

Main Topics Presented by the Financial Services Agency (FSA) at a Dialogue with the Financial Sector Association (major banks, etc.)

September 17, 2024

1. Preparation in response to the Nankai Trough Earthquake Extra Information (Megathrust Earthquake Attention)

- On Thursday, August 8, 2024, the Japan Meteorological Agency issued the Nankai Trough Earthquake Extra Information (Megathrust Earthquake Attention). Accordingly, individual financial institutions are requested to recheck the section, "Various financial services support measures in Advance Evacuation Areas related to a Nankai Trough Earthquake or other areas," in the current "Comprehensive Guidelines for Supervision of Major Banks, etc." and steadily check and review their own BCPs.

2. Financial measures in response to the disaster, etc. caused by Typhoon No. 10 in 2024

- With regard to the disaster, etc. caused by Typhoon No. 10 in 2024, financial institutions in disaster-affected areas are requested again to meticulously offer support to disaster victims.

3. Promotion of financial institutions' support for companies' M&As

- On Friday, August 30, 2024, the FSA published the amendment of the Comprehensive Guidelines for Supervision and issued a request statement to financial institutions.
- For the outline of the amendment, see the following.

* FSA Weekly Review No.602

<https://www.fsa.go.jp/en/newsletter/weekly2024/602.html#e01>

- The amended Comprehensive Guidelines for Supervision becomes applicable on Tuesday, October 1, 2024. Financial institutions are expected to develop their internal control environment and make further efforts for offering support to companies, including support for their M&As, in light of the purport of the amendment.

4. Systems for supervision and monitoring concerning group management

- As stated in the "JFSA Strategic Priorities July 2024-June 2025" published on Friday, August 30, the FSA will further strengthen cooperation among its divisions in charge of supervision and monitoring of banks, securities companies, etc. in financial groups while they are accelerating business expansion across business categories and beyond national borders.

* Publication of the summary from the "JFSA Strategic Priorities July 2024-June 2025"

<https://www.fsa.go.jp/en/news/2024/20240913/20240913.html>

5. Leakage of customer information to large insurance companies, etc.

- Some cases have been found where employees on secondment including from large insurance companies have leaked a large number of personal information stored at insurance intermediaries affiliated with banks or bank groups.
- The FSA requests banks to reconsider developing appropriate internal control systems so that customer information is managed in a proper manner and on a group basis.

6. Monitoring on fiduciary duty (FD)

- With regard to monitoring concerning FD, the FSA will continue verifying whether distributors, etc. are developing, selling and managing financial instruments that will contribute to customers' best interests.
- Concrete verification points are as follows.

- (i) The status of the development of the product governance system, sale and management system, remuneration and performance evaluation system for a broad range of risk-involving financial instruments, including how distributors, etc. respond to regulations, etc. of the industry in relation to foreign currency-denominated single premium policies and structured bonds, for which problems were found in past monitoring, and the actual status of their sale and management of bonds in foreign currencies and foreign stocks, by placing the focus on the aspect of collaboration between banks and securities companies*

* Including the status of the involvement of top management and the status of the first-line, second-line, and third-line functions

- (ii) The status of how implementation policies based on the Principles for Customer-Oriented Business Conduct have penetrated among sales personnel and the status of efforts being made to give first priority to customers' interest
- (iii) From the perspective that the consistency between business strategy and fiduciary duty is important when building a sustainable retail business through creating shared value with customers, talks focused on the status of profit and loss of management accounting (of the relevant business) and the status of the fees obtained for each financial instrument, etc.

7. Request statement concerning the strengthening of measures to prevent misuse of accounts

- In recent years, financial crime using deposit or savings accounts, such as investment fraud and romance fraud via SNS, has been increasing rapidly, and countermeasures are urgently required. We requested individual financial association to further strengthen measures to prevent misuse of deposit and savings accounts, including corporate accounts.
- The request statement covers diverse issues, such as the ascertaining of users' actual situations upon their opening of accounts, detection of misuse by users' access environment, etc., and more prompt countermeasures, such as the suspension of transaction and freezing of accounts. Information sharing among financial institutions is also requested. Major banks, etc. are particularly expected to play active roles in tackling these issues.

8. Strengthening of the management of outsourcees

- There are recent cases where cyber incidents that happened to third parties caused

the leakage of customers' information that are shared by financial institutions with those third parties.

- Financial institutions are responsible for properly managing customer information even in the case of information leakage caused by an incident at their outsourcee.
- Financial institutions should check the effectiveness and sufficiency of their management of outsourcees by examining causes of incidents at their important outsourcees, ensuring the effectiveness of recurrence prevention measures, or otherwise considering alternative measures in case those measures cannot be ensured, and in case their third parties cannot make improvements as required.

9. Government-wide efforts to strengthen cybersecurity

- The National Security Strategy of Japan (Cabinet decision on December 16, 2022) states the following regarding critical infrastructures:
 - Japan will advance efforts on information sharing to the government in case of cyberattacks among the private sector; and
 - The government will take its initiatives for coordinating and supporting incident response activities for the private sector.
- In the government-wide efforts to develop relevant systems, the FSA would like to continue to exchange views with the financial industry.

10. Cybersecurity Guidelines

- Cyber risks are growing along with innovation and the rise of geopolitical risks. Accordingly, financial institutions need to have robust cybersecurity posture and risk management practices. In consideration of recent trends of threats, etc. the FSA will finalize and publish new guidelines concerning cybersecurity.
- It may take time for financial institutions to address their challenges in improving their cybersecurity posture. Financial institutions are expected to prioritize issues in

their challenges in accordance with the importance and urgency of such issues and take actions make responses accordingly.

- In consideration of the importance of and risks in the financial system, the FSA will put the guidelines into practice and urge financial institutions to strengthen their cybersecurity posture.

11. Cybersecurity Self-Assessment (CSSA)

- Regarding the self-assessment concerning cybersecurity using the check sheet (Cybersecurity Self-Assessment (CSSA)), which we asked major banks, etc. (excluding 3 mega banks) to conduct recently, we are planning to provide feedback for respective banks with comparison to others from November 2024 onward. Top management should lead their organization's efforts for improving the effectiveness of their cybersecurity measures, including the personnel/ budgets and human resources development, based on the results of the CSSA.

12. Finance for foreign funds

- Major banks have been increasing credit for foreign funds in recent years, but there is the possibility that any significant change in domestic or overseas economies or financial markets may cause a massive impact. Accordingly, it has become necessary to strengthen credit management.
- Therefore, in PY2024, the FSA will conduct monitoring on individual major banks' risk management frameworks, focusing on their finance for foreign funds.

13. Publication of the Monitoring Report for Improving Internal Audits of Financial Institutions (2024)

- On September 10, 2024, the FSA published the Monitoring Report for Improving Internal Audits of Financial Institutions (2024). The report introduces many concrete examples of financial institutions' efforts.

(Reference) Monitoring Report for Improving Internal Audits of Financial Institutions (2024)
<https://www.fsa.go.jp/news/r6/ia/20240910.html> (Available in Japanese)

- Efforts for improving internal audits will not bear fruit unless top management takes the initiative in the allocation of management resources, in particular. Top management is expected to reform their way of thinking and attitude toward making the improvement.
- Based on the three perspectives* for the improvement of internal audits, which were indicated in the Progress Report published in October 2023, the FSA will encourage financial institutions to make efforts for improving their internal audits through monitoring.

* Three perspectives

- (i) Support for the internal audit function by management teams, audit committee members, and corporate auditors
- (ii) Improvement of the audit system and strengthening of the audit infrastructure for the internal audit function
- (iii) Promotion and spread of understanding of internal audits and fostering of risk ownership among audited departments

14. Publication of the "JFSA Strategic Priorities July 2024-June 2025"

- On Friday, August 30, 2024, we published the JFSA Strategic Priorities July 2024-June 2025, which compiles our policy direction and priority issues for FY2024.
- For the details of the incorporated initiatives, please see the outline posted on the following website. The FSA will
 - steadily implement ongoing measures for promoting Japan as a leading asset management center, and
 - aim to ensure the stability and reliability of the financial system and secure high-quality financial functions, while flexibly responding to changes in social and economic environment.

* Publication of the summary from the "JFSA Strategic Priorities July 2024-June 2025"

<https://www.fsa.go.jp/en/news/2024/20240913/20240913.html>

- Based on the JFSA Strategic Priorities, we would like to share awareness of the issues and have constructive dialogues with individual financial institutions. If you have any questions, worries, or recommendations, please feel free to contact us.

15. Japan Weeks

- In 2024 as well, from Monday, September 30, various events were held as Japan Weeks 2024 to broadly disseminate information on policy measures for achieving an international financial center or otherwise promoting Japan as a leading asset management center and the attractions of Japan as a financial capital market.

16. Efforts for sustainable finance

- The Expert Panel on Sustainable Finance published its fourth report in July 2024.
- The Expert Panel on Sustainable Finance will have discussions on specific investment opportunities in light of characteristics and other factors of investors, and will provide investors with opportunities and information to enable them to realize the basic significance and effects of sustainability-themed investing. We appreciate your opinions on this issue.

17. Japan Financial Literacy and Education Corporation

- The Japan Financial Literacy and Education Corporation (J-FLEC) was established in April 2024 and it commenced full-fledged operation in August.
- From now on, J-FLEC will play the central role in efforts for disseminating a broad range of financial and economic education throughout the nation, while considering how to prevent and take measures against financial disputes.
- J-FLEC has already started to accept consultations on family budget management by phone, the publication of lecture materials and applications for lectures on

demand. It plans to start free trials for private consultations this fall.

18. NISA program

- After rapid fluctuations of stock prices, etc. in early August 2024, the FSA issued a circular again on Tuesday, August 6, 2024 to financial institutions regarding points to note when they disseminate information on the NISA program and respond to customers who conduct transactions using NISA accounts.
- Financial institutions are expected to respond to customers properly so that they can understand the significance of long-term, installment, and diversified investments and build their assets without worries even amid large fluctuations in stock markets and exchange markets.

19. Handling of NISA accounts when leaving Japan

- The government has put in place a system for the NISA program to permit a person, who temporarily leaves Japan due to a transfer order or other unavoidable circumstances, to receive tax exemptions continuously for a certain period of time by undergoing relevant procedures in advance.
- However, responses in such a case vary by financial institution. Financial institutions are requested to take measures, such as publicizing on their website information regarding how they handle NISA accounts of customers who leave Japan or providing sufficient explanations to customers upon opening accounts, so that proceeds of such customers are not paid out to accounts subject to taxation.

20. Requests for tax reforms

- On Friday, August 30, 2024, the FSA published its requests for FY2025 tax reforms. Major requests are as follows.

[(i) Measures for promoting Japan as a leading asset management center]

- Enhancement of the convenience of the NISA program

- Required taxation measures accompanying the review of corporate pension and personal pension plans
- Review of the requirements for payment in kind for inheritance tax for listed shares
- Unification of taxation on income earned from financial instruments

[(ii) Measures for achieving an international financial center]

- Review of the procedures for tax treaties, etc. toward the vitalization of cross-border investment

[(iii) Measures for achieving safe livelihood of the people]

- Expansion of the life insurance relief system
- Enhancement of the extraordinary contingency reserve system for fire insurance, etc.

21. Asset Owner Principles

- The Asset Owner Principles, common principles concerning asset owners' operation, governance and risk management, were finalized after undergoing a public comment process and were published by the Cabinet Secretariat on Wednesday, August 28, 2024.

* Publication of the summary from the "JFSA Strategic Priorities July 2024-June 2025"

<https://www.fsa.go.jp/en/news/2024/20240913/20240913.html>

- Financial institutions are expected to offer support based on the purport of the Principles to customer asset owners so that they can properly fulfill their fiduciary duty.
- Banks, etc. that hold a defined-benefit corporate pension plan are requested to consider the acceptance of the Principles from the asset owners' standpoint.