10,000 people participated in the seminar, and it was featured in the local media, indicating the high level of interest in NISAs. The video of the seminar is available on the FSA's website for public viewing.
- Secondly, a total of three hybrid-style events will be held from December 2023 to February 2024. We plan to invite celebrities to talk about NISA and asset building in an enjoyable and easy-to-understand way. More than 400 people (more than 3,000 including online participants) attended the first NISA event held in December, and some of them commented that distinguished guests who took the stage led them to become interested in NISA, and through this new approach to those who had theretofore not been interested in NISA, we sensed a good response from them as typified by the fact that the event was featured in entertainment-related news programs.
Details of the event are posted on the special event site of the FSA's website, so we

would appreciate it if you could introduce the event to interested customers and persons in charge.

(Reference) Event site

https://www.fsa.go.jp/user/nisa_mirai_produce/index.html

- Thirdly, the FSA has revamped its NISA special website and is working to step up the dissemination of information through its Tsumitate Wanisa X (former Twitter) account. In particular, the new special website provides substantial information on how to utilize the new NISA program, and therefore, we hope that you will effectively use such information when explaining to customers who are troubled by how to use a NISA. The number of followers on the Wanisa X account has increased by about 18% since November 2023 (about 1,700 accounts), and we hope to increase the number of NISA “fans” in this aspect of publicity as well. With the launch of the new NISA, we will work to utilize various tools to make the new NISA known in an easy-to-understand way even to those who are starting from the very beginning.
- I would like to express my gratitude for the tremendous cooperation I have received from your association in the initiatives I mentioned today.

Through public and private partnerships, we intend to continue efforts to create an environment in which all people can work for asset building with a sense of security and seek your cooperation in these efforts.

4 . Response based on the launch of the new NISA system

- In light of the launch of the new NISA system in January, I would like to make two requests.

(Revision of the Supervisory Guidelines for the NISA System)

- First, taking into account factors such as the NISA system’s purpose of supporting stable asset building by customers, we revised the Supervisory Guidelines from the viewpoint of preventing soliciting by financial institutions of churning using growth investment quotas.
- We recognize that each financial institution has already put in place a system to ensure that investments in financial instruments are solicited appropriately, but

under the new NISA system, it is also necessary that a system is in place to prevent inappropriate solicitation such as the solicitation of churning.

- Specifically, we believe that it is important for each financial institution to ensure that the internal control unit examines such a system and ensure its effectiveness so that investments are not solicited from customers inappropriately. The FSA would like to seek your cooperation as we intend to make such a system more efficient in the future while confirming how it is being established.

(Procedures for opening a NISA and other securities accounts)

- The second point is that the government has set a target of 34 million NISAs over five years in the Doubling Asset-based Income Plan worked out at the end of 2022, and in order to ensure smooth operation of the new NISA system, each financial institution should make every effort to respond to customers in the procedures for opening a NISA and other securities accounts.
- There are cases, for example, in which the address of evacuees from the nuclear accident caused by the Great East Japan Earthquake written in the certificate of residence is different from their present address. When evacuees from the nuclear accident open a securities account, they can do so by using an evacuation certificate issued by the local government in the place where they evacuate as a document to identify themselves. In addition to a driver's license, a disability certificate, etc. can also be used as an identification document with a photo of the person's face when opening an account.
- It is needless to say that identity verification is important from the viewpoint of measures against money laundering, etc., but we would like to ask you to respond to customers in a way that takes their circumstances into consideration. We would like to ask all of the managers at this meeting to thoroughly make the points mentioned above known to personnel in charge of customer inquiries, sales representatives, and other employees who deal with customers at each company and use expressions that are not misunderstood on websites that provide guidance on the procedures for opening securities accounts.

- We would like your cooperation as we will continue to work to promote the spread and utilization of NISAs through public-private partnerships. Please contact us for a consultation if you have questions or if there are cases in which you are unsure of your decision.

5 . System for sales and management of complicated structured bonds and other products

- A look at the sales of complicated structured bonds published by the Japan Securities Dealers Association at the end of November 2023 shows that the number of sales companies decreased and private placement bonds continued to be sold at a certain level but that sales of publicly offered bonds decreased significantly.
- Given this situation, it is recognized that since the revision of the guidelines in July 2023, many financial institutions have not moved to resume the sale of structured bonds at the same time.
- In accordance with the financial administration policy for the administrative year of 2023, the Agency is utilizing questionnaire surveys and other methods to confirm the following two points:
 - Whether the system to sell and solicit structured bonds and other high-risk financial instruments is in accordance with laws and ordinances as well as the guidelines, etc. of the Japan Securities Dealers Association
 - Whether a system is in place to organize, sell, and manage products that contribute to the best interests of customers when handling structured bonds and other high-risk financial instrumentsIn the future, we will follow up on these two points through monitoring, so we would like to ask you to check them thoroughly in the audits, etc. of your association.

6 . Publication by CDSC of NZDPU proof of concept and public discussion

- Financial institutions are actively working to address climate change. As companies and financial institutions move steadily toward net zero emissions, it is essential to

aggregate climate change-related data to understand and analyze the progress in the transition.

- Against this background, the development of the Net-Zero Data Public Utility (NZDPU) was proposed in 2022 as an initiative to build a global and open data platform for climate change-related data, and the Proof of Concept (PoC) was announced at COP 28 on December 2, 2023. The FSA has participated in the discussions as a member of the Climate Data Steering Committee (CDSC), which supports the creation of the NZDPU.
- In addition to the (above-mentioned) NZDPU PoC, CDSC released a progress report on the same day. In addition, for future work and the evolution of NZDPU, CDSC began to request public opinions during the period up to March 1, 2024.
- CDSC continues recruiting members for a focus group. The focus group is intended to request advice from not only financial institutions but also a wide range of companies for NZDPU. We have heard that many companies have already participated, but I would appreciate it if you could introduce companies that might be interested.

7. Strengthening anti-phishing measures

- During the period from the beginning of 2023 to the end of November, the number of cases and the amount of damage caused by fraudulent transfers of deposits through Internet banking, which are believed to have been made by phishing attempts, reached a new record high, at 5,147 cases and about 8 billion yen, respectively. In light of this, the FSA and the National Police Agency issued a reminder to general users on December 25, 2023. In addition, customers of financial institutions other than depository institutions are also suffering damage from phishing attacks.

* “The rapid increase in the number of cases caused by fraudulent transfers through Internet banking which are believed to have been made by phishing attempts(alert)
(https://www.fsa.go.jp/ordinary/internet-bank_2/13.pdf)”

- We would like financial institutions to take countermeasures in advance rather than doing so after damage has occurred. Protecting customer assets is essential for financial institutions to realize customer-oriented management. We encourage the

management to take the matter seriously and address it if the measures are found to be insufficient.

8. Establishment of risk management systems such as countermeasures against money laundering, etc.

- The deadline for responding to the "establishment of a system based on the money laundering guidelines" requested in April 2021 will arrive in March 2024.
- We recognize that each company is making steady progress in establishing such a system, but with less than three months left until the deadline, we would like to ask each company to continue its efforts to ensure that the establishment of such a system is completed.

9. Japan Fintech Week

- From March 4 to 8, 2024, the FSA will hold Japan Fintech Week for the first time as a new initiative to create business opportunities for the further development of fintech.
- During Japan Fintech Week, while FIN/SUM which has taken place every year since 2016 will be the core event, fintech related events will be intensively held around the week in cooperation with local governments, industry associations, and embassies, etc. We hope to create opportunities to establish even closer cooperation among domestic/overseas fintech companies, financial institutions, investors, and other stakeholders.
- The number of participants from overseas is expected to increase significantly from the previous FIN/SUM events. For example, fintech and other business operators that provide solutions related to advanced compliance and DX and other participants are scheduled to visit Japan. Moreover, at panel discussions and round tables, multi-faceted discussions will be held on the topics of Web 3.0, digital assets and AI, remittance and settlement, embedded finance, ESG, and the plan to promote Japan as a leading asset management center.
- Details of each event will be updated sequentially on our official website. We hope you will be able to attend receptions and after-FIN/SUM party to utilize opportunities for networking and information gathering.

(Reference) Outline of the Japan Fintech Week

- Date: Monday, March 4 to Friday, March 8, 2024 [Core Week]
- Venue: Various locations in Tokyo
- Sponsor: The Financial Services Agency
- Website: <https://www.fsa.go.jp/policy/japanfintechweek/2024/>

(Reference): Outline of FIN/SUM

- Date: Tuesday, March 5 to Friday, March 8, 2024 [four days], 09:00-18:00
- Venue: Marunouchi Building Hall (archived later for distribution)
- Sponsors: The Financial Services Agency and Nikkei Inc.
- Website: <https://www.finsum.jp/>
- Ticket registration is scheduled to start on the above website from late January.

10. Results of requests for tax reform in FY2024

- The FSA's requests for fiscal 2024 tax reform consisted mainly of the following.
 - Implementation of the Doubling Asset-Based Income Plan and promotion of Japan as a leading asset management center
 - Building of an international financial center as an international financial hub in Asia and the world
 - Insurance
 - Crypto assets
- As a result, the ruling party's tax reform plan published on December 14, 2023, decided to take measures for the important requests made by the FSA as follows.
 - Increase the convenience of NISAs
 - Extend the tax exemption of interest on deposits for the trading of over-the-counter derivatives by three years
 - Take tax measures for tokenized corporate bonds, etc. which are comparable to those for book-entry bonds, etc.
- The tax reform plan states that the government should consider integrating taxation on financial incomes in a comprehensive way taking into consideration the results of the past deliberations on how to prevent intentional tax evasion.
- The plan also states that in reviewing the requirements for the payment in kind of inheritance tax on listed shares, etc., the government should swiftly discuss and reach a conclusion on how to calculate the upper limit to the amount of tax that can

be paid in kind, including deferred payment systems, so that the payment-in-kind system becomes one that considers the ability of taxpayers to pay more appropriately.

- There are still matters left which should continue to be examined and discussed properly, and in the future, we will take necessary measures for these matters.
- We received various support from industry members in the tax reform request process. I would like to take this opportunity to thank you.

11. Establishment of the Impact Consortium

- Amid the increasing importance of environmental and social issues such as climate change and the declining birthrate and aging population, supporting projects and other undertakings to resolve these issues has become an urgent issue to be addressed, and it is important to realize a virtuous cycle that links the creation of environmental and social effects ("impacts") to the growth and sustainability of the economy and society.
- In late November, the Impact Consortium, a partnership of industry, government, academia, and financial institutions, was established by a group of founders, including your association, as a forum for collaboration and dialog with domestic/overseas networks in which a wide range of stakeholders hold discussions from the viewpoint of establishing investment and financing to create impacts as a powerful method and market, and promoting business.
- At the inaugural meeting, Takeshi Mizuguchi, President of Takasaki City University of Economics, expressed his intention to establish a society in which the concept of incorporating impacts into the economic system was the norm. Also, other founders commented on the importance of management that positively evaluated impacts contributing to medium- to long-term profitability and startup support for problem-solving that suited local communities.
- We are currently recruiting members for the consortium and plan to set up subcommittees in the future. We would appreciate your cooperation in discussions and knowledge sharing in the consortium.

12. Establishment of a dialogue to enhance sustainability investment products

- In order to promote investment that will ensure economic and social growth and sustainability, it is important to develop GX and other sustainability-related investment products that appeal to a wide range of investors and encourage a diverse range of investors to participate in the market.
- In December, the FSA established the Dialogue on Enhancing Sustainability Investment Products, a forum for dialogue among a wide range of stakeholders, including asset management firms in Japan and overseas which produce such products, businesses targeted for investment, and individual investors. I would like to thank you for your participation.
- This dialogue will be held about four times in total by June 2024, after which the Agency will compile and disseminate messages aimed at enhancing investment products. From a practical point of view, I would like to ask for active discussions on issues and situations related to sustainability investment products in Japan.

13. Dissemination of the Guidelines on Price Negotiations for Appropriate Transfer of Labor Expenses

- In light of the formulation by the government of the Guidelines on Price Negotiations for Appropriate Transfer of Labor Expenses, the FSA requested financial associations to make the Guidelines known to all parties concerned on January 15.

(End)