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Introduction

Good evening, everyone. Thank you very much for inviting me to this distinguished CEO gathering from leading financial institutions around the world.

I understand that this conference is aimed at addressing highly important themes such as banking regulation, financial inclusion, and technological development.

As Minister Katayama highlighted this morning, the Government led by Prime Minister Takaichi is currently advancing efforts to build a strong economy.

As part of these efforts, we are further advancing our initiative to promote Japan as a leading asset management center and are currently developing a new financial services strategy.

One of the key pillars of this strategy is investment in infrastructure underpinning the financial system. This includes enhancing payment infrastructure for the AI era and strengthening resilience against cyber threats.

Digital finance, including the rapid development of AI, is becoming a defining factor in the competitiveness of financial institutions, and even in shaping a future structure of the financial system itself. This also requires regulators to rethink and adapt their approach to regulation and supervision.

Underlying these developments are increasing automation, real-time processing, and acceleration of transactions driven by technologies such as smart contracts and AI agents. In addition, the unbundling of financial services has led to an expansion of competition and collaboration with

non-financial sectors. Changes in customer interfaces and value delivery are also driving banks to adapt their business models. These developments are fundamentally transforming the very foundations of traditional financial services, and regulatory and supervisory approaches must be adapted accordingly.

Against this backdrop, a key challenge for regulators is how to promote responsible innovation while maintaining the soundness of individual institutions and ensuring overall financial stability.

Today, I would like to share our views on the future of banking business models and the policy approaches that support this transformation, based on three key principles: agility, clarity, and public-private collaboration.

Agility

Let me begin with agility, focusing on our approach to crypto-assets and stablecoins.

Regulatory developments on crypto-assets and stablecoins have been advancing rapidly, including in the United States and Europe. In the United States, the Trump administration has shown strong leadership in digital finance, including through early executive actions. In addition, the enactment of the GENIUS Act has enhanced regulatory clarity and strengthened expectations for market growth. Major commercial banks are also advancing efforts on tokenized deposits. In Europe, the full implementation of MiCA has established a comprehensive framework governing crypto-assets. These developments reflect not only regulatory progress, but also a fundamental shift in the competitive landscape of digital finance.

Japan has also been advancing regulatory frameworks for crypto-assets and stablecoins ahead of many other jurisdictions. Within this framework, the first yen-denominated stablecoin was issued last October. To respond effectively to evolving markets and technologies, regulatory frameworks must also evolve in an agile manner.

Crypto-assets are no longer a means of payment; they are increasingly recognized as investment assets, with growing market size and a broader user base. At the same time, this expansion of crypto-asset

investment has brought about challenges such as fraudulent solicitation and information asymmetry.

In response, Japan is moving to revise its regulatory framework to align the rules with market realities. The relevant bill is currently under deliberation in the Diet and represents a shift from a payment-based approach to one that reflects the investment characteristics of crypto-assets. The revision is aimed at improving information provision, strengthening measures against unregistered business operators, and enhancing measures against market abuse.

The FSA will continue to develop regulatory frameworks in an agile and adaptive manner, while ensuring user protection, market integrity, and financial stability.

Clarity

Next, let me turn to the principle of clarity, citing our approach to enhancing payment infrastructure as an example.

Blockchain technology offers several key features: tamper-resistant record-keeping, shared access among relevant parties, and seamless integration with automated processing through smart contracts. It is being applied in various areas such as tokenized deposits and payments using stablecoins.

Blockchain technology has the potential to improve the efficiency of not just payments but broader economic activities, including commercial and logistics processes. For instance, by combining real-time payment services with smart contracts, corporations may be able to improve cash flow management through shorter receivables cycles, while reducing administrative burdens and costs. We are also witnessing growing initiatives to share information on cargo transportation and customs clearance via blockchain and link this information with payment processes. Such efforts are expected not only to enhance payment efficiency, but also to streamline and upgrade the entire transaction process.

At the same time, given the rapid pace of technological change in these areas, financial institutions may encounter challenges in interpreting regulatory requirements and in progressing proof-of-concept initiatives.

To address the hesitations and concerns that firms tend to have when engaging in unprecedented proof-of-concept initiatives, the FSA has launched the Payment Innovation Project, or PIP. A key feature of the PIP is that the regulator is involved from the proof-of-concept stage, helping to reduce regulatory uncertainty, including by clarifying legal interpretations, and providing integrated support through to practical implementation.

Under the PIP, several projects are already underway, including the joint issuance of stablecoins by major banks and their use in cross-border payments, the simultaneous execution of securities transfers and settlement using stablecoins on blockchain, and the facilitation of interbank settlement for tokenized deposits. Through the project, the FSA places emphasis not only on technical feasibility, but also on user benefits, operational considerations, and regulatory compliance, with a focus on moving beyond experimentation to real-world implementation.

At the government-wide level, we are also working to determine the best way to maximize the benefits of on-chain finance within the broader payment ecosystem, including existing systems. In particular, we will continue to explore how to promote the use of blockchain technology in combination with AI and across commercial and logistics processes.

Public-Private Collaboration

Let me now turn to the principle of public-private collaboration, for example in the context of AI.

AI has become a key management priority that will shape the competitiveness of financial institutions, with applications expanding from internal efficiency to customer-facing services.

Given the rapid pace of technological advancements in this field, it is essential for us to stay closely engaged with the industry, learning from practical developments through public-private collaboration in order to provide support for the sound use of AI.

Last year, the FSA convened the AI Public-Private Forum, bringing together financial institutions, AI developers, and other stakeholders to discuss the sound use of AI in the financial sector. Discussions in this

Forum were focused on practical use cases, challenges, and how to address them. For example, we held in-depth discussions on risk mitigation measures essential for deploying AI in customer-facing services, based on practical experience. Participating institutions shared practical measures such as controlling the scope of data used by AI, implementing pre-check mechanisms, monitoring response histories, and establishing governance frameworks.

These insights have been incorporated into the revised AI Discussion Paper, published by the FSA with the aim of promoting the practical adoption of AI. In particular, the revised discussion paper emphasizes a use-case-based approach, rather than applying one-size-fits-all controls across all AI applications. It highlights the importance of tailoring risk management measures according to the nature and impact of each case. Furthermore, the paper identifies common challenges faced by financial institutions, such as establishing governance frameworks at an early stage of AI adoption and developing the necessary human expertise. Challenges with adopting AI are not mere technical issues; they go to the heart of management and organizational capability.

AI is not just a tool for efficiency; it is increasingly becoming a foundation for enhancing customer experience and creating new value. How effectively institutions can leverage AI will have a decisive impact on their competitiveness over the medium to long term.

Also, advances in AI are fundamentally changing the assumptions underlying cybersecurity. The use of frontier AI could dramatically increase the speed and scale of cyberattacks, potentially creating serious asymmetry between attackers and defenders.

The FSA has acted swiftly in response since April. We have been convening joint public-private meetings with financial institutions and IT vendors to build a shared understanding about the threat of frontier AI and examine appropriate countermeasures. We also urged financial institutions to treat frontier AI as a key management priority and to strengthen their preparedness for large-scale patching requirements.

Cybersecurity is not merely an IT issue; it is a core management challenge directly linked to the trust placed in financial institutions and a critical factor that may determine their long-term viability. Cyberattacks are also a significant threat to financial stability. The FSA will continue to

collaborate with the industry to strengthen cyber resilience of the financial sector and take necessary actions in a timely manner.

Conclusion

As I have outlined today, the advancement of digital finance is bringing about structural changes to the business models of banking, through enhancement of payment and settlement infrastructure, transformative changes driven by AI, and increased integration with activities in non-financial sectors. Digital finance has the potential to bring about huge benefits to the financial sector and the broader economy. At the same time, adoption of advanced digital technologies is also associated with risks, which need to be mitigated in an effective manner.

In this context, what is required of regulators and supervisors is to safeguard financial stability, protect users of financial services, and promote responsible innovation at the same time. In my view, these objectives are not necessarily in conflict; innovation and economic growth would be supported by stability and users' trust, and vice versa. Achieving all of them is challenging, especially in the context of a rapidly evolving and uncertain environment. We therefore need to be agile to respond to changes and clear on our intentions.

At the same time, successful transformation of the banking business cannot be achieved without the efforts of the industry. It must be in the interest of individual firms to grow with innovation while managing risks properly. A regulatory framework and supervisory practices that fit well with an emerging world of digital finance would be to the benefit of regulators, financial firms, and their customers. This is why we highly value dialogue and collaboration with the private sector.

Guided by the principles of agility, clarity, and public-private collaboration, the FSA is committed to fulfilling its mandate on financial stability, user protection, and facilitation of financial intermediation, in a manner that promotes innovation and economic growth. To this end, we will make use of the full range of tools we have, from policymaking, regulation and supervision, to support for innovative projects.

Given the cross-border nature of digital finance, sharing knowledge and understanding common challenges among regulators and market participants across borders is highly beneficial. In this sense, I hope that

dialogue at this gathering will serve as a catalyst for our joint efforts to advance a fundamental transformation of financial services.

Thank you very much for your attention.