

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

November 19, 2024

1. Present circumstances surrounding securities companies

- Financial results for the first half of FY2024 (April to September) published by major securities companies generally showed favorable business performance, thanks to a steady influx of funds mainly for investment trusts and unwinding of cross-shareholdings throughout the term.
- According to securities companies, the investors maintained relatively calm attitudes during this term, despite the volatile market condition in early August, owing to efforts by their retail sales departments, such as the provision of consulting services regarding medium to long-term asset formation and follow-ups after sale. On the other hand, we understand that NISA users and others with little investment experience voiced their concern.
- Securities companies are playing significant roles in promoting Japan as a leading asset management center by providing customers with financial instruments that will contribute to their best interest. We expect securities companies to continue efforts to maximize customers' interest through even more meticulous services, by such means as confirming the needs and risk tolerance of individual customers, providing explanations on the characteristics and important points regarding financial instruments, and following up with customers after sale.
- We cannot deny the possibility of rapid volatility occurring again in financial markets that may be caused by various changes in domestic and international circumstances, and the FSA is keeping an eye on market trends. Securities companies are requested to continue serving customers courteously, providing detailed explanations, asking for calm responses, and providing information appropriately on a timely basis, so that customers can steadily build assets through long-term and diverse investments.
- Top management should pay attention to the whole company, including front-line sales personnel, occasionally check whether business operations are performed

properly, and conduct a review as necessary without hesitation, thereby endeavoring to ensure the provision of better customer services.

2. Countermeasures against investment fraud (establishment of a point of contact to receive information on false advertising, etc.)

- We have talked about damage due to fake advertisements, etc. on SNS, such as advertising impersonating prominent people, etc., on several occasions in light of the "Comprehensive Measures for Protecting People from Fraud (provisional English title)," which was compiled by the national government in June 2024. In September, we issued a written request to ask for the collection of information on fake advertisements impersonating the JSDA and its members, demands for deletion of fake advertisements, etc., and submission of reports to the FSA.
- The Comprehensive Measures provides that the national government will
 - clarify the fact that acts of posting fake advertisements impersonating prominent people, etc. or other advertisements on SNS with the intention of committing investment fraud, which serve as an entrance for solicitation for financial instruments transaction contacts, may fall under illegal financial instruments business when a series of relevant acts is comprehended as a whole; and
 - develop a system to collect information on such fake advertisements on SNS and promote initiatives in collaboration with SNS providers and others to call for investors' attention.
- Regarding the former, the FSA will amend the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. to clarify cases where the posting of advertisements and other displays by unregistered financial instruments business operators may be considered illegal.
- Regarding the latter, on October 1, the point of contact to receive information on advertisements and other displays, that are suspected of being investment fraud on SNS was established in the FSA. The point of contact will broadly receive information from the general public concerning fake advertisements, etc. on SNS with the intention of committing investment fraud, such as complaints that a person received solicitation for investment or advice on investment, or has sustained damage due to investment fraud, triggered by fake advertisements, etc.

- The FSA scrutinizes the content of the information received at the point of contact and has already started to provide some SNS providers with information regarding identified fake advertisements, etc. on SNS for which acts that may constitute violation of the Financial Instruments and Exchange Act are found so that the relevant fake advertisements, etc. may be deleted, with the aim of preventing further expansion of damage.
- When collecting information as we requested in September, if you receive inquiries from customers, etc. about damage from investment triggered by fake advertisements, etc. on SNS impersonating prominent people or famous companies, etc., please suggest them to also provide information to the point of contact established in the FSA.

3. Japan Weeks

- The FSA held Japan Weeks 2024 by setting September 30 to October 4 as the core week. This year, 70 events, far more than the 25 events in the previous year, were held and attracted many people. We would like to express our appreciation to all those who offered cooperation in preparation, implementation, and promotion of the events.
- For the National Securities Conference and the Asset Management Forum Japan, in particular, we received messages from Prime Minister Ishiba and Finance Minister Kato as follows: "The new administration has succeeded to the former administration's policy for promoting Japan as a leading asset management center and will further strengthen this initiative, and has also set the achievement of a status as a major investment nation as one of the major pillars of national economic policies, aiming to attract investments both from inside and outside of Japan, including investments in local companies."
- Specifically, regarding the financial sector, the policy to promote the following was announced:
 - To encourage a broader range of households to build assets stably on a long-term basis;
 - To have companies strengthen their governance and business reform, thereby

promoting sustainable, structural wage increase and investment;

- To facilitate fund supply to fields with sufficient growth potential (investment and lending for regional revitalization and solutions to social problems, and investment in startups, etc.).
 - To strengthen the functions of asset owners, such as asset management businesses and pension funds, that intermediate households and companies and their economic activities to ensure a proper fund supply and appropriate return of investment results to households.
- What is important regarding the Japan Weeks is not merely how many events were held or how many people participated, but how we can utilize and reflect the results of active discussions and significant opinions obtained from various people in our future actions for promoting Japan as a leading asset management center and achieving a status as a major investment nation. In that sense, the FSA would like to closely follow up on relevant initiatives. Financial institutions are expected to continue offering collaborative cooperation.

4. NISA Promotion Strategy Council (2nd meeting)

- In response to the rapid stock market fluctuations in early August, the second meeting of the NISA Promotion Strategy Council was held on Tuesday, October 29, in order to share information and exchange views on the following matters:
- Results of the analysis of the trends of individual investors;
 - Examples of responses and challenges of individual industry segments (financial institutions) at the time of rapid stock market fluctuations;
 - Efforts for promoting financial and economic education.
- At the Council meeting, members introduced their day-to-day efforts and concrete examples.
- The FSA requested the following from members of the NISA Promotion Strategy Council:
- Distributors and financial institutions that develop financial instruments are to develop a control environment for properly responding to customers, including a control environment for normal times.

- The public and private sectors are to collaborate to develop a system for ascertaining the situation upon rapid stock market fluctuations (status of transactions of financial instruments through NISA accounts, status of inquiries and complaints from customers, etc.).
 - Financial institutions are to provide financial and economic education on a regular basis by fully utilizing the activities of J-FLEC and others, while taking full advantage of their contact with customers (holders of NISA accounts).
- We appreciate your continued cooperation.

5. Publication of the report of the Study Group on Deposit-Taking Institutions' Response to Post-Quantum Cryptography

- It is pointed out that the safety of public key cryptography, which is broadly utilized at present, will be compromised when cryptographically relevant quantum computer becomes available. Accordingly, transitions to post-quantum cryptography (PQC) have been discussed in and outside Japan.
- In response, the FSA held three meetings of the Study Group on Deposit-Taking Institutions' Response to Post-Quantum Cryptography* (the Study Group) from July to October 2024 in order to deepen discussions with related parties on recommendations, challenges, and points to note when considering a transition to PQC.
- * The Study Group was joined by the representatives of Japan's three megabanks and the industry associations of deposit-taking institutions, and experts on cryptography as members, as well as the Financials ISAC Japan, the CRYPTREC Secretariat, the FISC, the Financial System and Bank Examination Department of the Bank of Japan, and the NISC as observers.
- A transition to PQC requires a large amount of resources for a long term, such as for establishing an inventory of information assets that may be exposed to threat due to the compromise of the safety of existing cryptography, setting priorities depending on the significance of such assets, and making IT system investment. Therefore, organization-wide efforts under the leadership of top management are necessary. Although the primary focus of the report is placed on deposit taking institutions, it is a useful was reference for financial institutions other than deposit-taking institutions from the perspective of urging top management to correctly recognize risks and properly take measures to mitigate those risks. Top management of financial institutions is encouraged to refer to the report of the Study Group (published in November 2024*).

* (FSA's website) <https://www.fsa.go.jp/news/r6/singi/20241126.html> (Available in Japanese)

6. Questionnaire survey on distributors' implementation status of customer-oriented business conduct

- On October 4, 2024, the FSA issued a questionnaire survey concerning customer-oriented business conduct to sales companies.
- Financial institutions are recommended to utilize this questionnaire survey as an opportunity to review their own sales and management systems, etc. The FSA conduct interviews regarding the questionnaire survey results.

7. Publication of the List of Financial Services Providers relating to customer-oriented business conduct

- The FSA regularly updates and publicizes the list of "financial service providers" that adopted the "Principles for Customer-Oriented Business Conduct." Recently (on September 27, 2024), the latest version was publicized (listed 1,050 financial service providers).

* Regarding the acceptance of reports based on the amendment of the "Principles for Customer-Oriented Business Conduct (September 26, 2024)," which is to add the supplementary principles for product governance, a notice will be issued in 2025.

- Financial institutions are expected to independently devise a means to provide customers with high-quality customer-oriented financial instruments and services under the policies they have individually formulated, aiming to achieve best practices.
The FSA will check how the policies have been disseminated among sales staff and how they are being implemented through dialogues.

8. Outcome of the G20 and G7 Finance Ministers and Central Bank Governors Meetings in October

- The G20 Finance Ministers and Central Bank Governors Meeting was held in Washington, D.C. from October 23 to 24, 2024. Major outcomes related to the

financial sector in the Communiqué published after the meeting are outlined below:

- First of all, members reaffirmed their commitment to address the timely implementation of international financial reforms. In particular, the agreement by the Group of Central Bank Governors and Heads of Supervision (GHOS) in May 2024 to implement all aspects of the Basel III framework in full, consistently, and as soon as possible was also reaffirmed by G20 members.
- On non-bank financial intermediation (NBFIs), members expressed support for the work of the Financial Stability Board's (FSB's) and the Standard Setting Bodies (SSBs) to address vulnerabilities and enhance the resilience of NBFIs. Members looked forward to the recommendations to address vulnerabilities from NBFIs leverage and expressed support for the implementation of the FSB's revised policy recommendations to address vulnerabilities arising from liquidity mismatch in open-ended funds and the policy recommendations to enhance the resilience of money market funds.
- On cross-border payments, members reiterated their commitment to a timely and effective implementation of the Roadmap to achieve global targets.
- On crypto-assets, members welcomed the first status report on the G20 Crypto-Asset Policy Implementation Roadmap. Members also reaffirmed their support for the Financial Action Task Force's (FATF's) work to accelerate the global implementation of its Standards and to monitor the impacts on the financial integrity of emerging risks from DeFi arrangements, stablecoins, and peer-to-peer transactions.
- Lastly, on sustainable finance, building upon the G20 Sustainable Finance Roadmap, members endorsed the 2024 G20 Sustainable Finance Report. Members also welcomed the high-level principles on reliable, robust and just transition plans for financial institutions and other corporate firms, which are voluntary and non-binding.

○ The G7 Finance Ministers and Central Bank Governors Meeting was held on October 25, 2024. In addition to the above, the Statement published after the

meeting includes the following related to the financial sector:

- On cybersecurity, members welcomed the work of the G7 Cyber Expert Group (CEG) to strengthen response capability and prepare for the future. In this respect, members recalled the successful completion of the cross-border coordination exercise conducted in April 2024.

9. Financial measures in response to the disaster, etc. caused by the heavy rains from November 8, 2024

- We express our condolences and sympathies to victims of the disaster, etc. caused by the heavy rains from November 8, 2024.
- The Disaster Relief Act is applied to Kagoshima Prefecture in relation to the disaster, etc. caused by the heavy rains, and the Kyusyu Local Finance Bureau, jointly with the Bank of Japan, issued a notice requesting financial measures to relevant financial institutions, etc.
- Financial institutions in disaster-affected areas are requested to ascertain disaster victims' opinions and needs and offer support meticulously from their standpoints based on the issued requests.