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Keynote Address As Prepared for Delivery
"A New Strategy for Growth Finance in Asia"

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Capital Markets and Financial Reform in Asia

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1. Introduction

It is my honor and pleasure to be given the opportunity today to talk about capital markets in Asia, and look for ways to improve their status as drivers of finance for growth and development in the region at this Roudtable.

This Roundtable is particularly timely, as governments in Asia are struggling with the recent market turmoil and looking for ways to secure stable flows of funds necessary for financing their growth and development.

We need your insights and wisdom to develop a new collective strategy for Asia in order to secure and promote finance for growth in a sustainable manner. The needs of the Asian economies for more investment in infrastructure over the longer term must be growing, not shrinking.

I should mention a word here about the standard disclaimer that any views expressed today are my own, and not necessarily identical to the official views of the JFSA.

2. Need for a new regional strategy for financing growth and long-term investment

In market economies, we have always considered that free, fair and global capital markets will bring ultimate benefits to boosting sustainable growth and developments, and, despite the occurrence of financial crises in the recent past, those markets seemed to recover and stand up well to the challenges of the times through more, not less, regional and global integration.

But in the most recent period, confidence in the markets has been undermined by uncertainties about the course of policy and by the effects of a host of structural factors. Some refer to the current situation as a new era of "anxiety", or a "new normal".

So now, I should put this question to all of you: the combination of extraordinary monetary policies taken in different countries in an unsynchronized manner and the emergence of structural impediments to growth such as a change in demographics and in the structure of labor markets, combined with a fall in global oil and commodity prices, have cast some doubt on whether the relatively high growth and fast development that Asian economies have enjoyed after recovering from the Asia crisis in the 1990s could be resumed and sustained in the coming years.

In fact, this is a global issue: slower growth is projected, and productivity growth has been stalling, not just in the advanced countries, but also in the emerging market economies. It is becoming a major challenge for policymakers globally to enable finance for growth and development in the current environment, and cater to the needs for long-term investment.

While there may be a certain need to change the mindset of policymakers in both advanced and emerging economies to look less at higher growth rates and focus more on addressing structural issues such as income inequality and securing employment, as well as sustainability, it is also true that emerging economies still need to grow at decent rates, and be able to demonstrate their ability to grow, in order to retain confidence and maintain economic stability and social cohesion.

But lately, there are doubts cast on the ability of the global financial system to channel sufficient funds to sustain long-term finance, and the extraordinary monetary policies might have caused, in some cases, investors to be more risk-averse, and less willing to invest in riskier assets, particularly in the longer term. But you will agree that this is paradoxical, as the extraordinary policies must have been aimed at increasing the supply of funds for growth in the respective countries, not to reduce them.

In my mind, a way to overcome the current uncertainty and enable a resumption of sustainable growth is to have a viable long-term growth strategy in countries, and to develop a vision for enabling sustainable finance for growth that supports such a strategy. We need to have a vision of what kind of financial system would be most growth-enhancing in the long-term, and how we can reach that point in the near future, particularly in the context of Asia.

Today, I am not in a position to explain to you what form this strategy should take for each of the jurisdictions, not least because we are short of ideas. In this country, the JFSA has published last September a document called "Strategic Directions and Priorities from 2015-2016" in

which we present our mission and strategic directions in the interest of building a truly resilient yet efficient and viable financial system in this country, consistent with the growth strategy of our country, often labeled Abe-nomics. In this statement, we state that "the JFSA aims to contribute to the welfare of the nation by promoting sustainable growth of business activities and the economy through ensuring efficient and effective financial intermediation, financial stability and market integrity."

As a strategic priority, it emphasizes the importance of transforming the flow of funds by strengthening channels for growth finance through the development of capital markets and making those markets more resilient, more user-friendly and conducive to growth finance, as an alternative to bank finance. Asset managers and market intermediaries are invited to play greater roles in channeling savings to higher return investments.

In my view, the challenge now is that this strategy should to take on a more regional perspective, with initiatives for more regional integration of our financial systems and capital markets, yet catered in accordance with the diverse features of each of the economies in the region.

This is because our economies are much more integrated with each other than the past, and, going forward, Asia needs to grow together, and mutually support each other.

3. What strategy for Asia?

So, what kind of a regional strategy for growth finance am I calling for in Asia?

The Asian financial system has been traditionally dominated by banks, and the banking system has been at the core of the channels for financing growth and development.

With the public sector playing important roles in the banking system, this was an efficient and effective way of channeling the savings of the general public to investment in strategically important industries and infrastructures. But in the financial crises we experienced in Asia, such over-reliance on a limited number of banks, combined with weak prudential regulation and supervision, proved to be vulnerable to external shocks and reversal of capital flows.

So, a more balanced financial system, with the bank channel complemented and reinforced by a liquid and orderly capital markets channel would need to be developed. It is anticipated that market discipline will strengthen governance at individual market players, including the largest banks, through requirements for more transparency and disclosure.

I now realize that this is not particularly unique to Asia, although it can take slightly different forms in different regions of the world. I am encouraged, in fact, that the European Capital Markets Union initiative carries much of the same themes and aspirations to have the capital market channel develop as an alternative to the bank channel.

Having said this, I also realize that we have actually been working along those lines for many years, including work in the context of the ABMI (Asian Bond Market Initiative). But there will be a need for a more holistic approach to further developing market-based finance for growth for a number of reasons. A rise in corporate leverage has been a certain cause for concern in some jurisdictions, and combined with a need

to provide a boost to new business startups and IT ventures, there can be more emphasis on equity market development, enabling more equity finance for growth. Asset management needs to take on a bigger role, and initiatives such as the Asia Region Funds Passport may be promising. Financial inclusion could be enhanced through a broader investor base for equity, and privatization of state-owned enterprises could provide a boost.

An area of strength for Asia may be in making the best use of technological innovations. Particularly for those "disruptive technologies", including distributed ledger and block chain technologies, Asia has a competitive edge, and should be in a position to be able to deploy those new tools in financing growth in the region in a more cost-effective yet safe manner.

Confidence in markets being all important, a well-regulated financial market equipped with measures to enhance transparency and accountability of firms, progress in improving corporate governance and consistent implementation of accounting standards, they all contribute to such a strategy.

4. Consistent and timely implementation of regulatory reform

Being a financial regulator, I cannot end my speech without referring at least in passing to the regulatory reform work we have collectively pursuing post-crisis in international forums of financial regulators and supervisors such as the FSB, Basel Committee, IOSCO and IAIS.

While considerable progress has been made in designing the new or revised rules in both prudential and market

regulation, implementation of the agreed standards is a major challenge.

The G20 has made a call for timely and consistent implementation of the agreed rules, but gaps and overlaps have appeared across sectors and jurisdictions.

Moreover, in my view, the consistency of those regulatory reform measures with our growth strategies, and with the need to maintain the ability of the financial systems to channel funds necessary for sustainable growth and development is now being questioned.

In the interest of time, I will not go into further detail about the issues of which regulatory measures might have negative effects or implications to finance for growth, but there is a need to conduct a comprehensive assessment of where we are in terms of the collective and cumulative effects of reform on the performance of the financial systems and markets to channel the necessary funds. If there are material unintended consequences, we need to be able to adjust them. If any rules could have undue negative effects on technological advancements, we may have to adjust them as well.

Past studies of the quantitative impact of those reform measures have been partial, static, and point-in-time, i.e. assuming that all else is unchanged except for the regulatory measure in question. The impact of reform measures on the behavior of financial institutions and market participants had largely been ignored, and the estimates were made as point-in-time, not taking into account the dynamic movements over a time span.

While it is extremely challenging to develop methodologies to conduct such a comprehensive impact study of the effects of reform measures on our economies, one could start taking into account such elements in conducting impact assessments going forward.

In fact, only such analysis may give us a clue as to why a combination of policy measures, all in the interest of making the financial system more resilient and stable could work together to increase the volatility of markets and potentially destabilize the system, in an unexpected and unintended manner.

In the end, I feel strongly than ever that trust and confidence are the determining factors for human behavior that shape the markets and dictate their daily movements. Even when we talk about the "fundamentals", only if confidence is there to underpin those fundamentals could the economies grow in a sustainable manner.

Confidence in our markets is a combination of our trust in the integrity and transparency of markets and market players. Better regulation and supervision are certainly the foundations of trust. This means, it is not simply a question of how much regulation and supervision could either affect or not affect the ability of financial institutions and markets to intermediate funds efficiently and effectively. It is a matter of how much confidence can be built around a set of regulation, which may not be easily quantifiable.

Any of your ideas in better assessing the collective and cumulative impact of the reform measures on growth finance are most welcome. Since such impact is not easily quantifiable and data being scare, anecdotal accounts can also be quite useful.

5. Concluding remarks

Coming back to Asia, I believe Asia can do much better in leading the global quest for building financial systems and markets that will support sustainable growth and development. Through both global and regional forums, we can share our experiences and ideas to make for better channeling finance for growth and finance for long-term investment in infrastructure. Asia is certainly diverse, but this diversity is also a source of strength. Asia has an important role to play in the global debate, and I see the current situation as an opportunity as well as a challenge.

Mutual support amongst regional partners in developing financial infrastructures and markets are most welcome and need to be further strengthened.

I hope today's discussions will provide useful guidance in developing a regional strategy for financing growth and development in a sustainable manner, and will help shape our contribution to the global debate.

Thank you very much for your kind attention.