

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

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

1. Results of the Monitoring of Customer-Oriented Business Conduct (Interim Report)

- The FSA published the "Results of the Monitoring of Customer-Oriented Business Conduct (Interim Report)" on April 3.
- For program year 2023, the FSA conducted verifications and had dialogues with the focus placed on a broad range of risk-involving financial instruments, such as foreign currency-denominated single premium policies, structured deposits, structured bonds, and bonds in foreign currencies. The Interim Report picks up the results of the verifications concerning foreign currency-denominated single premium policies and structured deposits.
- Regarding foreign currency-denominated single premium policies, the details of the problems in individual companies' relevant frameworks are omitted here, but as many as 60% of contracts were cancelled in the last four years although they are developed on the premise of long-term investment. Expenses incidental to cancellations decrease profit margins.

In particular, most of the insurance products setting target amounts are cancelled when those targets are achieved, and the same customers are concurrently solicited to switch to the same products in many cases (which causes customers to pay double the amount of sales commissions and other fees). Distributors (banks, etc.) and product developers (insurance companies) are expected to strengthen mutual cooperation and follow up with customers carefully even after selling insurance products, while confirming customers' intentions prior to the achievement of target amounts, such as whether or not to alter (increase) their target amounts.
- Top management should read the Interim Report and lead their organizations' efforts to improve measures to ensure customer-oriented business conduct.

(Note) The Final Report is scheduled to be published by around the end of June.

2. Report concerning the Japan Fintech Week

- The FSA held the Japan Fintech Week 2024, the first event of this sort, by setting March 4 to March 8 as the core week, with the aim of catalyzing business opportunities and fostering the continued growth of fintech innovation.
- In collaboration with local governments, industrial bodies, embassies, and other related parties, over 40 fintech-related events were intensively held. Many people, including those from local areas in Japan and from overseas, participated in the Japan Fintech Week 2024 and joined multifaceted discussions and networking.
- FIN/SUM 2024, which was held as the core event, also attracted the largest-ever number of participants, partly due to the effect of being concurrently held with the Japan Fintech Week 2024. This event must certainly have provided an opportunity for strengthening collaboration among domestic and foreign fintech companies, financial institutions, investors and other stakeholders.
- You have participated in and provided support for many events, including FIN/SUM 2024. The Japan Fintech Week was the first event of this sort but was successful thanks to your kind cooperation. Thank you very much.
- In 2025 as well, we plan to hold the Japan Fintech Week 2025, setting Monday, March 3 to Friday, March 7 as the core week, and FIN/SUM 2025 from Tuesday, March 4 to Friday, March 7, 2025.
- We would like to develop these events in a manner to further expand business opportunities and help you solve challenges. We appreciate your cooperation to strengthen collaboration much further than in 2024.

3. Commencement of Operations of the Essential Infrastructure System

- On May 17, the Regulatory System for Ensuring Stable Provision of Specified Social Infrastructure Services (Essential Infrastructure System) under the Economic Security Promotion Act is scheduled to commence operations. Ahead of that, the updated version of Q&A for the financial sector* was published on March 15.

* The official title is "Answers to Frequently Asked Questions Regarding the 'Regulatory System

for Ensuring Stable Provision of Specified Social Infrastructure Services'." The first version was published in November 2023.

* The document provides answers and explanations for questions frequently asked by covered financial institutions during prior consultations, in addition to questions requested by the Cabinet Office. Cited cases include those concerning the introduction of specified critical facilities for which notification is required (system integration, alteration of programming languages, etc.) and cases where notification is not required for entrustment of critical maintenance, management and control of specified critical facilities (without authority to access the production environment).

- The FSA has set up a consultation office to provide prior consultations with the aim of constantly having communications with covered businesses and other relevant entities. When you are not sure whether your service falls under the introduction of specified critical facilities or the entrustment of critical maintenance, management and control, which requires prior notification, or when you have any question about the interpretation or the operations of the system, please make inquiries in advance.
- The FSA will continue efforts for having respectful dialogues with financial institutions toward the smooth commencement of system operations. We appreciate your continued cooperation.

4. Requests for Reporting of the Outcome on Establishment of AML/CFT Frameworks and for Answering the Annual AML/CFT/CPF Survey

- The deadline for establishment of AML/CFT frameworks based on the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism was passed on the end of this March with three-year period being passed since the FSA requested financial institutions to develop the frameworks in April 2021.
- The FSA requested financial institutions to report their outcomes on efforts to establish the framework for the last three years by the end of April. Financial institutions are expected to self-check the current status based on the guidelines and the FAQs regarding the guidelines, etc. under the leadership of top management, and make a good faith report in detail.
- The FSA also conducts an annual survey to understand ML/TF risk exposure both at sector and entity level by requesting financial institutions to report their

transaction data, etc. based on laws concerning individual business types. For 2024, the FSA sent report forms for the survey dated March 28 to financial institutions in addition to the aforementioned outcome report. Please submit the report by the end of May. The FSA will compile and analyze reported data, etc. and conduct inspections and monitoring in accordance with ML/TF risks faced by individual financial institutions.

5. Japan Weeks and Asset Management Forum

- As part of the government's initiatives for promoting Japan as a leading asset management and financial center of the world, the government held the Japan Weeks for the first time in the autumn of 2023, during which various events were held with the participation of investors and asset management companies, etc. from overseas.
- In order to strengthen communications with foreign investors, etc., the second Japan Weeks are scheduled in the autumn of 2024, setting five days from September 30 to October 4, 2024, as the core week. Various events will be organized during that week and the preceding and following weeks.
- On October 3, during the core week, the Asset Management Forum will be launched and its relevant event will be held. In this event, various measures under the Policy Plan for Promoting Japan as a Leading Asset Management Center, which was formulated at the end of 2023, will be discussed and opinions will be exchanged on such themes as emerging asset managers and sustainable finance.
- The government will open a designated website for the second Japan Weeks. The Strategy Development Division of the FSA would like to start to hold consultations with relevant associations within April concerning the participation in the aforementioned Asset Management Forum and concrete methods for holding and participating in diverse events during the Japan Weeks. We appreciate your cooperation.

6. Japan Financial Literacy and Education Corporation

- Japan Financial Literacy and Education Corporation, J-FLEC, was established on April 5 with the aim of providing opportunities for financial and economic education broadly to the public from a neutral standpoint as a nation-wide initiative to enhance financial and economic education. Thank you very much for your considerable cooperation for the establishment of the J-FLEC.
- The J-FLEC and the FSA are carrying out PR activities to raise awareness about the J-FLEC and its business, and are preparing to start dispatches of lecturers and certifications of unbiased high-quality advisors, with the aim to start operations in August. The J-FLEC will publish its specific operational policies after the first meeting of the governing board on April 25.
- The J-FLEC will play the pivotal role in fundamental expansion of financial and economic education throughout the nation to avoid the occurrence of regional disparities, and will endeavor to enhance people's financial literacy through providing education in wide-ranging fields, including means to prevent and cope with financial troubles. To enhance education in vocational fields in particular, we would like you and your members to engage in collaboration and offer cooperation by disseminating the J-FLEC's activities to client companies and linking them and the J-FLEC. Providing financial and economic education to employees will surely contribute to enhancing the corporate value of client companies.

7. Financial Policies Monitor

- The Financial Policies Monitor is a mechanism to report frank opinions on financial policies presented by financial institutions and their employees directly to external experts, who are third parties with a neutral position, and have such opinions reflected in financial policies. 2024 is the ninth year since the launch of this mechanism.
- In 2023, 47 opinions were presented, including:
 - an opinion concerning the prohibition of providing extraordinary profit upon insurance solicitation;
 - an opinion concerning the regulations on unregistered crypto-asset exchange service providers that have no business bases in Japan.

- What is important here is not merely accepting opinions but making responses meticulously and positively from the perspective of improving financial policies as a whole, not limited to taking actions concerning individual cases. We hope that you will tell us any points you noticed, including those for improvement. Please disseminate the information on Financial Policies Monitoring among your member financial institutions and their employees.

8. Abolition of the Rules Concerning the Ethics Code

- The Japan Securities Dealers Association is soliciting public comments for the abolition of the Rules Concerning Members' Formulation and Observation of the Ethics Code. I would like to make some comments on this issue.
- The Rules oblige individual companies to formulate and observe the Ethics Code for the purpose of enhancing and maintaining their ethical rules and code of conduct. However, as reasons for abolishing the Rules, the Japan Securities Dealers Association explains that as a considerable time has passed since its establishment and various similar initiatives have been taken so far, it is now no longer necessary to maintain a uniform Ethics Code.
- Irrespective of whether the Rules should be maintained or not, the enhancement and maintenance of individual companies' ethical rules and code of conduct remains as an important theme. Securities companies are required to make constant efforts to enhance and maintain their own ethical rules and code of conduct on a voluntary basis so as to avoid any criticism that the abolition of the Rules caused setbacks in relevant efforts of the securities industry as a whole.
- It should be noted that the Comprehensive Guidelines for Supervision also cites the formulation and thorough dissemination of ethical rules to all executives and employees as major supervisory viewpoints concerning the establishment of compliance management systems, and that the relevant compliance status remains to be the point to be verified in continuous and seamless monitoring.

9. Amendment of the "Handling Guidelines for Business Operators that Fall within the Purview of the FSA to Eliminate Discrimination against People with Disabilities"

- The Act for Eliminating Discrimination against Persons with Disabilities required business operators to make efforts to respond to a request from a person with disabilities seeking elimination of a social barrier to the extent that does not impose too much burden on them (= provision of reasonable consideration). Through the amendment of the same Act, business operators came to be obligated to make a response on April 1, 2024 onward.
- Given this background, the "Handling Guidelines for Business Operators that Fall within the Purview of the FSA to Eliminate Discrimination against People with Disabilities" and the Comprehensive Guidelines for Supervision were also amended and started to be applied on April 1, 2024.
- We understand that the Japan Securities Dealers Association is now preparing a training video for members or otherwise taking measures in response to these amendments. In the video, FSA personnel provide explanations as lecturers, as requested by the association.
- Individual companies are expected to proceed with their initiatives for enhancing convenience of persons with disabilities, while referring to the training video and the details of the amendments, so that they can respond to persons with disabilities in an appropriate manner.

10. Amendment of the Comprehensive Guidelines for Supervision

- In addition to the amended Act for Eliminating Discrimination against Persons with Disabilities, many other laws and regulations were put into effect at the beginning of the new fiscal year, and some of the Comprehensive Guidelines for Supervision were also amended accordingly and started to be applied.
- Individual companies are requested to check the FSA's official website and take measures in line with the amended guidelines.

* Amended Comprehensive Guidelines for Supervision that started to be applied from March 29 to April 1, 2024

- Amendment regarding the review of the regulations on inspection and public inspection by private business operators in light of the digitalization principles (March 29)
<https://www.fsa.go.jp/en/newsletter/weekly2024/582.html#e03>
- Amendment regarding the prevention of ruling on regulations for exposures of securitization of non-performing loans (March 31)
<https://www.fsa.go.jp/en/newsletter/weekly2024/579.html#e02>
- Amendment associated with the review of regulations on leverage ratios upon introduction of leverage buffers (March 31)
<https://www.fsa.go.jp/news/r4/ginkou/20230608/20230608.html> (Available in Japanese)
- Amendment regarding regulations on large exposures (LEX regulations) (March 31)
<https://www.fsa.go.jp/news/r4/shouken/20230330/20230330.html> (Available in Japanese)
- Amendment regarding fast-track approvals for regulations on large exposures (LEX regulations) (March 31)
<https://www.fsa.go.jp/news/r5/shouken/20230927/20230927.html> (Available in Japanese)
- Amendment regarding valuation and testing exercise toward ensuring smooth implementation of orderly resolution (April 1)
<https://www.fsa.go.jp/en/newsletter/weekly2024/582.html#e02>
- Amendment associated with the abolition of the quarterly securities report system (April 1)
<https://www.fsa.go.jp/en/newsletter/weekly2024/581.html#e02>
- Amendment associated with the amendment of the Act for Eliminating Discrimination against Persons with Disabilities (April 1)
<https://www.fsa.go.jp/en/newsletter/weekly2024/582.html#e12>
- Amendment associated with the review of the regulations on leverage ratios in relation to temporary measures to exclude deposits with the Bank of Japan (April 1)
<https://www.fsa.go.jp/news/r4/ginkou/20230609/20230609.html> (Available in Japanese)

11. Continued Use of the Financial Services Agency Business Support Integration System

- The FSA is now developing the Financial Monitoring System (FIMOS), a subsequent system of the Financial Service Agency Business Support Integration System. We announced that we aim to commence operations on May 7, 2024.
- However, system modifications are time-consuming and there is a need to secure the environment for using the system for financial institutions, etc. at the time of account settlement. Accordingly, the FSA decided to continue the use of the current system and accept the submission of accounts sheets, etc. using the current Business Support Integration System.
- The shift to the FIMOS is scheduled in June or later. A concrete schedule will be announced around one month prior to the commencement of operations.

12. Permanent Cessation of Euroyen TIBOR

- On March 6, the JBA TIBOR Administration (JBATA) published the results of the Public Consultation on permanent cessation of Euroyen TIBOR and related issues, and decided on the permanent cessation of all tenors (i.e. 1-week, 1-month, 3-month, 6-month, and 12-month) of Euroyen TIBOR at the end of December 2024.
- The FSA has released announcements that it expects the introduction of fallback provisions into contracts referencing Euroyen TIBOR to be advanced and it suggests that market participants cease entering into new contracts for products referencing Euroyen TIBOR by the end of June 2024 at the latest.
- Given the recent JBATA's decision, the FSA released the announcement that it expects market participants to take timely and appropriate actions for transitioning away from Euroyen TIBOR aiming towards orderly cessation of its publication.
- We would like the applicable financial institutions to take necessary actions for the transition, with the timeframe in mind, given the FSA's announcements to date.