The Role of Global and Domestic Regulatory Framework in Forging Financial Markets
for Stable, Sustained and Inclusive Growth in the Asia-Pacific Region

Asia-Pacific Financial Forum 2015
January 27, 2015

Takashi Hamano
Assistant Commissioner for International Affairs
Financial Services Agency, Japan

*Any views expressed in this presentation are those of the speaker, and are not necessarily the official views of the FSA Japan.

1. Introduction

- Time for us to think about the role of financial regulation in the context of financial market developments rather than crisis resolution and management.
  - Progress has been made since the global financial crisis on regulatory reform.
  - Financial regulation plays a significant role in forging efficient and well-functioning financial markets.
2. Development of financial markets and the role of financial regulation

- A well-functioning and efficient financial market will stimulate investment in the region and contribute to sustainable economic growth.
- Proper financial cooperation and market integration will be the key to the development of financial markets.

Example of financial cooperation:
- ASEAN CIS (Collective Investment Schemes) framework
- Shanghai–Hong Kong Stock Connect
- Asia Region Funds Passport (ARFP)

Financial integration initiatives in the region:
- ASEAN Economic Community (AEC) Blueprint
- AFIF (ASEAN Financial Integration Framework)
2. Development of financial markets and the role of financial regulation (cont.)

- Regulators should play a role to ensure investor protection for cross-border offering and trading of financial products.
- Regulatory fragmentation and gaps will be key threats to progress toward more integrated financial systems and markets.
- Regulatory coordination/harmonization and some forms of deference to regulation and supervision by foreign authorities could be considered.
- Developing a new regulatory framework having the potential to affect financial markets should be considered carefully.

3. Progress in the global financial regulatory reform and remaining challenges

- 4 main pillars of the global financial regulatory reform:
  - Building resilient financial institutions,
  - Ending “too-big-to-fail”,
  - Transforming shadow banking into resilient market-base funding, and
  - Making derivatives markets safer.
- The reform work has increasingly entered into the implementation phase after the rule-making phase.
- HOWEVER, many of the reforms require further work in fleshing out the details, and providing transparency and accountability towards global stakeholders and market participants.
3. Progress in the global financial regulatory reform and remaining challenges (cont.)

- A holistic view of the cumulative and cross-sectoral impacts of the reforms on the financial markets should be analyzed and evaluated.
- Developing global regulatory standards would require a careful thought process together with a proper feedback mechanism.
- Differences in regulatory frameworks of jurisdictions and business models of financial institutions need to be fully taken into account.
- Regulation should be made proportionate to risks posed.

4. The impact of the global regulatory reform on Asia and the need to raise a common voice from the region

- Global regulatory reform would have a significant impact on the region.
- Asia has several region-specific features:
  - Bank lending is predominant in financing investment,
  - Household savings are concentrated in bank deposits,
  - Shadow banks are with relatively low leverage and are, in many cases, important sources of SME finance, and
  - OTC derivatives markets are small or under development.
- Asian regulators/supervisors should work together and effectively express a stronger regional voice in the discussions of the global financial regulatory reform.
4. The impact of the global regulatory reform on Asia and the need to raise a common voice from the region (cont.)

- Regional outreach groups set up by the FSB and the international standard setters:
  - FSB’s Regional Consultative Group for Asia
  - IOSCO’s APRC (Asia Pacific Regional Committee)
  - Basel Consultative Group
- Regional supervisory bodies:
  - AFIR (Asian Forum of Insurance Regulators)
  - EMEAP’s Working Group on Banking Supervision
- Through these various channels and others, we should make efforts to form and raise Asia’s common voices in framing international standards.

5. JFSA’s work for promoting financial market development in Asia

- Japanese Government’s “Japan Revitalization Strategy” (June 2014)
  - Support the development of financial infrastructure in other Asian jurisdictions.
  - Promote technical support to Asian countries for developing financial infrastructure to ensure smooth funding for overseas operations of Japan’s enterprises.
- JFSA established Asian Financial Partnership Center (AFPAC) in April 2014.
  - To enhance closer ties with Asian authorities to facilitate financial market development, and to ensure the integrity and stability of Asia’s financial systems and markets in the long run.
Thank you for your attention!

www.fsa.go.jp/en/