

# **Main Topics Presented by the Financial Services Agency (FSA) at a Dialogue with Financial Sector Association (Japan Securities Dealers Association (JSDA))**

**July 16, 2024**

## **1. Monitoring of securities business for the 2024 program year**

- We understand that securities companies are playing significant roles as gatekeepers in the market and actively contribute to securing the fairness in the market, and at the same time are also striving to sufficiently fulfill their financial intermediary function and support stable asset building of households and fund procurement of companies with growth potential.
- With this awareness in mind, we will conduct monitoring for PY2024 basically based on the same idea as in PY2023. However, at the beginning of the new program year, we would like to look back on the status in the last program year and present some points of attention.

### **< Control environment for sale and solicitation of financial instruments >**

- Regarding sale and solicitation of financial instruments, based on discussions on product governance at the Financial System Council, we will continue dialogues on individual securities companies' efforts for customer-oriented business conduct and monitor whether they have established a control environment for sale and solicitation in line with laws and regulations and other various operational rules.

For structured bonds, securities companies are working to establish a control environment for sale and solicitation based on the self-regulatory guidelines concerning complicated structured bonds, etc., which were put into effect in July last year, and there are moves to suspend the sale of such bonds to individual customers and refrain from soliciting individual customers to purchase such bonds from the perspective of pursuing customers' best interest. However, considering the fact that complicated structured bonds are being sold to corporate customers at a certain level, individual securities companies are expected to further enhance their control environment based on the Principles for Customer-Oriented Business Conduct. We will keep an eye on their relevant efforts.

< Control environment as market intermediaries >

- From the perspective of market fairness, this program year as well, we will continue monitoring whether securities companies have established an effective compliance system and internal control environment as market intermediaries, including a control environment for detecting and preventing market misconduct.

If any serious problem from the perspective of investor protection is found through monitoring, we will take strict measures as required.

In many past cases where administrative dispositions were imposed on financial institutions, a flaw in the business management system was observed, such as insufficient governance by top management' or failure to develop an internal control environment required for preventing misconduct. Accordingly, financial institutions are requested to firmly check and verify whether there is any flaw in their business management system for ensuring proper business operations.

< Business model in light of environmental changes >

- In light of changes in the environment surrounding securities companies, such as increases of online transactions and cheaper transactions and diversification of goods and services, last program year, we had dialogues with many securities companies at various levels: including those with top management, regarding their business models and the status of establishing risk management systems in accordance with those business models. We would like to continue such dialogues this program year as well. In particular, we would like to continue dialogues with regional securities companies on their efforts for building sustainable business models, as various problems, such as aging of customers, labor shortage, and system cost, are coming up to the surface.

< Development of governance and risk management systems based on business strategies >

- Regarding major securities companies, we would like to have dialogues on individual companies' business strategies in light of their moves to expand business domestically and internationally, and will monitor how they have developed effective governance and risk management systems commensurate with their business strategies.

## **2. Ensuring of Customer-Oriented Business Conduct**

- The new NISA program was launched in January 2024, and the number of NISA accounts and purchase amounts through those accounts have been increasing. The base of investors is thus expanding. Therefore, it is becoming increasingly important for developers and distributors to promote efforts to ensure customer-oriented business conduct.
- Specifically, they are required to develop and introduce financial instruments that will surely contribute to realizing customers' best interest, and to sufficiently ascertain customer attributes, such as knowledge, experience, and risk tolerance, as well as customer needs individually, and recommend and sell optimal financial instruments to each customer while providing easy-to-understand explanations.

You are requested to make efforts for improvement independently, while referring to the "Publication of the monitoring results pertaining to the implementation status of customer-oriented business conduct by distributors of financial instruments, such as investment trusts," which was published on July 5, 2024.

- We are now deliberating on monitoring policies regarding customer-oriented business conduct (major viewpoints and risk-involving financial instruments and targets to be verified) for PY2024, but in any case, we would like to fully exchange views on customer-oriented basic ideas as follows:
  - what added value the financial instruments you are selling can provide to customers; and
  - whether those financial instruments surely pursue customers' best interest.
- We would like to closely collaborate with individual securities companies and the Japan Securities Dealers Association and continue efforts for achieving a "virtuous cycle of growth and distribution," the very purpose of the initiatives for promoting Japan as a leading asset management center. We expect that efforts for customer-oriented business conduct will make progress steadily in the securities industry.

### **3. Management of outsourcees' cybersecurity risks**

- There was a case where at a company to which a financial institution outsourced part of its business operations, a server, etc. were infected with ransomware, and as a result, the financial institution's customer information was leaked from that outsourcee.
- The financial institution that outsourced business operations to the outsourcee must verify customer information it had provided to the outsourcee and take appropriate measures for leaked information based on the Act on the Protection of Personal Information.
- In response to this recent case, the FSA will deliberate on ideal management of outsourcees by financial institutions.

### **4. Countermeasures against financial crime**

- Against the background of the expansion of damage caused by special fraud, investment fraud and romance fraud via SNS, or phishing, the national government formulated the "Comprehensive Measures for Protecting People from Fraud" in June 2024.
- In response, the FSA newly established the Financial Crimes Office by way of reorganizing the existing AML/CFT Policy Office in July 2024.
- We would like you to understand the importance of not only making responses to the FATF Recommendations and relevant systems but also placing emphasis on the prevention of damage from financial crime to ensure users' ability to use financial services without worry, including conventional AML/CFT measures.
- The FSA will take measures against investment frauds and other financial crimes, including measures as described in the Comprehensive Measures, in collaboration with relevant ministries and agencies and industry associations, with a sense of urgency.

### **5. Publication of a Report on the Current Status and Challenges Regarding Anti Money Laundering and Counter Financing of Terrorism in Japan (as of June**

**2024)**

- The deadline for the development of risk management systems based on the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism expired at the end of March 2024. From now it is necessary to shift our focus from responses to what were pointed out in the FATF Fourth Round of AML/CFT Mutual Evaluations to the enhancement of the effectiveness toward the Fifth Round.
- Additionally, the immediate top priority is to cope with rapid increases in special fraud, etc. and misuse of financial services in those fraud cases.
- With such awareness, the FSA compiled the latest version of a Report on the Current Status and Challenges Regarding Anti-Money Laundering and Counter Financing of Terrorism in Japan (as of June 2024)," commonly called "Report on AML/CFT Measures," and published it on June 28, 2024.
- The report contains examples that will serve as reference for financial institutions when they verify the effectiveness of their risk management systems for the purpose of further enhancing them after the expiration of the deadline at the end of March 2024, as well as pioneering initiatives combating misuse of accounts, which is now increasing rapidly. Financial institutions are expected to make efforts to strengthen and enhance their own AML/CFT measures by making reference to the report.

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

- On June 26, 2024, the FSA published the "Analysis Report on Financial Institutions' Computer System Failures," which compiles the trend and examples of financial institutions' computer system failures that occurred in FY2023.
- The report categorizes cases with the focus placed on timings of failures and analyzes the causes and problems. Additionally, the report incorporates best practices for incident response, such as smooth responses to customers in the event of suspension of ATM services and smooth restoration of computer systems in line with a contingency plan, as a reference for financial institutions in strengthening their IT resilience.
- In addition, this report contains columns titled "Best practices and challenges regarding financial institutions' Threat-Led Penetration Testing (TLPT)" and "Outline of dialogues with financial institutions concerning operational resilience."

- Financial institutions are expected to further strengthen their system risk management for ensuring stable provision of services by making reference to the report.

## **7. Basic Policy on Economic and Fiscal Management and Reform, and Action Plan for a New Form of Capitalism**

- On June 21, the Cabinet decided on the "Basic Policy on Economic and Fiscal Management and Reform 2024" and the "Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version."
- In relation to the FSA, the following measures are incorporated:
  - Promotion of financial institutions' support for companies in their efforts to improve and reconstruct their business and take on challenges again, as well as for their business succession and M&A;
  - Implementation of initiatives for promoting Japan as a leading asset management center, through such means as facilitating the utilization of the NISA program, enhancing financial and economic education, substantializing the corporate governance reform, and reforming the asset management business and asset ownership;
  - Development of the environment regarding the provision of funds to startups, through such means as facilitating the distribution of unlisted shares;
  - Implementation of initiatives for achieving sustainable finance, through such means as promoting impact investments and transition finance in collaboration with Asian countries, and enhancing disclosure of sustainability information.
- The measures incorporated in the national government's policy are all important, and the FSA will make intensive efforts so that finance can firmly support the real economy and people's lives. Financial institutions are expected to understand these points and continue offering cooperation.

## **8. Reference material concerning the NISA program for general users**

- On June 26, reference material concerning the NISA program for general users was published on the FSA's dedicated website. The material introduces frequently asked questions, points to pay careful attention to, and case examples regarding the NISA program in an easy-to-understand manner so that beginners and general users can appropriately utilize the program amid market fluctuations.
- As has been mentioned so far, it is important to carry out PR activities in public-private collaboration now, when the NISA program is attracting increasing attention of the general public, in order to ensure that the program is utilized appropriately.
- Financial institutions are also requested to utilize the reference material when providing explanations to users. If you notice any points for improvement in the details, please send us your opinions.



(Reference) Reference material concerning the NISA program for general users

[https://www.fsa.go.jp/policy/nisa2/about/nisa2024/slide\\_202406.pdf](https://www.fsa.go.jp/policy/nisa2/about/nisa2024/slide_202406.pdf) (Available in Japanese)

## **9. Financial measures in response to the disaster, etc. caused by the heavy rains from July 9, 2024**

- We express our condolences and sympathies to victims of the heavy rains from July 9, 2024.
- The Disaster Relief Act is applied to Shimane Prefecture in relation to the heavy rains from July 9. In response, the Chugoku Local Finance Bureau and the Bank of Japan jointly issued a notice requesting financial measures to relevant financial institutions, etc. in Shimane Prefecture on Thursday, July 11.
- Financial institutions in disaster-affected areas are requested to sufficiently ascertain disaster victims' opinions and needs and offer support meticulously from their standpoints based on the issued requests.

## **10. System of the Supervisory Bureau for the development of the asset management industry**

- The "Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version," which was decided by the Cabinet this June, states that "the FSA will continue to promote the development of the asset management industry to become the fourth pillar of Japan's financial industry alongside banking, insurance, and securities" by such means as "establishing a department in charge of asset management alongside the departments in charge of supervision of banking, insurance, and securities."
- In response, the FSA transferred the Asset Management Business Monitoring Office, which is in charge of the supervision of the asset management business, from the Securities Business Division to the Planning and Management Division, and newly established the Asset Management Business Policy Office, which is in charge of designing and planning for promoting further enhancement of the asset management business, on July 1, 2024.
- We appreciate your continued cooperation for the sound development of the asset management business.

## **11. Monitoring activities of the Certified Public Accountants and Auditing Oversight Board**

- The Certified Public Accountants and Auditing Oversight Board (CPAAOB) has prepared monitoring reports with the aim of providing information to market participants and the general public such as the current conditions of the audit industry, the status of monitoring by the CPAAOB, and responses to changes in the environment surrounding audits, in an easy-to-understand manner. The CPAAOB will publish the 2024 Monitoring Report on Friday, July 19 (to be posted on the CPAAOB's website).
- The Monitoring Report introduces:
  - the whole picture of the CPAAOB's monitoring and the distribution of overall ratings based on inspection results (inspections completed from PY2019 to PY2022);



- the trends in the audit market ascertained through monitoring, such as an ongoing shift of auditors of listed companies from large-sized audit firms to mid-tier and small and medium-sized audit firms;
  - the trends regarding small and medium-sized audit firms, whose roles as auditors of listed companies are becoming larger, the trends regarding sustainability-related disclosure and guarantees, and the like.
- The CPAAOB will also create the "Case Report from Audit Firm Inspection Results (PY2024)" (from this Program Year, the CPAAOB will create the Summary and will publish it together with the Case Report) and the "Basic Plan for Monitoring Audit Firms in Program Year 2024" and publish them on the same day as the Monitoring Report. Please utilize them as well.