

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

January 14, 2025

1. Whole picture of the initiative to promote Japan as a leading asset management center

- The national government has been taking various measures to break away from the deflation that had lasted over the last quarter century and make a shift to a "growth-oriented economy driven by wage increases and investment." The initiative to promote Japan as a leading asset management center backs up such moves from a financial aspect.
- The Prime Minister and the Minister of State for Financial Services have expressed their commitment to further strengthening and developing this initiative, and the FSA will continue its efforts in line with such policy in order to ensure steady progress of the initiative to promote Japan as a leading asset management center.
- As part of this initiative, the FSA has introduced the new NISA program, has been strengthening financial literacy and education, and has been promoting asset ownership reform and corporate governance reform. The FSA is now feeling substantial changes in people's mindset and a shift from savings to investment. The FSA would like to promote measures to maintain this strong momentum, while properly responding to changes in society and the economy.
- Securities companies are expected to support fund procurement of companies with growth potential as capital market intermediaries, and play a significant role in promoting households' stable asset building and continuously advancing various measures for promoting Japan as a leading asset management center.
- People who newly start investment are expected to increase further in the future. We request securities companies to continue efforts to disseminate the importance of long-term, accumulated, and diversified investments among people and develop a favorable environment to enable people to build their assets without anxiety.
- In order to promote the environmental development, the FSA has enacted a law that

provides for financial businesses' duty of good faith and fair dealing in consideration of best interests of customers, and also revised the Principles for Customer-Oriented Business Conduct from the perspective of product governance for ensuring the provision of financial instruments and services for best interests of customers, and finalized and published the revised Principles last September.

- It is very important for distributors and originators to have constructive communication and make responses jointly to ensure product governance. Securities companies are requested to understand the purport of the Principles and devise a means to provide better financial instruments.

2. Customer services

- The amended Act for Eliminating Discrimination against Persons with Disabilities was put into effect in April 2024, and the obligation to respond to requests from persons with disabilities seeking the elimination of social barriers within a reasonable scope (= the provision of reasonable accommodation) came to be imposed on companies. Given this background, the FSA revised 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, and in the training video prepared by the Japan Securities Dealers Association, FSA personnel provide explanations as lecturers, as requested by the association.
- For example, in the procedures for opening an account of a visually impaired person or a person who has difficulty in filling an application form themselves, if a staff member of the financial institution appropriately confirms the person's will, and fills in an application form for that person while taking such measures as obtaining a confirmation of a superior, having a superior present, or recording the procedures, such conduct is considered to fall under the provision of reasonable accommodation.
- Based on the purport of the Act for Eliminating Discrimination against Persons with Disabilities and the FSA's Guidelines, financial institutions are expected to make efforts not only to develop internal rules but also disseminate them among staff members to improve their ability through in-house training or other means, and endeavor to further increase convenience for users and ensure friendly services for

persons with disabilities.

3. Results of the survey on the use of NISA (as of the end of September 2024)

- As of the end of September 2024, the number of NISA accounts is approx. 25.09 million and the total purchase amount reached approx. 49.0 trillion yen. During the period from January to September 2024, the number of accounts and the purchase amounts increased approximately 2-fold and more than 3-fold, respectively, from the levels during the same period in 2023, and at present, one out of four people aged 18 or older holds a NISA account.
- We would like to repeat our request to financial institutions to carry out PR activities on the new NISA program meticulously in an easy-to-understand manner so that people can appropriately utilize the program as one of the available means for building their assets stably, and to fully fulfill their fiduciary duty for customers.

<Points to note in carrying out PR activities>

To carry out PR activities so that users can properly understand the following as a premise to start asset building:

- The fact that it is important for users themselves to forecast possible fund needs based on their individual life plans and life stages and fully consider in what manner they should build their assets accordingly;
- The significance of long-term, installment, and diverse investments, and the fact that an investment involves various risks and the possibility of a loss of principal; and
- The fact that for building assets, it is important to utilize various methods and systems, including options other than the NISA program, by appropriately combining them

<Points to note in customer services>

To fully fulfill their fiduciary duty for customers, taking into account the following in particular:

- Confirmation of the needs and risk tolerance of individual customers;

- Meticulous explanations on the characteristics and points to note, etc. regarding financial instruments that they propose or sell to customers; and
- Follow-up of customers after selling financial instruments

4. Results of requests for the FY2025 tax reform

- For the FY2025 tax reform, the FSA made requests regarding the following:
 - Realization of the Doubling Asset-based Incomes Plan and promotion of Japan as a leading asset management center;
 - Realization of an international financial center as an international financial hub for Asia and the whole world; and
 - Insurance-related matters for achieving safe livelihood of the people;
- As a result, the Tax Reform Outline compiled by the ruling parties, which was publicized on December 20, 2024, includes the measures for the following major requests of the FSA:
 - Enhancement of the convenience of the NISA program; and
 - Required taxation measures accompanying the review of corporate pension and personal pension plans
- With regard to the enhancement of the convenience of the NISA program, it will be made possible to conduct purchases on the day of changing financial institutions, and in an "installment investment quota," the method of purchasing the maximum number of units within the predetermined amount will become available, in addition to the conventional purchase method (fixed-amount purchase). Through the introduction of such flexible purchase method, it is expected that more diverse financial instruments are to be provided.
- As taxation measures accompanying the review of corporate pension and personal pension plans, the maximum contribution amount for the corporate-type defined contribution plan and iDeCo for company employees was raised by 7,000 yen in light of recent wage increases, and as a result, the maximum contribution amount for iDeCo will increase by approx. 3 times at a maximum. At the same time, the maximum contribution amount for iDeCo for self-employed individuals was also

raised by 7,000 yen.

- With regard to "financial institutions' confirmation of customers' locations, etc. upon the elapse of 10 years after opening a NISA account," the Tax Reform Outline states that the way of confirmation will be discussed, while paying attention to burdens on financial institutions, including the deliberations on effective alternative measures to prevent transactions by unqualified persons.
- There are still matters that we should continue deliberating on. We would like to take necessary actions for those matters from now on.

5. Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth – Increasing Current and Future Wages and Incomes for All Generations –

- In order to surely achieve the transition to a "growth-oriented economy driven by wage increases and investment," the national government formulated "Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth – Increasing Current and Future Wages and Incomes for All Generations –" on November 22, 2024.
- The Comprehensive Economic Measures compiles various measures to be taken by the national government in line with three pillars: (i) Growth of Japan and regional economies - Increasing current and future wages and incomes for all generations; (ii) Overcoming high prices - Establishing a path to a growth-oriented economy where no one is left behind; and (iii) Ensuring the safety and security of the people - Laying the groundwork for the transition to a growth-oriented economy.
- The following measures are incorporated in relation to the FSA:
 - To promote corporate governance reform and initiatives for the Special Zones for Financial and Asset Management Businesses, convey the appeal of Japanese markets through events during Japan Weeks, enhance financial and economic education in local communities in collaboration with J-FLEC, etc. with the aim of promoting Japan as a leading asset management center;
 - To develop an environment for supporting the financing of startups through a review of regulations on solicitation of unlisted shares targeting professional

investors, and further expansion and dissemination of impact investment; and

- To promote matchmaking between large companies' human resources and regional second-tier companies and SMEs by the use of REVICareer (human resources platform developed by the Regional Economy Vitalization Corporation of Japan (REVIC)).
- The FSA will implement these initiatives steadily so that it can contribute to the sustainable economic growth of Japan. We appreciate your understanding and cooperation.

6. Japan Fintech Week 2025

- The FSA will hold Japan Fintech Week 2025, by setting March 3 to 7 as the core week, with the aim of catalyzing business opportunities and fostering the continued growth of fintech innovation.
- In the first Japan Fintech Week held in March 2024, various bodies in the public and private sectors held relevant events, and a total of more than 13,000 people participated from Japan and other countries. In collaboration with the FinTech Association of Japan, which is joining as an organizer for the first time, we would like to expand the contents and create opportunities for financial institutions, FinTech companies, investors, and other stakeholders to further strengthen mutual collaboration.
- The advancement of technologies, such as generative AI technology, is amazing, and financial institutions are expected to make positive efforts to achieve innovation, in light of potential risks involved in new technologies and also risks of not taking on a challenge. During the Week, multifaceted discussions and networking are scheduled under such themes as AI, digital assets, the leading asset management center, money transfers and payments, enhancement of compliance, etc.
- The details of the events will be updated as needed on the official website. We have prepared various contents that will attract the attention of a broad range of people, from managerial personnel to front-line personnel. We look forward to your positive participation.

(Reference) Outline of the Japan Fintech Week 2025

➤ Date: March 3 (Mon.) to 7 (Fri.), 2025 [core week]

- Venues: Various locations in Tokyo and other large cities in Japan
- Organizers: Financial Services Agency and FinTech Association of Japan
- Website: https://www.fsa.go.jp/policy/japanfintechweek/2025/index_en.html

(Reference) Outline of the FIN/SIM

- Date: March 4 (Tue.) to 7 (Fri.), 2025 [Four days] 9:00-18:00
- Venue: Marunouchi Hall (The archive is to be delivered at a later date.)
- Organizers: Financial Services Agency and Nikkei Inc.
- Website: https://www.finsum.jp/en_index.html

7. Initiatives based on the Basic Plan for the Promotion of Policies on Dementia

- On December 3, 2024, the Basic Plan for the Promotion of Policies on Dementia was decided at a Cabinet meeting, with the aim of promoting policies relating to dementia in a comprehensive and planned manner, based on the Basic Act on Dementia to Promote an Inclusive Society. The Basic Plan incorporates the following policies:
 - Promotion of the fostering of dementia supporters;
 - Promotion of the development and dissemination of services friendly to persons with dementia; and
 - Awareness-raising activities to prevent damage on elderly persons with dementia in their life as a consumer, such as due to phone frauds, etc. targeting them.
- Following the efforts so far based on the National Framework for Promotion of Dementia Policies, which was formulated in 2019, financial institutions are requested to endeavor to provide financial services friendly to persons with dementia based on the purport of the Basic Act on Dementia to Promote an Inclusive Society, which is to enable those with dementia to live in dignity with a sense of purpose.

8. Japan Climate Transition Bonds

- Since February 2024, the Japanese government has repeatedly issued Japan Climate Transition Bonds (CT Bonds) as the world's first transition bonds. We evaluate that they have been accepted by a broad range of investors, and understand that a considerable number of investors have publicized on their websites, etc. the fact that they have invested in CT Bonds.
- The issuance of CT Bonds is a pioneering initiative in global terms and the Japanese government has been putting its energy into this.

9. Countermeasures against phishing

- Damages due to fraudulent transfer of deposits in Internet banking, allegedly caused by phishing, increased rapidly in 2023 (5,578 cases with the total damage of approx. 8.73 billion yen). Damages remain at a high level in the first half of 2024 (1,728 cases with the total damage of approx. 2.44 billion yen). Damage has occurred not only at deposit-taking institutions but also among customers of other types of financial institutions.
- The FSA, in collaboration with the National Police Agency, has called attention of general users about phishing. In addition, the FSA has repeatedly issued requests to financial institutions to strengthen their countermeasures against phishing. The government compiled the “Comprehensive Measures for Protecting People from Fraud”^{*1)} as decided by ministers in June 2024, which includes the promotion of the use of Domain-based Message Authentication, Reporting and Conformance (DMARC^{*2)}), facilitation of takedown of phishing sites, and promotion of the use of passkeys^{*3)} as measures to strengthen countermeasures against phishing.

*1 Comprehensive Measures for Protecting People from Fraud (Ministerial Meeting Concerning Measures against Crime; June 18, 2024)

<https://www.kantei.go.jp/jp/singi/hanzai/kettei/240618/honbun.pdf> (Available in Japanese)

*2 DMARC (Domain-based Message Authentication, Reporting, and Conformance): A technology to comprehensively authenticate a sender's domain by using the results of the authentication of SPF and DKIM. DMARC is one of the technologies to verify whether the email received was sent from a legitimate sender. A domain administrator can declare how to handle an email for which the authentication failed as the DMARC policy on the sender side, which enables the domain administrator to present a strong policy of refusing to receive any spoofed email to the receiver side.

*3 Passkey: An authentication technology that does not require passwords. As their authentication function does not work on phishing sites or any websites other than the legitimate website, passkeys are considered to be able to effectively reduce the risks of leakage of authentication technologies.

- In light of the increasing damage from phishing fraud and the “Comprehensive Measures”, the FSA issued a notice to request financial institutions to strengthen countermeasures against phishing, in collaboration with the National Police Agency (issued on 24th December , 2024).
- Although financial institutions have been strengthening their countermeasures against phishing, but they should put in place sufficient preventive measures, instead of taking measures after damage has occurred, in consideration of the circumstances

where phishing tactics are becoming more and more sophisticated. In order to ensure customer-oriented business management, it is essential to protect customers' assets. If countermeasures against phishing are found to be insufficient, management should demonstrate leadership in facilitating proper actions.

10. Working Group on Improving Internal Audits of Financial Institutions

- From January 2025, the FSA will hold the Working Group on Improving Internal Audits of Financial Institutions with the cooperation of the Japan Securities Dealers Association and other industrial associations and external experts.
- At the Working Group, we would like to discuss levels of evaluations by stages and definitions, etc. to create a common view across business categories.
- Additionally, through discussions at the Working Group, we would like to present viewpoints that encourage improvements in the internal audits of entire financial institutions, that secure trust in them from domestic and foreign stakeholders, and that can also be utilized by non-financial institutions and overseas financial regulators.
- Effective internal audits are crucial preconditions for financial institutions to sustainably exercise their financial intermediary function in a proper manner. Therefore, management should strongly recognize the importance and usefulness of internal audits, discuss ideal internal audits in accordance with their individual sizes and characteristics, while referring to case examples that the FSA has introduced so far, and make constant efforts to enhance their internal audits.

11. Analysis of the Japanese stock market turbulence in August 2024

- On January 8, 2025, the FSA published the "FSA Analytical Notes (2025.1) vol.1," which presents the analysis of the Japanese stock market turbulence in early August 2024.
- Evaluating the impact of market fluctuations on financial stability is an important issue on the regulatory agenda. By using granular order/transaction level data of Nikkei 225 futures, the report analyzes the background and mechanism of the market turbulence at that time from various perspectives including market imbalances, concentration by specific entities and liquidity. We hope that market participants will use the report as reference material.

12. Publication of a document on the ideas and the way to proceed with dialogue on validation of the effectiveness of AML/CFT frameworks

- It is important for individual financial institutions to enhance the effectiveness of their basic framework for AML/CFT measures, which they had developed by the deadline set at the end of March 2024. The Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism requests financial institutions to verify their own AML/CFT frameworks and constantly review and make improvements to them.
- In order to promote financial institutions' efforts, the FSA is now preparing a document compiling ideas and case examples that will serve as reference when they verify the effectiveness of their AML/CFT measures.
- The FSA aims to publish the document around March 2025, and prior to that plans to seek public comments.
- Management of financial institutions should be aware of the necessity to start verification as requested by the Guidelines by stages in accordance with risks and take actions proactively, instead of waiting for the publication of the FSA's document.

13. Government-wide efforts to strengthen cybersecurity

- From June to November 2024, the Cabinet Secretariat held meetings of the Expert Panel toward Improving Response Capabilities in the Field of Cybersecurity, and the recommendations of the Expert Panel were presented on November 29, 2024.

* Expert Panel toward Improving Response Capabilities in the Field of Cybersecurity
https://www.cas.go.jp/jp/seisaku/cyber_anzen_hosyo/index.html (Cabinet Secretariat's website; Available in Japanese)

- In the government-wide initiative to develop a system in response to the recommendations, the FSA would like to continue to exchange views with the financial industry.

14. The IOSCO Board Meeting

- On November 7, 2024, the International Organization of Securities Commissions (IOSCO) held its Board meeting in Madrid, Spain. At the meeting, a wide range of issues were discussed, including sustainable finance, FinTech, non-bank financial intermediation (NBFIs), and investor protection, and the publication of various Final Reports and Consultation Reports was

approved.○ Among several Consultation Reports^(*1) published later, the following are particularly relevant to the Japan Securities Dealers Association: (i) the Consultation Report on Pre-hedging and (ii) the Consultation Reports^(*2) for liquidity risk management for Collective Investment Schemes (CISs) focusing on open-ended funds (OEFs).^(*1) Other than the above, the Consultation Reports on (i) Finfluencers, (ii) Online Imitative Trading Practices (Copy Trading, Mirror Trading, Social Trading), and (iii) Digital Engagement Practices were published on November 19, 2024.

(*2) The Consultation Reports on (i) Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes and (ii) "Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management" were published on November 11, 2024

- (i) The Consultation Report on "Pre-hedging" compiles the recommendations regarding the practice of market makers conducting hedge transactions before a trade is finalized when providing price quotes to clients. The recommendations include the establishment of policies and procedures for pre-hedging, clear disclosure of the practice, and obtaining prior consent from clients. Since they could impact the business operations of securities companies, and the JSDA should examine the details of this Consultation Report.
- (ii) The Consultation Reports for liquidity risk management for CISs focusing on OEFs propose revisions to the recommendations on liquidity risk management, etc.^(*3) published in 2018, taking into consideration the Final Reports published by the Financial Stability Board (FSB) and IOSCO^(*4) in December 2023.

(*3) "Recommendations for Liquidity Risk Management for Collective Investment Scheme" and "Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration"

(*4) "Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds" by the FSB and "Anti-dilution Liquidity Management Tools - Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes" by IOSCO

- The FSB and IOSCO intend to complete a stocktake by the end of 2026 with regard to the status of development of risk management structures by their member jurisdictions. The Investment Trusts Association, Japan, is primarily responsible for this matter, but the JSDA is also expected to proceed with proper actions toward implementation in Japan.

15. Publication of a report compiled by the FSB Transition Plan Working Group (TPWG)

- In recent years, companies (financial institutions and non-financial institutions) are showing increasing interest in transition plans as a tool to clarify their strategies on and management of climate-related risks. Transition plans are also utilized by stakeholders for the purpose of obtaining information on companies' approaches to the issue of climate change and transition.
- At the Transition Plan Working Group, which was established in the Financial Stability Board (FSB), members have had discussions under the initiative of Chair Ikeda, the FSA's Chief Sustainable Finance Officer, with regard to the correlation between transition plans and financial stability from the viewpoint of financial authorities, also based on the results of outreach activities targeting the financial industry. The Working Group has decided to compile and publicize its report.
- The report is not intended to make recommendations, but clarifies the objectives of transition plans, current practices of the industry, and the status of use of transition plans by foreign financial authorities, and compiles the results of deliberations on the limits, challenges, and potential of utilizing transition plans in the assessment of financial stability.
- The report will be publicized on the FSB's website soon, and will also be publicized on the FSA's website. Please refer to the text for details.

16. Financial measures in response to the disaster, etc. caused by the heavy snow from December 28, 2024

- The Disaster Relief Act is applied to part of Aomori Prefecture in relation to the disaster, etc. caused by the heavy snow from December 28, 2024, and the Tohoku 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.

17. Cases of misconduct by financial institutions

- Recently, cases of misconduct that may shake confidence in financial markets and financial institutions have occurred one after the other, including one involving staff of the FSA. We take such situation very seriously.
- Customers' trust is the most precious management capital for individual financial institutions. Financial institutions are requested to make their utmost efforts constantly under the initiative of management teams, such as developing internal management systems and giving thorough education to employees, so that people can use financial services without anxiety.