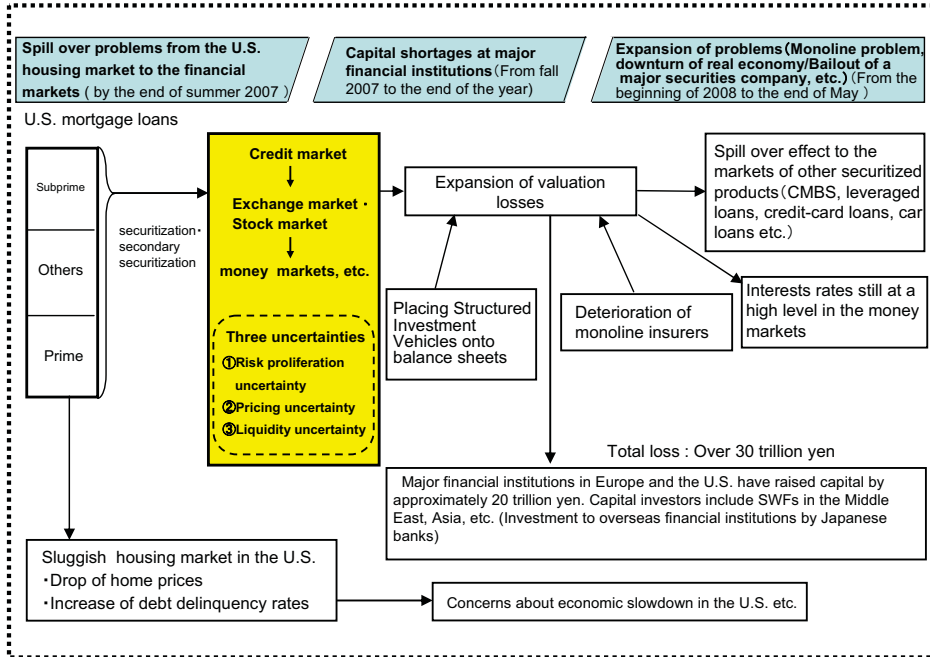


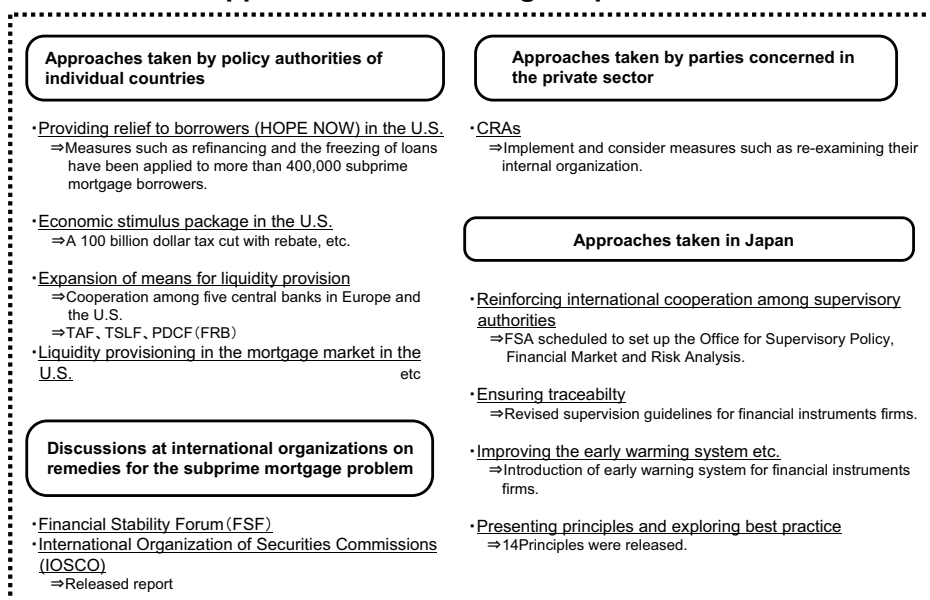
# Financial Markets Strategy Team Second Report

~Toward an Open Country with Financial Strength~

## I Growing problem in global securities markets



## II Approaches to resolving the problem



## III Future tasks

### 1. Lessons from Japan's non-performing loan problem

- (1) Establishment of safety net.  
Countries should constantly review the status of their national safety nets while bearing in mind possible future developments related to the financial markets and systems.
- (2) The issue of solvency lies behind a liquidity crisis.  
Enhance risk management to a more advanced level, and precisely grasp the state of health of financial institutions, particularly when the market is under stress.
- (3) A common yard stick for the proper assessment of assets.  
Market discipline based on information disclosure.
- (4) Early detection and recognition.  
Important to act before the soundness of a financial institution deteriorates (crisis prevention).

### 2. Evaluation of policy measures taken up to now and future tasks

- Appreciate and share the concerns of FSF reports, IOSCO reports
- (1) We highly appreciate the FSF report. A follow-up review and precise implementation are important.
  - (2) Robust risk disclosure and transparency are essential (Japan published earlier than most other countries the amounts of securitized products, etc.).
  - (3) Establishing international colleges of supervisors as a framework for cooperation among authorities in supervising internationally active banks.
  - (4) Need to consider strengthening the involvement of the public sector, depending on future developments for dealing with weak banks.
  - (5) Credit rating agencies should promptly implement measures based on the revised IOSCO Code of Conduct.

### 3. Points of attention concerning the global financial markets from Japan's viewpoints

- (1) Proper response to a major shift in the flow of funds, implementation of the Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets, and constant review of regulations that could undermine market competitiveness.
- (2) Sovereign Wealth Funds (SWFs)
  - It is an urgent task for Japan, as an "open country," to establish an attractive financial market that will draw both domestic and foreign funds, including investment from SWFs.
  - Regarding the Japanese version of SWF, it is necessary to conduct a wide range of discussions, including serious consideration of ways to manage national assets from the viewpoint of efficient management.
- (3) Promotion of foreign investment in Japan
  - Foreign investment in Japan will contribute significantly to the sustainable growth of the Japanese economy. Regulations should be limited to the necessary minimum, and high predictability should be ensured for their enforcement.

Whereas U.S. and European financial institutions are facing difficulties, Japanese financial institutions should "go on the offensive" by actively exercising their financial intermediary functions in the global financial markets.

Japan should aim to become an "open country with financial strength," capable of competing with financial centers around the world.