

# Convergence of Global Capital Markets

- To Avoid Paradox of Globalization -

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Brussels, 4 April 2005

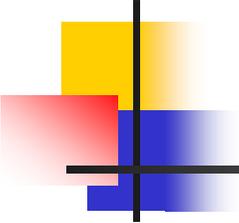
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Financial Services Agency, Japan



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# I. Market Valuation of the World Capital Markets

## GDP and Market Valuation

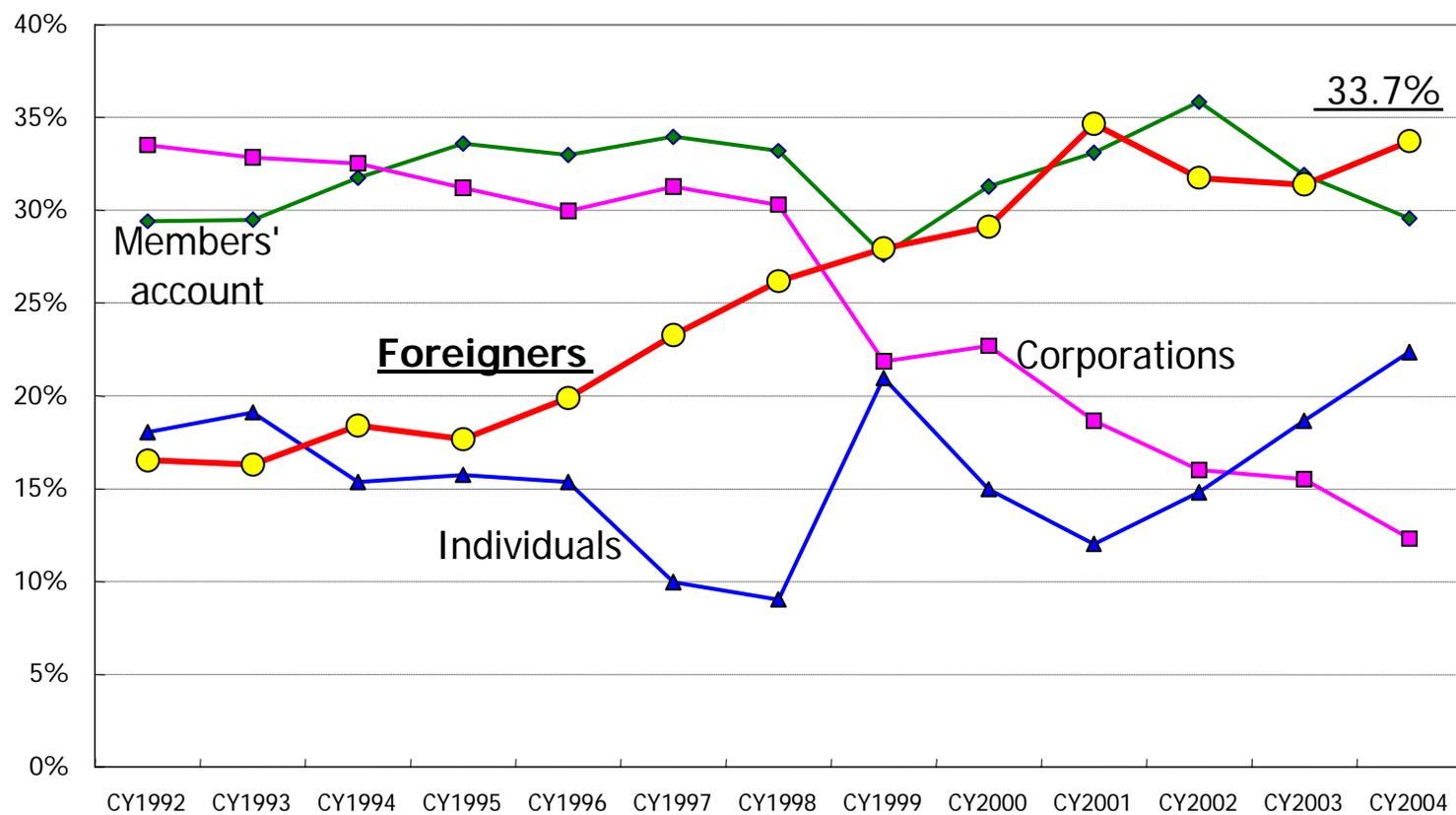
Region	GDP (World Total 36,356 billion USD)	Market Valuation (World Total 37,149 billion USD)
Asia-Pacific	23.4%	21.3%
Japan	11.9%	16.1%
US	30.4%	43.9%
EU	28.6%	22.9%
UK	4.9%	7.6%
Others	17.6%	11.9%

(Note) GDP : as of 2003, Market Value : as of December 2004 (Member exchanges of the World Federation of Exchanges (WFE))



## II. Globalization of Capital Markets (1)

### 1. Trading Value of Listed Stocks by Types of Investors in Japan

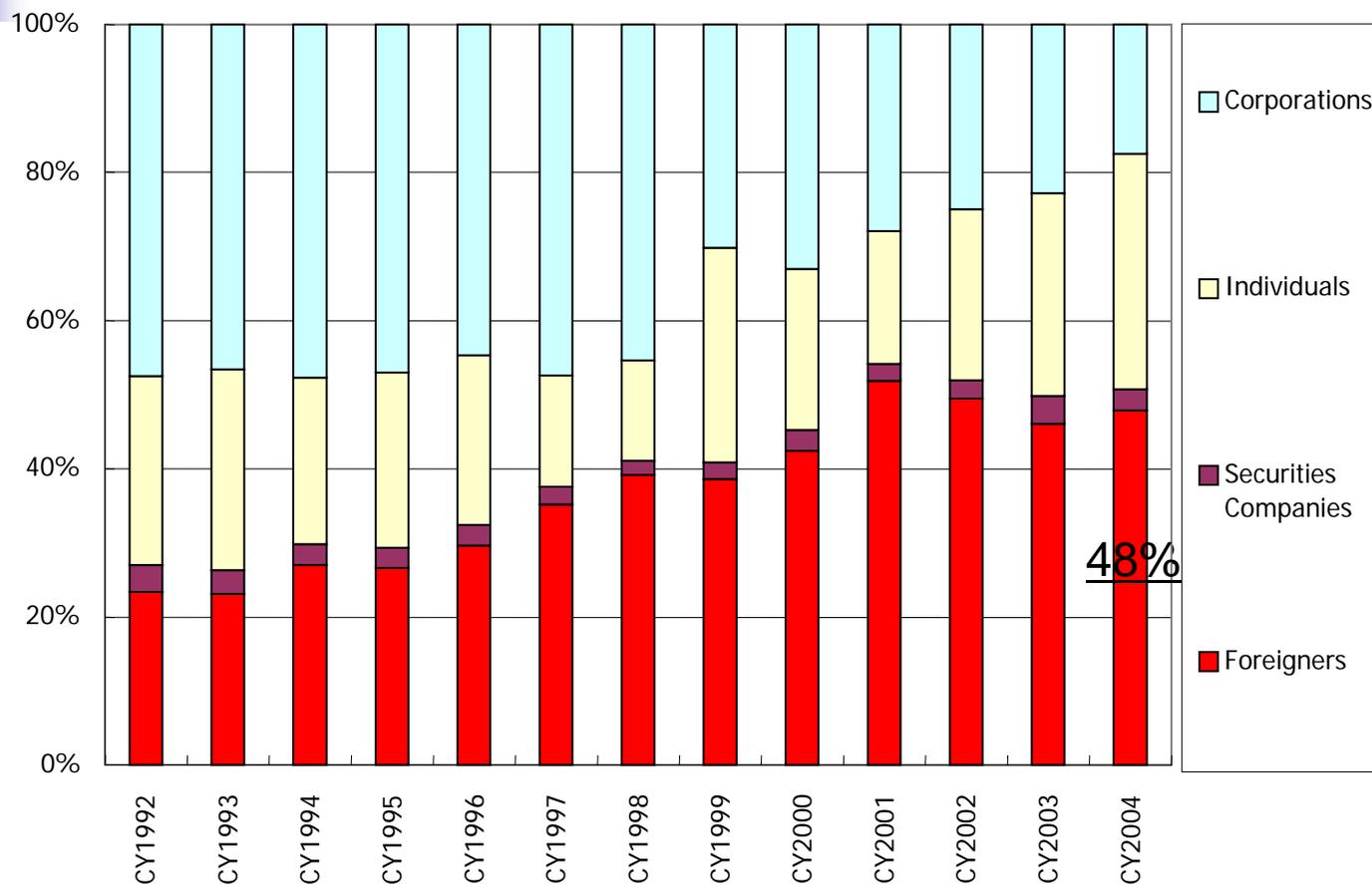


(Note) Figures refer to the total trading value of Tokyo, Osaka and Nagoya stock exchanges.



## II. Globalization of Capital Markets (2)

### 2. Trading Value of Listed Stocks by Types of Investors in Customers' Accounts in Japan



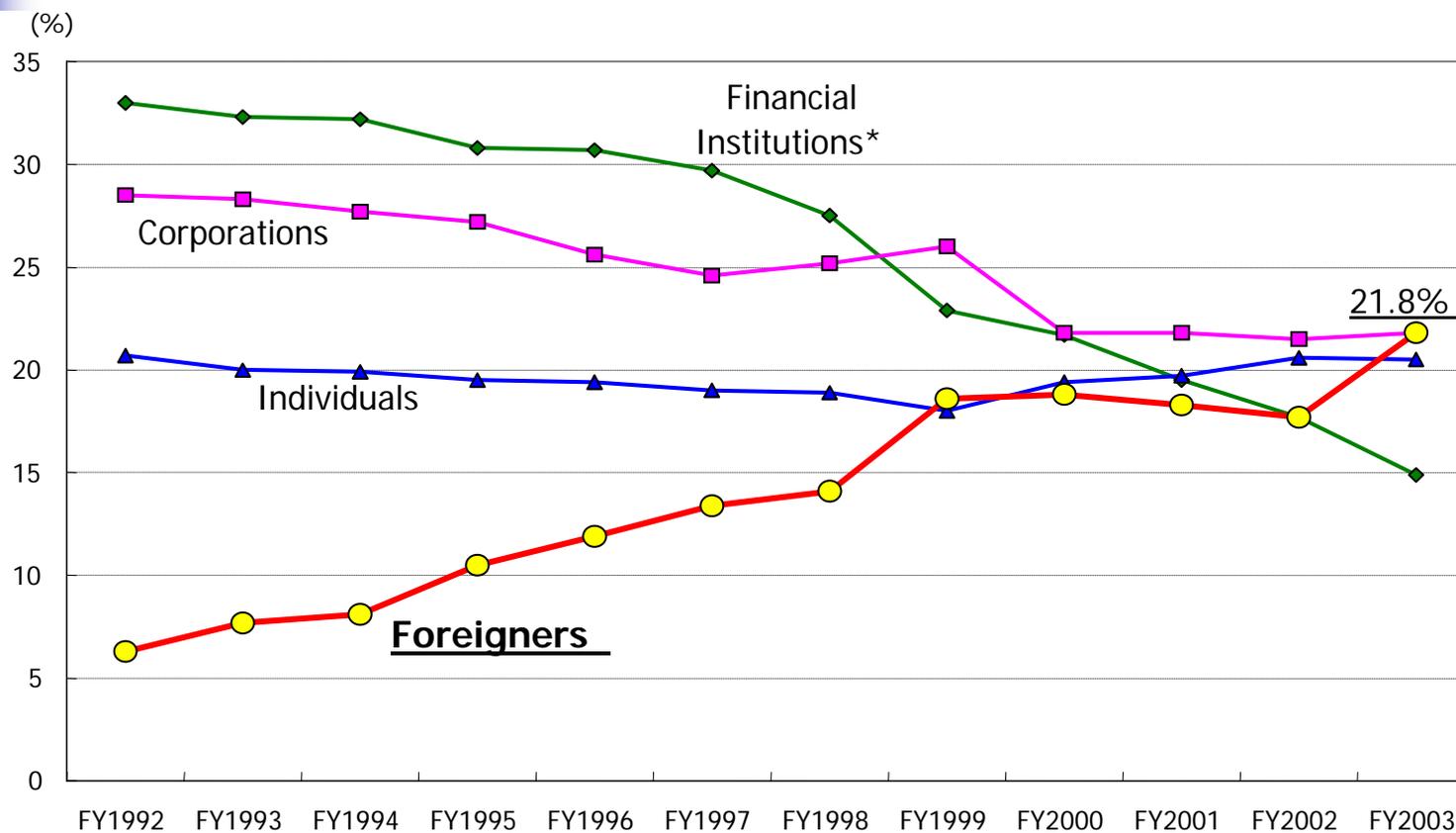
(Note) Figures refer to the total trading value of Tokyo, Osaka and Nagoya stock exchanges.



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## II. Globalization of Capital Markets (3)

### 3. Shareownership by Market Value in Japan



\*excluding trust bank accounts, which manage investment trust and pension funds

(Note) Figures refer to the total trading value of Tokyo, Osaka and Nagoya stock exchanges.



Financial Services Agency, Japan

## II. Globalization of Capital Markets (4)

### 4. Foreign Financial Institutions in Japan

Bank		Life Insurance		Non-life Insurance		Securities	
	EU		EU		EU		EU
69	20	4	1	23	11	39	15

As of January 4, 2005



## II. Globalization of Capital Markets (5)

### 5. Number of Japanese Issuers with their Shares Listed on EU and U.S. Exchanges

#### **【EU】**

Frankfurt	27
London	22
Paris	14
Luxemburg	11
Amsterdam	11
Brussels	4

(as of March 11, 2005)

#### **【US】**

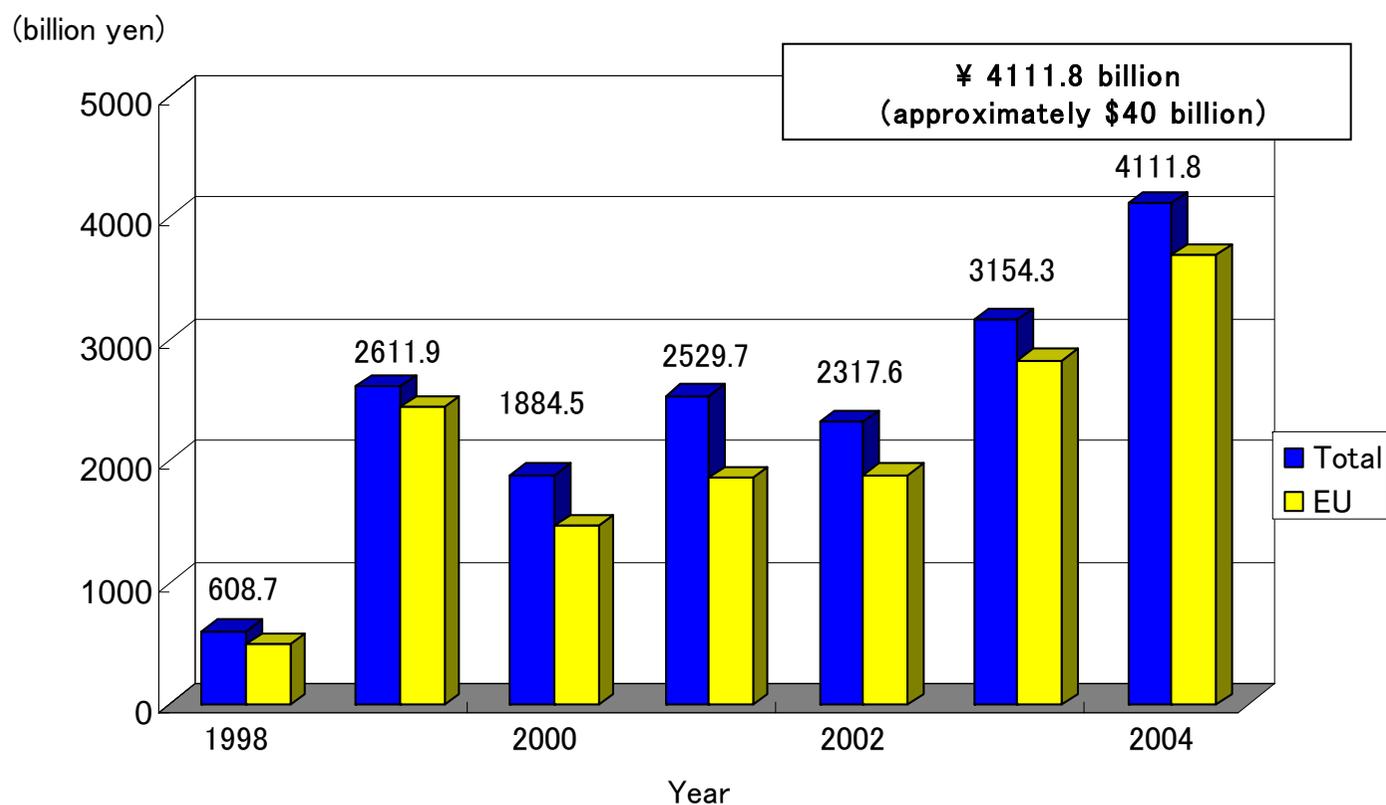
NYSE	19
NASDAQ	13

(as of March 11, 2005)



## II. Globalization of Capital Markets (5)

### 6. Amount of Foreign Bonds Issued by Japanese Residents



(Note) Figures of "EU area" are the sum of UK, Luxemburg, France and Germany.

(Note) Data: MOF



### III. Progress in De-facto Convergence in the Major Capital Markets

(Example) Strengthening of auditor oversight and establishment of new auditor oversight bodies

IOSCO : Principles for Auditor Oversight (October 2002)

**EU : Draft Statutory Audit Directive**

U.S. : PCAOB

UK : Financial Reporting Council (FRC) / Professional Oversight Board for Accounting (POBA)

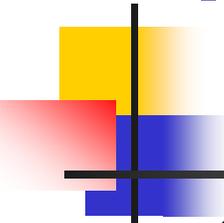
France : High Council for Statutory Audit (HCCC)

Canada : Canadian Public Accountability Board (CPAB)

**Japan : Certified Public Accountants and Auditing Oversight Board (CPAAOB)**



# IV. Paradox of Globalization



Progress in globalization of capital markets



Necessity for regional or national regulations  
to protect investors in regional or national markets



International impacts with a possibility of constraints  
upon accesses to these markets by third countries parties

**Paradox of Globalization**



# V. Current Buzzword: “Equivalence” (1)

## 1. Recent Developments in U.S. and EU

### (1) U.S. Sarbanes-Oxley Act of 2002

- Equivalence of corporate governance system (Section 301)
- Equivalence of auditor oversight system (Section 106)

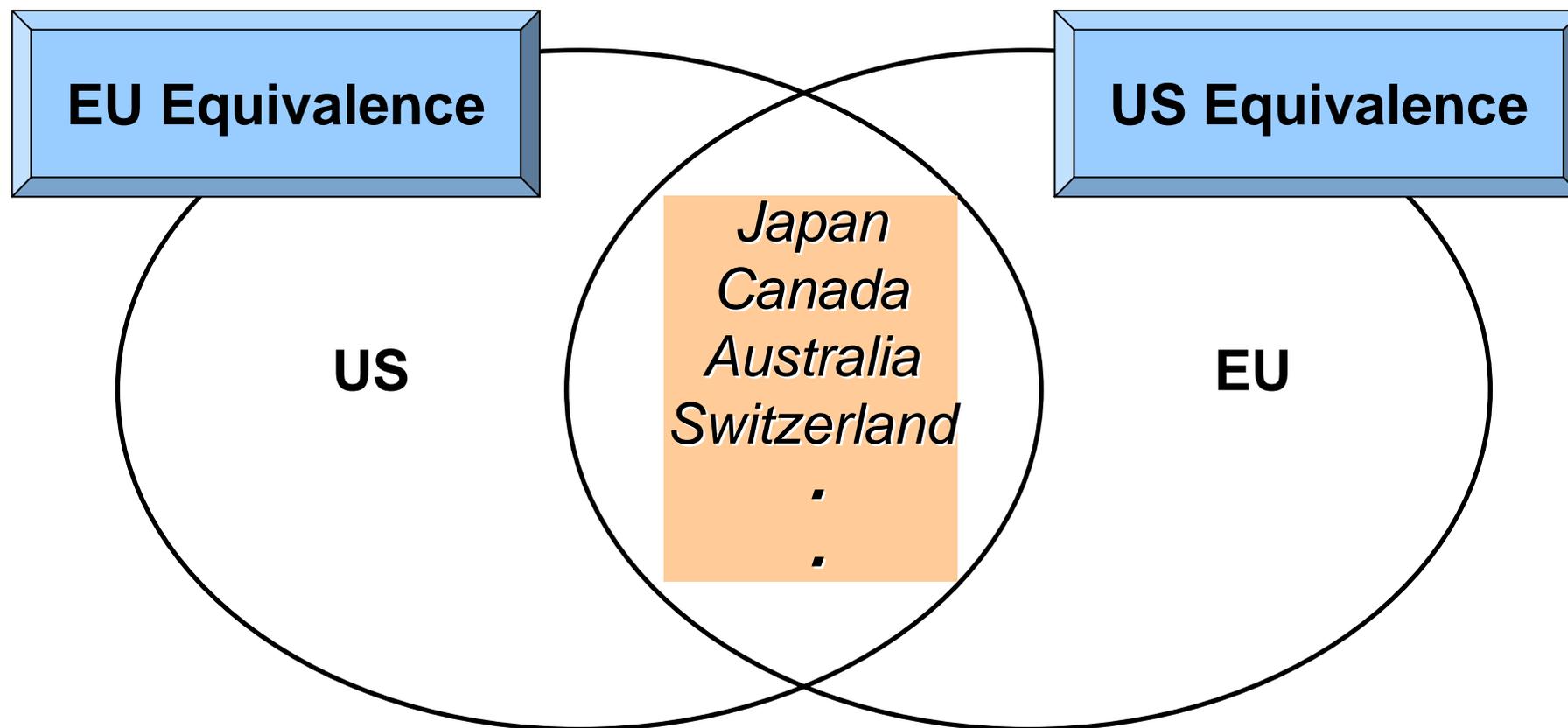
### (2) EU Directives

- Equivalence of accounting standards with IAS/IFRS  
(Prospectus Directive and Transparency Directive)
- Equivalence of information requirements (Transparency Directive)
- Equivalence of consolidated supervision of financial groups  
(Financial Conglomerates Directive)
- Equivalence of auditor oversight system on the basis of reciprocity  
(Draft Statutory Audit Directive)



# V. Current Buzzword: “Equivalence” (2)

## 2. International Impacts of Equivalence



# V. Current Buzzword: “Equivalence” (3)

## 3. Important Viewpoints

- (1) Maintaining traditional open and global nature of EU capital markets**
- (2) Avoiding inward-looking approach and less open EU capital markets in the name of equivalence**
- (3) Conducting well-informed and objective assessment of equivalence without misperception through fair and transparent processes**
- (4) Active participation of third country parties in such processes**
- (5) Equivalence should be assessed under principle-based approach, considering international principles set by international organizations such as IOSCO.**
- (6) At least, equivalence should not be interpreted as requiring to be identical, and approach to assessing equivalence should be to limit its analysis to significant differences. (Concepts Paper on GAAP equivalence issued by CESR on 3 February 2005)**
- (7) Not only technical but also sometimes political issues in third countries**



# V. Current Buzzword: “Equivalence” (4)

## 4. Securities Expert Group Report (6 May 2004)

### 2.7. Promoting the International Competitiveness of EU Securities Markets is Vital

42. The Group endorses the proposition that the EU needs good standards of financial regulation. Nonetheless, it considers that the FSAP did not sufficiently recognize that European securities markets operate in a global and strongly competitive international environment. **It believes that European legislation and regulation has too often concentrated only on strategies which focus on what happens within the Internal Market, without taking into account either the fact that investors and issuers frequently take decisions on a global basis, or the need to ensure that the EU is the securities markets of choice for issuers and investors worldwide.**
43. **The Group discussed in particular the examples of the prospectus and transparency directives.** While these legislative measures should help to integrate EU capital markets by providing a passport to EU issuers to access a pan-European market for equity or debt, **the Group is concerned that they will also reduce the willingness of third country issuers and investors to raise funds or to allocate capital in Europe.**
44. **The Group considers that it is in the interest of the EU that Community legislation and regulation takes better account of the needs of non-EU users of and participants in its securities markets.** It considers that any impact analysis of regulatory changes must include an evidence-based assessment of the contribution of new legislation to the global competitiveness of the EU, and that international competitiveness must be one of the main guiding principles of European financial services legislation and regulation.



# V. Current Buzzword: “Equivalence” (5)

## 5. Joint Press Statement of 13<sup>th</sup> Japan-EU Summit (1)

13th JAPAN-EU SUMMIT  
Tokyo, 22 June 2004  
JOINT PRESS STATEMENT

Mr. Junichiro Koizumi, Prime Minister of Japan; Mr. Bertie Ahern, Taoiseach, in his capacity as President of the European Council; and Mr. Romano Prodi, President of the European Commission, met in Tokyo on 22 June 2004 for the 13th Summit between Japan and the European Union.

Against the background of recent dynamic developments, including enlargement and adoption of a Constitution on the EU side and expansion of its role in international challenges and sustainable economic recovery on the Japanese side, the Summit leaders reconfirmed the importance of forging a solid strategic partnership between them. In this respect, the leaders issued the following documents on a number of issues where effective cooperation is of particular importance:

- Japan-EU Joint Declaration on Disarmament and Non-Proliferation
- **Cooperation Framework for Promotion of Japan-EU Two-Way Investment**
- Japan-EU Joint Initiative for the Enforcement of Intellectual Property Rights in Asia
- Joint Statement on Cooperation on Information and Communication Technology

The leaders also reviewed the implementation of the “Action Plan for Japan-EU Cooperation”, adopted in 2001, and set priority actions to be taken by the next Japan-EU Summit (see Annex).

The following are the other highlights of the Summit:



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# V. Current Buzzword: “Equivalence” (6)

## 5. Joint Press Statement of 13<sup>th</sup> Japan-EU Summit (2)

### For the prosperity of the world economy

Noting that economic relations between Japan and the EU are thriving, each having become a significant stakeholder in the other's economy, they recognised that strengthening trade and investment links further between them will help spread prosperity more widely. With this objective, they endorsed a Cooperation Framework aimed at promoting two-way investment. This foresees concrete actions to address key issues of concern to business, such as dialogues on new regulations; regulatory transparency; cooperation on standards and conformity assessment; creation of a transparent, predictable and internationally competitive investment environment; as well as facilitation of conditions for foreign residents. The framework also responds to the recommendations made by the EU-Japan Business Dialogue Roundtable at the last EU-Japan Summit.

In this context, they recognised that the Regulatory Reform Dialogue, now in its tenth year, has been a uniquely successful and adaptable instrument for dealing with regulatory issues affecting the business environment. Notable recent achievements include changes in Japan which will allow full partnerships between foreign and domestic lawyers, improved access for asset managers to the management of Yucho and Kampo funds, and progress on facilitating the issue of EU Member State residence and work permits to Japanese nationals. **In particular, they noted that the European Commission has started a process of establishing equivalence between international accounting standards and existing Japanese standards and urged that work to establish equivalence be concluded as soon as possible and at any rate before 2007.** Recognising the growing importance of rules for the protection of personal data, they also emphasised the need for faster progress in reaching agreement on Standard Contractual Clauses between Japan and the EU.



## V. Current Buzzword: “Equivalence” (7)

### 5. Joint Press Statement of 13<sup>th</sup> Japan-EU Summit (3)

#### ANNEX

#### Actions to be targeted by the next Japan-EU Summit

Objective 2: Strengthening the Economic and Trade Partnership Utilising the Dynamism of Globalisation for the Benefit of All

- Further strengthen dialogue on accounting standards, particularly with a view to ensuring that work to establish equivalence between international accounting standards and existing Japanese standards be concluded as soon as possible and at any rate before 2007.

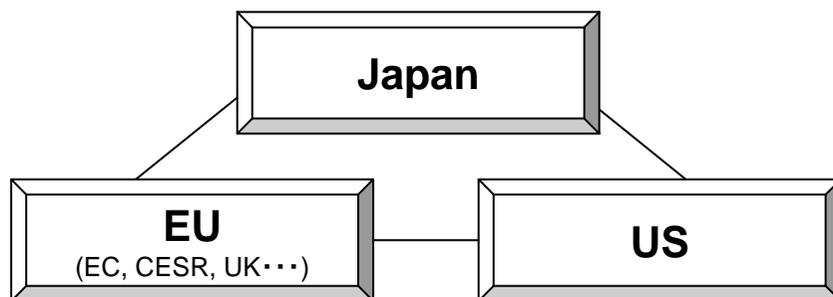


# V. Current Buzzword: “Equivalence” (8)

## 6. Constructive and Practical Solutions

- Mutual reliance in each other’s system and regulations under the environment of de-facto convergence of major capital markets in the world
- Close and cooperative dialogues

### Bilateral Dialogues (Triangles)



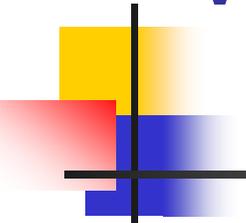
### Multilateral Dialogues

FSF  
IOSCO  
Basel  
IAIS  
Joint Forum ...

- Convergence projects such as the one between ASBJ (Accounting Standards Board of Japan) and IASB (International Accounting Standards Board), which started January 2005.

(Note) ASBJ agrees with the objective of international convergence of accounting standards in its Medium-Term Operating Policy issued in July 2004.





## VI. Program for Further Financial Reform by the Japanese FSA (1)

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- Announced on 24 December 2004,  
Japan's challenge: *“Moving toward a Financial Services Nation”*



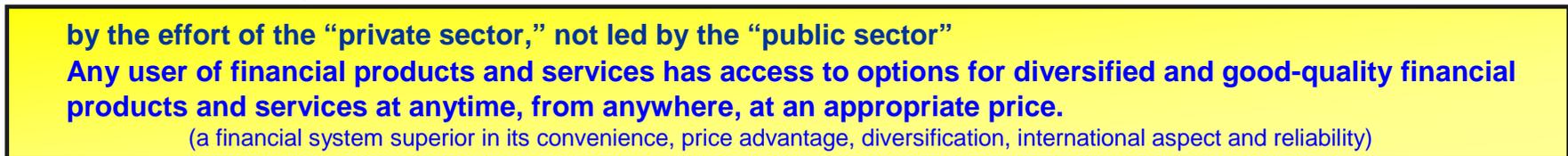
# VI. Program for Further Financial Reform by the Japanese FSA (2) – Basic Concept

## ◇ Change of phases surrounding the financial environment

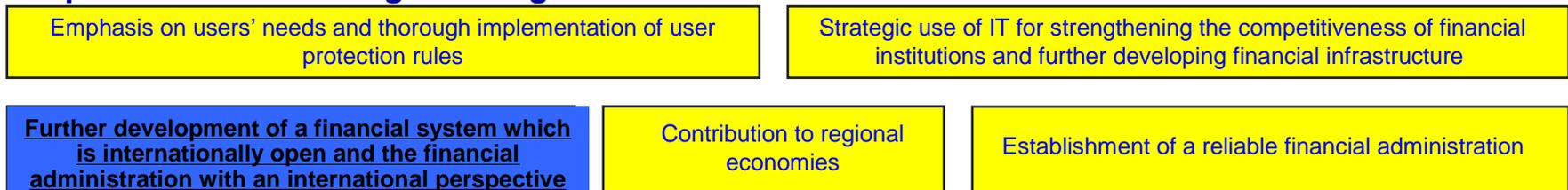
- From the emergency reaction phase to a desirable financial situation -

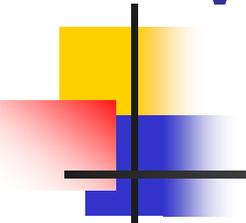


## ◇ Desirable financial system



## ◇ Five points in the challenge moving toward a "Financial Services Nation"





## VI. Program for Further Financial Reform by the Japanese FSA (3)

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- **Implementation of a financial administration with an international perspective and active participation in international standard-setting activities**
  - **As internationalization and financial conglomeratization progresses**, the necessity of strengthening partnerships with overseas regulatory authorities is increasing, and **the movement towards the convergence of regulation and standards is accelerating**. Taking this situation into consideration, the FSA will strive to adhere to **the equal treatment principle of domestic and foreign financial institutions; make the Japanese financial system and financial markets universal based on a clear philosophy and rules**; and at the same time play a leading role in international standard-setting activities regarding financial services, participating actively, not passively, from a strategic standpoint.
    - **Active actions toward international convergence of accounting standards**



# VII. Latest Developments in EU

Encouraged by:

- **“Growth and Jobs: A New Start for the Lisbon Strategy”**
  - Ensuring Europe is a more attractive place to invest and work
  - Ensuring open and competitive markets inside and outside Europe
  - Better regulations
- **“Enhanced global cooperation” (Speech by Commissioner McCREEVY)**
  - Building a closer working relationship and an atmosphere of trust
  - Ex-ante regulatory dialogue to avoid downstream regulator repair
  - Having regulator dialogues with Japan

