Panel Discussion 2

Rules and Regulations Development Trends

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* This presentation represents the presenter’s own views, and not necessarily those of JSDA
I. Changing regulatory environment

Lehman Shock
⇒ Global Financial Crisis

G20 and other forums

Global Regulatory Reforms

Subsequent changes in capital market environment underscore:

- a gradual shift from bank-lending to market-based financing
- importance of market integrity and fairness to secure investor confidence
II. Major regulatory reform agenda

- Curtailing excessive risks and ensuring proper risk management
  - Basel III (capital and liquidity requirements, leverage ratios, etc.)
- Detecting and preventing systemic risks
  - OTC derivatives (CCPs, margin requirement)
  - LEI
- Expanding regulations to cover unregulated entities and products
  - shadow banking, securitization, complex products
- Designating SIFIs to avoid “Too Big To Fail”
  - capital surcharge and resolution regimes
- Limiting business scope and size of banks
  - Volcker Rule, Ring-fencing
- Improving corporate governance
- Ensuring fairness and transparency in financial benchmarks
  (triggered by LIBOR incidents)

and More!
Ⅲ. Challenges of the ongoing regulatory reforms

Principal goal of regulatory reforms:

- Establishment of robust financial system avoiding a recurrence of the Crisis

Challenges emerging during the reforms:

- Well-balanced regulation to avoid negative impact on markets and real economy

- Cross-border regulatory harmonization
  - Issues like extraterritoriality emerging from difference in national regulators’ approaches
  - Establishment of IOSCO Task Force on Cross Border Regulation
IV. Implications for Asia

➢ Striking a balance between regulation and market development

⇒ Too stringent regulation may undermine the incentive to develop deep and liquid capital markets in Asian emerging markets

➢ Facilitating market-based financing to make up for decline in bank credit under tighter regulatory environment

⇒ In the changing regulatory environment, long-term financing for SMEs and infrastructure projects needs to be provided more through capital markets. This is particularly important for emerging growth economies in Asia.
V. Japan’s response to ongoing global reform

Japanese industry and government authorities:

- participated in the discussion at, and submitted comments to, international standard setters (G20, FSB, BCBS, IOSCO, etc.) making a case for the importance of well-balanced regulation, and

- provided comments to the US and European regulators pointing out concerns about extraterritoriality and recommending flexible application of substituted compliance and/or equivalence decisions to minimize the adverse impact on cross-border transactions caused by regulations that differ from one country to another.
VI. Measures taken in Japan (1)

1. Main measures in line with global regulatory reform

- FSA Notice amendment to comply with the Third Basel Capital Accord (implemented since Mar. 2013)

- Revamp of OTC derivatives regulation including use of CCPs (enforced in Nov. 2012) and electronic trading platforms (to be enforced by Sep. 2015)

- Establishment of LEI-LOU (implemented in Aug. 2014)

- Self-regulatory rules to ensure traceability of securitized products (enforced in Jun. 2009)

- Orderly failure resolution (bail-in bonds, halt of termination clauses of OTC derivatives, etc.) (enforced in Mar. 2014)
2. Responses to changes in capital market environment
   ⇒ Facilitating provision of risk money

- NISA (Japanese version of Individual Savings Account) (implemented in Jan. 2014)
- Promoting financial literacy
- Improving corporate governance
  - stewardship code
  - corporate governance code
  - independent outside directors
- Setting up a regulatory framework for crowdfunding
Key processes to achieve well-balanced regulation (Japan’s experience)

- Prior discussions with market stakeholders and investors
- Public consultation
- Regulatory Impact Analysis (RIA)
Thank you!

- JSDA will co-work with Asian partners for further development of the Asian securities market.

- Please contact us (international@wan.jsda.or.jp) and access JSDA’s homepage (http://www.jsda.or.jp/en/index.html)