

Introductory remarks by Commissioner Toshihide Endo

Session 2 of the G20 Seminar on Technological Innovation
“Our Future in the Digital Age”

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Good afternoon, everyone. Thank you for attending today’s seminar.

Balancing Innovation and the Public Interest

At the Buenos Aires Summit last November, G20 leaders agreed to “step up efforts to ensure that the potential benefits of technology in the financial sector can be realized while risks are mitigated.” So how do we put this vision into practice?

Every regulator faces the challenge of striking the right balance between promoting innovation, while ensuring the public interest in areas like financial stability, consumer protection and AML/CFT.

Historically, the simplest way to ensure the public interest was to use regulation. Technological innovation, however, poses challenges.

First, regulation could stifle innovation. This could particularly happen if regulations are brought in to control every imaginable risks before the benefits of the new services are realized.

Second, regulation may fail to keep pace with innovation. Recent technological developments allow the unbundling of financial services which were previously in the hands of financial institutions providing full-line services. Fintech start-ups could now offer consumers with a specific line of service, P2P payment for example, and in some cases they rebundle financial and non-financial services to better meet the customers’ needs.

In contrast to such development, financial regulations are imposed largely on an entity-base. This could mean that the same financial activities could face different regulatory treatment depending on who conducts such activities. To ensure a level playing field and prevent firms from exploiting regulatory loopholes, we need to explore function-based, cross-sectoral financial regulations. This is a big challenge for every financial regulator. The JFSA is not an exception and has started discussions with its advisory panel.

The third challenge may be the most fundamental one. Financial regulators use regulation as its primary tool for achieving regulatory goals or ensuring the public interest. Distributed ledger technologies such as blockchain, a theme for this session, however, may allow direct transactions between financial customers or market participants without intermediary financial institutions. In such a decentralized system, financial institutions may play a smaller role in the financial system going forward, and regulating them alone may not be enough. This would pose a new challenge for regulators trying to protect the public interest

Given these challenges, it may be time to consider whether this approach will be workable in certain circumstances.

Japan proposed to take up this issue with the Financial Stability Board as part of its G20 Presidency. The FSB explored the implications of decentralized financial technologies and submitted a report to the G20. I would like to thank the FSB for its dedicated work.

Lessons from the Internet

To address these challenges, it may be useful to take reference from the development of the Internet.

Much like the financial sector, the telecommunication sector used to be subject to stringent rules by national regulators. The ICT revolution in the 1990s, however, transformed the industry. The Internet largely replaced the dissemination of information and communications functions previously

performed by regulated intermediaries such as telephone companies, broadcasting stations and postal services.

The Internet is managed in a way that is entirely different from a conventional reliance on regulation, with no national nor international regulators. A multi-stakeholder approach is taken for the Internet governance, which brings together a broad group of stakeholders. This includes government, the private sector, academia and civil society, which all participate in discussions and decision making.

Let me take the example of the Internet Engineering Task Force, or IETF, which is an open global community responsible for developing and reviewing the Internet standard specifications. The IETF is not a legal entity and has no formal membership. Anyone can participate in discussions, and documents are public and freely available. Decisions are made not by voting but based on a process called “rough consensus and running code.” In this process, the IETF participants strive to make their decision by the consent of all participants, though allowing for some dissent, and to have the actual products of engineering trump theoretical designs¹.

Not only are technical standards for the Internet essential for securing its interoperability, they are also directly related to the broad public interest. This includes the protection of users’ privacy and personal data, and Internet accessibility for people with disabilities.

The multi-stakeholder participation and mechanism for the Internet, coupled with its openness and transparency, seem to have succeeded in striking the right balance between promoting innovation and securing the public interest so far.

Multi-stakeholder Governance for a Decentralized Financial System

As such, the emergence of the Internet in the telecommunication sector has shown us that regulation may have a limit. A multi-stakeholder

¹ RFC 7282, IETF

approach has a growing role to play to complement traditional regulations. DLT shares some common features with the Internet, such as decentralization and broad autonomy. When we discuss the future landscape of and a possible governance approach for a DLT-based financial system, we need to be mindful of the bigger picture with a long-term perspective.

With this in mind, we have invited panelists from a variety of backgrounds. As the moderator, we are honored to have Professor Jun Murai of Keio University, the “Father of the Internet in Japan,” or maybe better known as “Internet Samurai” globally. His insights and experience on developing the Internet governance would be of great importance for the discussion in this session.

I hope that this panel discussion would serve as a possible model of a future multi-stakeholder dialogue for a decentralized financial system. I look forward to the discussions today, and going forward, the JFSA would like to continue to provide opportunities for such dialogue.

Thanks very much for your time.
