

The Role of Global and Domestic Regulatory Framework in Forging Financial Markets

**for Stable, Sustained and Inclusive Growth
in the Asia-Pacific Region**



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**Any views expressed in this presentation are those of the speaker,
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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.

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2. Development of financial markets and the role of financial regulation (cont.)

- 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)

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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.

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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.

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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.

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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.

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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 APCR (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.

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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.

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Thank you for your attention!



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