

JFSA's Initiative to Facilitate Fintech Innovation

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* Views are the speaker's and not necessarily identical to those of the FSA.

What we have done in Fintech space by now - JFSA

Based on the growth of FinTech innovation, regulatory framework is partially amended to adapt underlying Fintech environment, while consumer protection is properly ensured.



- **Amended the Banking Act and Payment Services Act, etc. (May 2016)**
 - Enable and facilitate financial group firms to invest in finance-related IT start-up companies
 - Establish a registration requirement for virtual currency exchangers
- **The Act to partially amend the Banking Act (May 2017)**
 - Facilitate open innovation between financial institutions and FinTech firms by utilizing open API architecture, while user protection is properly ensured.

Measures taken for Virtual Currencies (VC)

International key component for countermeasures against money laundering and terrorism financing

- **G7 Elmau Summit Leaders' Declaration (June 8, 2015)**
“We will take further actions to ensure greater transparency of all financial flows, including through an appropriate regulation of virtual currencies and other new payment methods.”
- **FATF (Financial Action Task Force) Guidance (June 26, 2015)**
“Countries should impose a registration or license system on exchanges that exchange virtual currency and legal currency, as well as imposing money laundering and terrorism financing regulations such as identity verification of the customers ”

Occurrences of bankruptcy incidents at exchanges

- Excessive liabilities
- The held funds or bitcoins are far less than the deposited funds and bitcoins by users
- In addition, generally, potential risks of damages to users due to lack of information, and leakage of user information

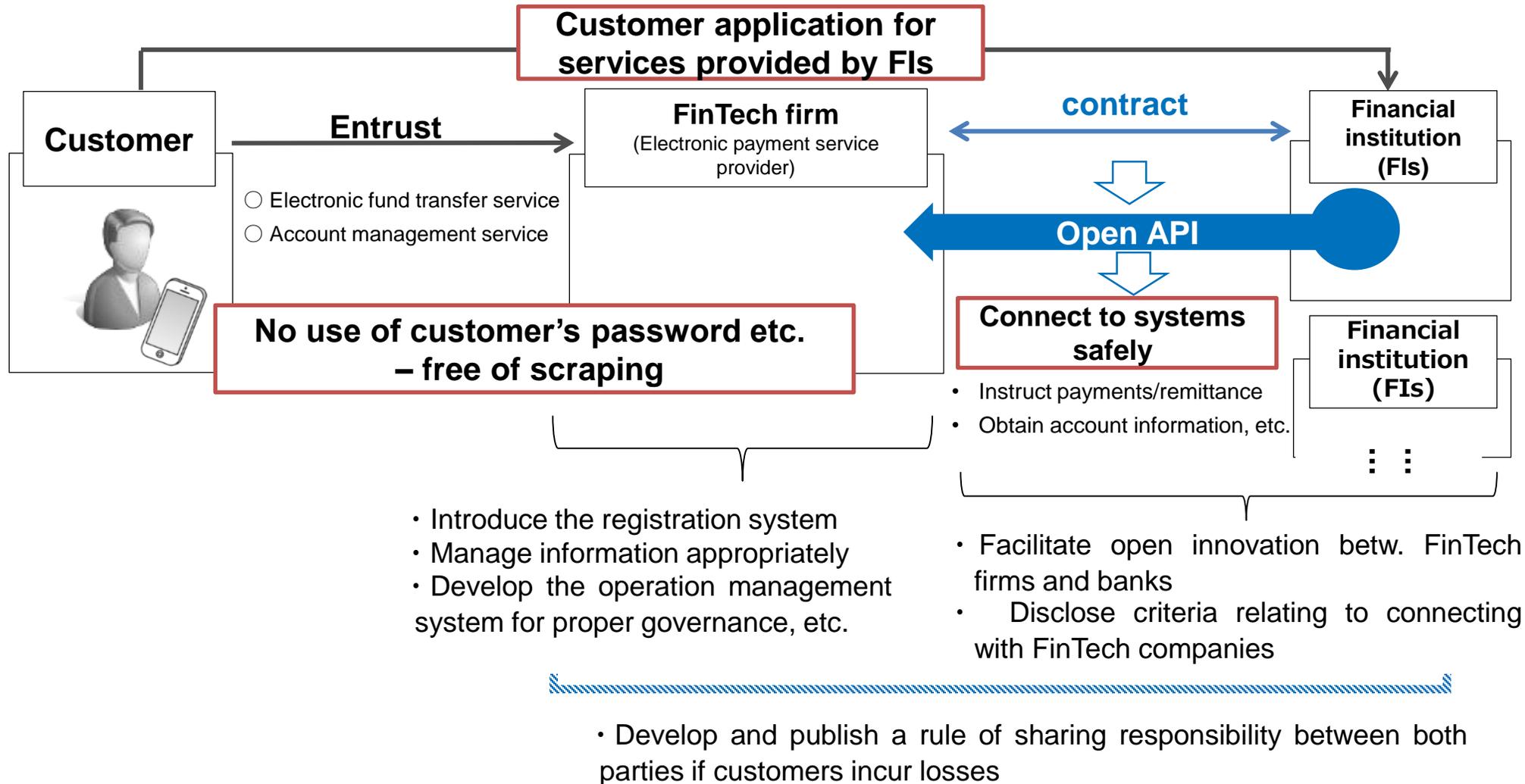
Institutional framework proposed by the report

- AML/CFT perspective
 - Customer identification/verification
 - Creation and preservation of customer verification and transaction records
 - Reporting of suspicious transactions to the competent authorities etc.
- Protection of customer confidence
 - Explanation and provision of information to customers (characteristics of VCs, their services, etc.)
 - Capital requirements (minimum capital, minimum net assets)
 - Segregation of their funds/VCs and those of their customers, etc.

Amendment to the Banking Act

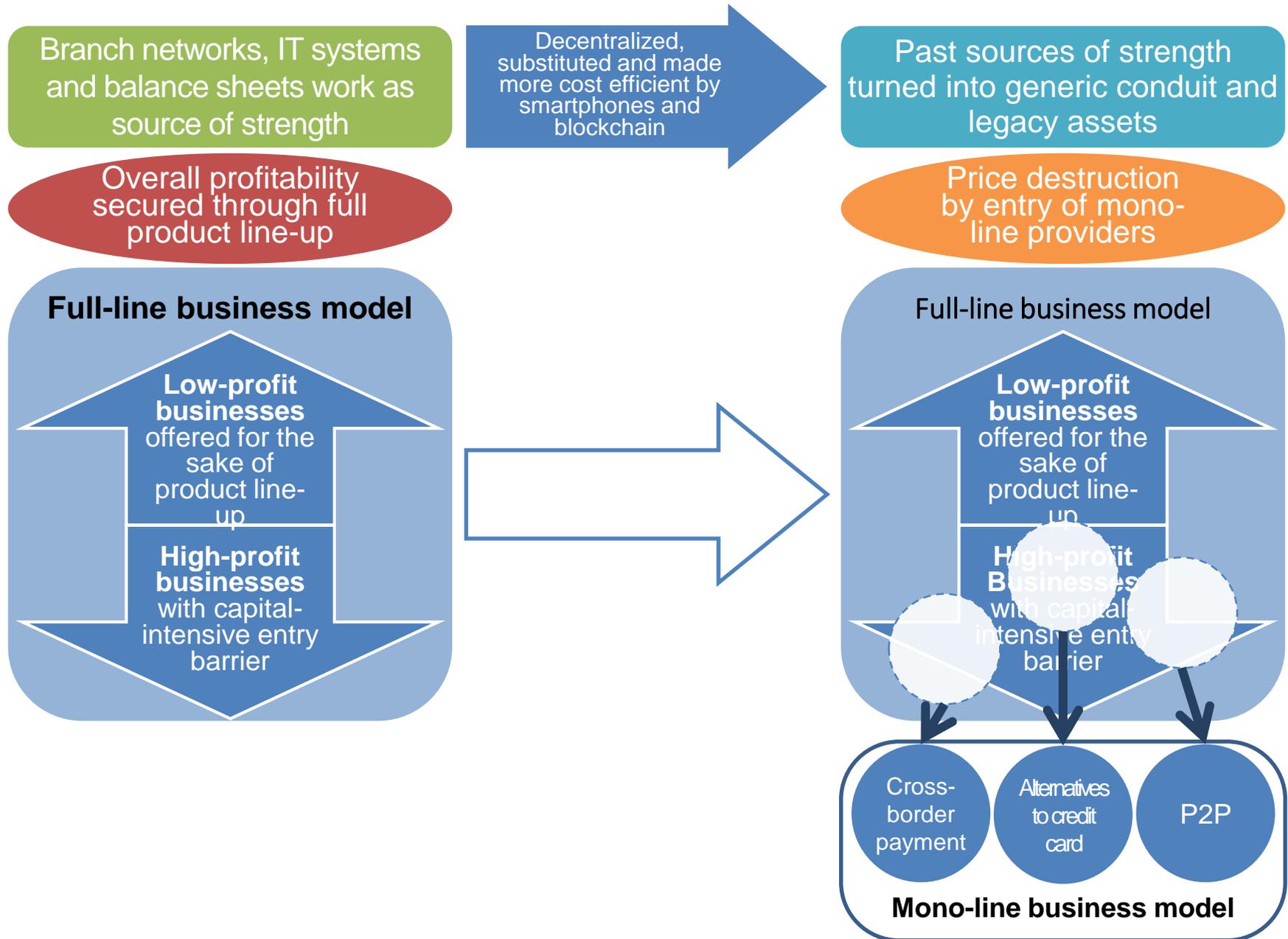
(passed on 26 May 2017 / promulgated on 2 June 2017)

After implementation (amendment)



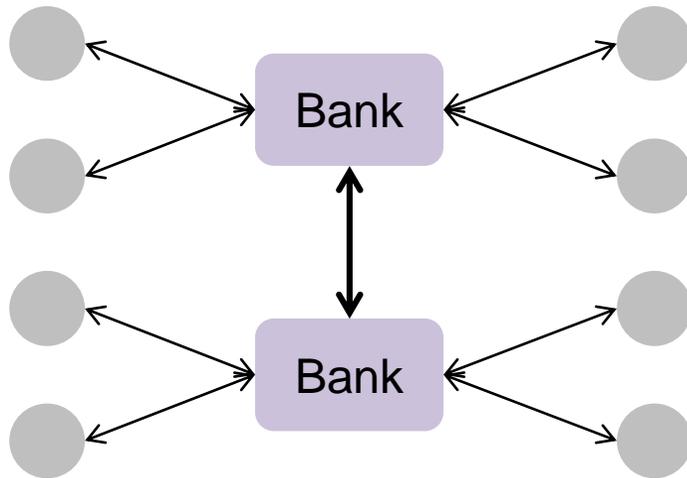
Open API: Publicly available application programming interface, creating an environment in which a wide range of FinTech companies can connect to financial institutions' systems while ensuring the information security of customers

Key players – Would infrastructure continue to protect incumbents ?

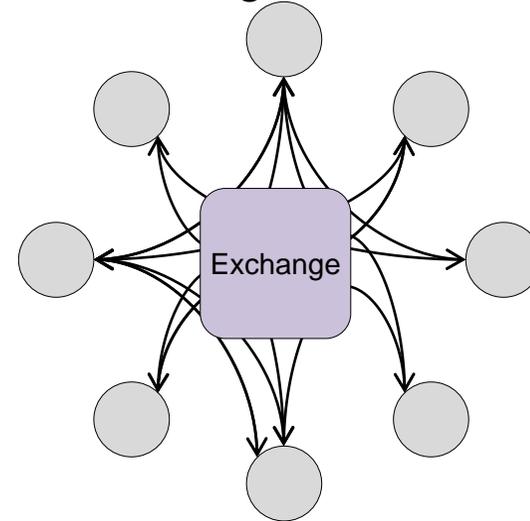


Future shape of financial network?

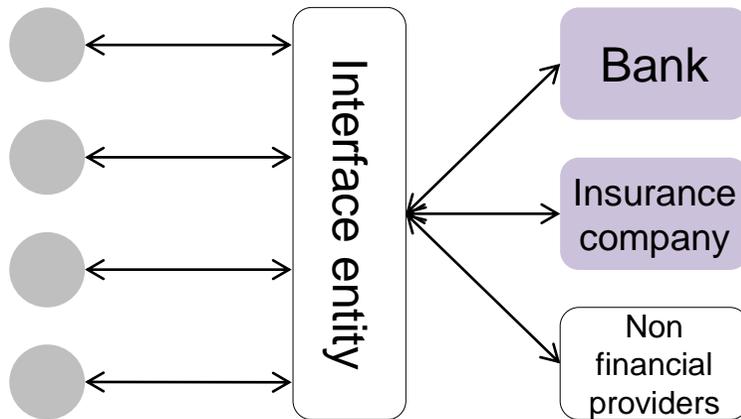
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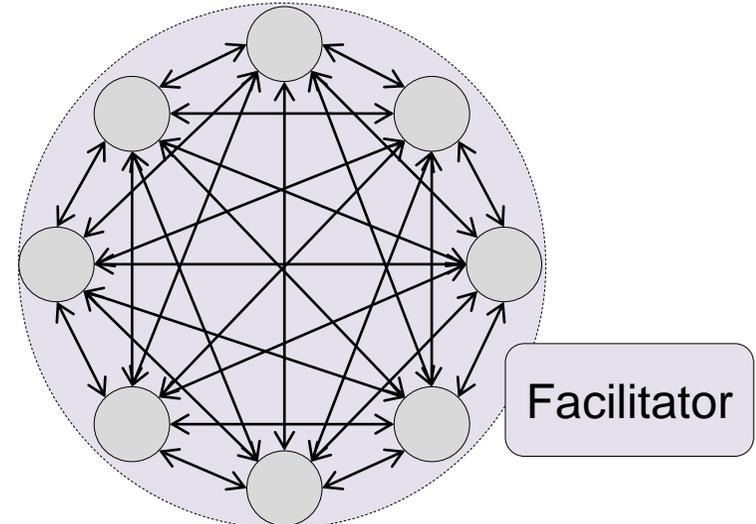
<Exchange centered>



<Interface entity based>



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- What are your expectations on the future shape of financial networks?
- What will be the factors determining the direction of change in the networks?

Changes in the circumstances surrounding the financial system

- IT Innovation (Business unbundling and rebundling)
- Growth of shadow banking
- Transforming and rebuilding their business models
- Emergence of digital currencies

Entity-based regulations

1. Most of regulations based on types of entities, banking, securities and insurance sectors
2. Sector-specific approaches are retained in regulation
3. Not fully sharing the common fundamental concepts in regulations



Function-based regulations

1. Identical regulations are to be applied in activities with the same functions and risks
2. Cross-sectoral common principles are to be established
3. Consider cross-sectoral review to accommodate changes in the circumstances surrounding the financial system

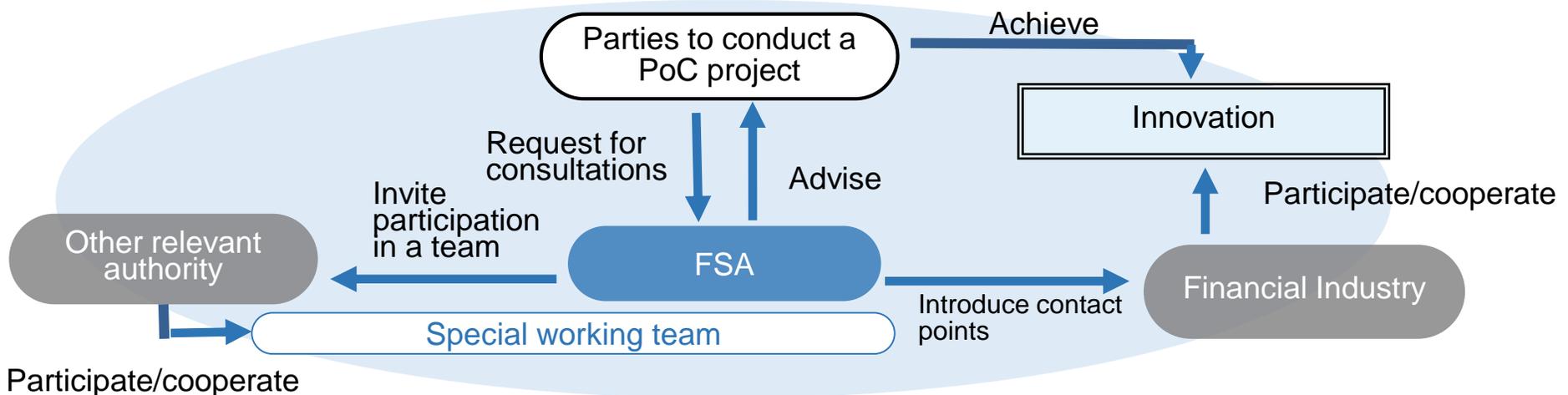
JFSA's Supporting Regime for Fintech Innovation

“FinTech Support Desk” (consultation desk) (established in Dec. 2015)

- Work as a one-stop contact channel for FinTech businesses
- Answer FinTech startups' queries within 5 working days (on average)
- Received 222 inquiries since its inception till end-June 2017 (12 inquiries per month on average)

“FinTech PoC Hub” (innovation hub) (established in Sep. 2017)

- Aim to support innovative projects that lead to user convenience and/or productivity of companies in Japan.
- For each selected proof-of-concept (PoC) project the FSA will set up a special working team, in cooperation with relevant authorities as necessary.
- A special working team will continually support a project by giving advice on issues related to compliance and supervision etc., that participants of a PoC project would like to clarify.



Strengthen an international cooperation network on Fintech

“FinTech Co-operation Framework”

- JFSA has Exchanged Letters on FinTech Co-operation Framework with FCA(UK), MAS(Singapore), ASIC(Australia), FSRA(Abu Dhabi) and FINMA(Switzerland).



Overview of Co-operation Framework

1

Referral Mechanism

2

Support to FinTech Companies

3

Information Sharing between Regulators

Facilitate innovative FinTech startup firms to expand their businesses using global regulatory network

“FinTech Summit”

- The JFSA held “FinTech Summit” in 2016 and 2017.
- We will hold “Fintech Summit this autumn.

FIN/SUM
FINTECH SUMMIT
WEEK 2017

