

Panel Discussion 2

Rules and Regulations Development Trends

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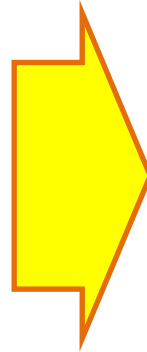
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* This presentation represents the presenter's own views, and not necessarily those of JSDA

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

- 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!

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

- 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.

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.

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

VIII. 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
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