

***Regulatory and supervisory developments,
and the future outlook***



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1. Introduction

2. FSA's measures taken in response to the Earthquake

3. Japan's experience and some thoughts for the future

4. Conclusion

FSA's measures taken in response to the Earthquake

- **Immediate establishment of the Disaster Management Team just after the Earthquake (at 3:00 pm on March 11)**
- **Joint message from Minister Jimi and BOJ Governor Shirakawa requesting financial institutions to take appropriate measures (on March 11)**
- **FSA measures focused mainly on 4 areas:**
 - ① to secure the function of payment and settlement systems
 - ② to accommodate the needs of people in devastated areas
 - ③ to ensure the function of financial and capital markets
 - ④ to ensure the soundness of financial institutions

Japan's experience & some thoughts for the future

1) History of FSA

2) Work to deal with Japan's financial crisis

3) Recent global financial crisis

4) Comparison between the recent global financial crisis and Japan's crisis

5) Recent international discussions

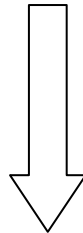
6) Some issues to consider

7) Some thoughts for the future

History of FSA (1)

- **Financial Turmoil in Japan in late 1990's**
 - Long Term Credit Banks
 - Housing Loan Problems

- **Financial Supervisory Agency in 1998**



- **Financial Services Agency in 2000**

History of FSA (2)

- 3 major Principles of the FSA -

1. Establishment of a stable financial system

2. Protection of users of financial services and improvement in user convenience

3. Establishment of fair and transparent market

Work to deal with Japan's financial crisis

- 4 Main Areas of the work -

1. Establishing a framework for the disposal of non-performing loans and for dealing with failures of individual financial institutions

2. Creating and strengthening safety net schemes

3. Improvement of Infrastructures of financial and capital markets

4. Consumer protection for users of financial services

Recent global financial crisis

➤ **21st Century type crisis**

➤ **The purpose of securitization: good combination of positive side of bank lending & direct finance**

⇒ **However, the combination of negative side emerged**

➤ **Excessive risk taking**

Comparison between global financial crisis and Japan's crisis(1) - Similarities -

1. Irresponsible lending; sharp rise of stock prices, real estate prices, and corporate and household debt

2. So-called “paradigm shift”

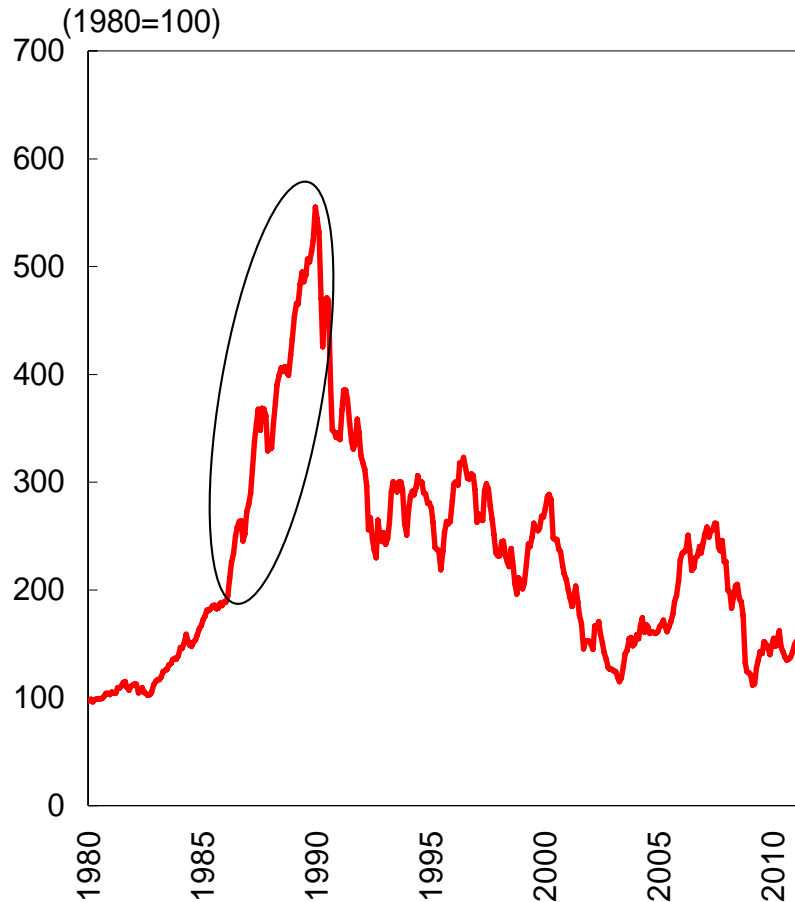
3. Adverse effects of the turmoil to the real economy

4. Failure to identify the emergence and foresee the burst of the bubble

5. Excessive risk concentration

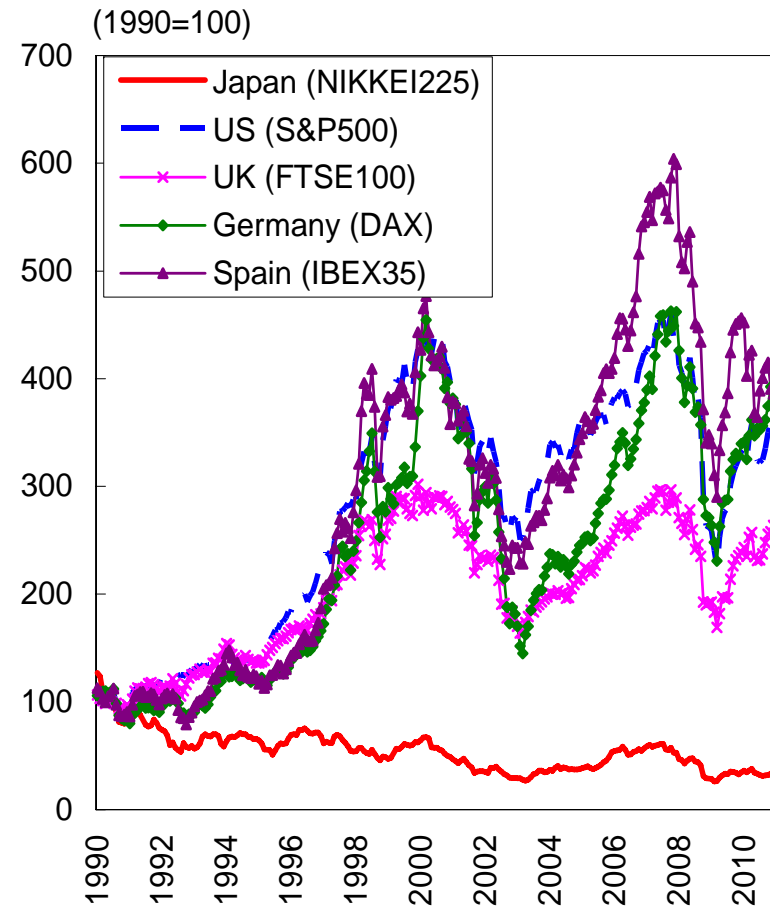
Stock prices : Rose rapidly before Financial Crisis

Japanese Stock Price



(Source)bloomberg

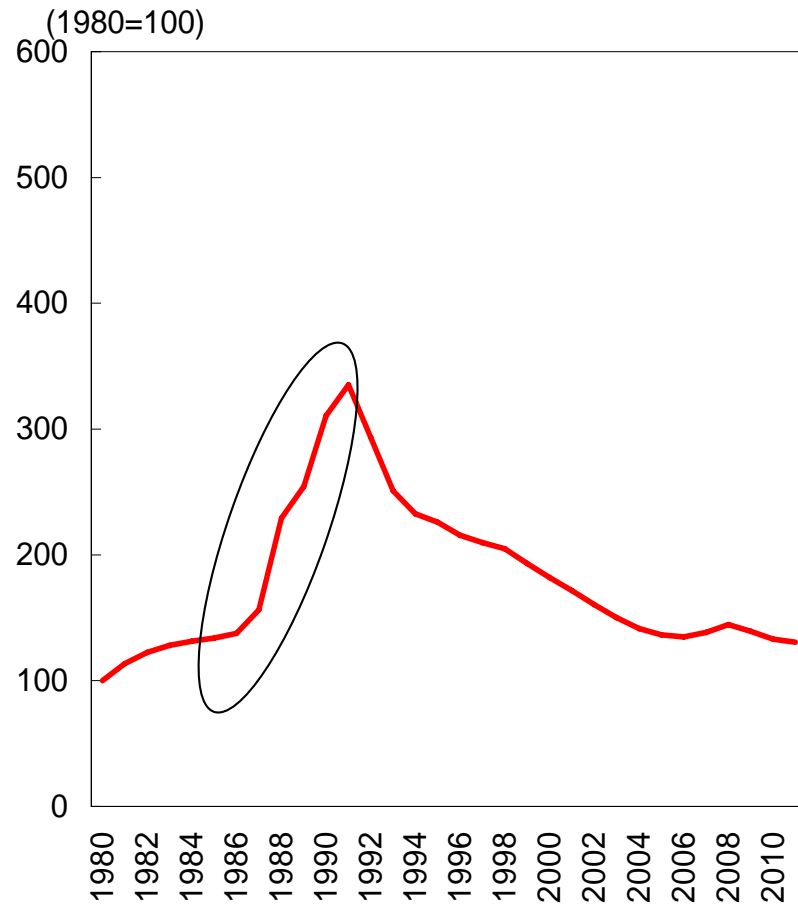
Stock Prices



(Source) bloomberg

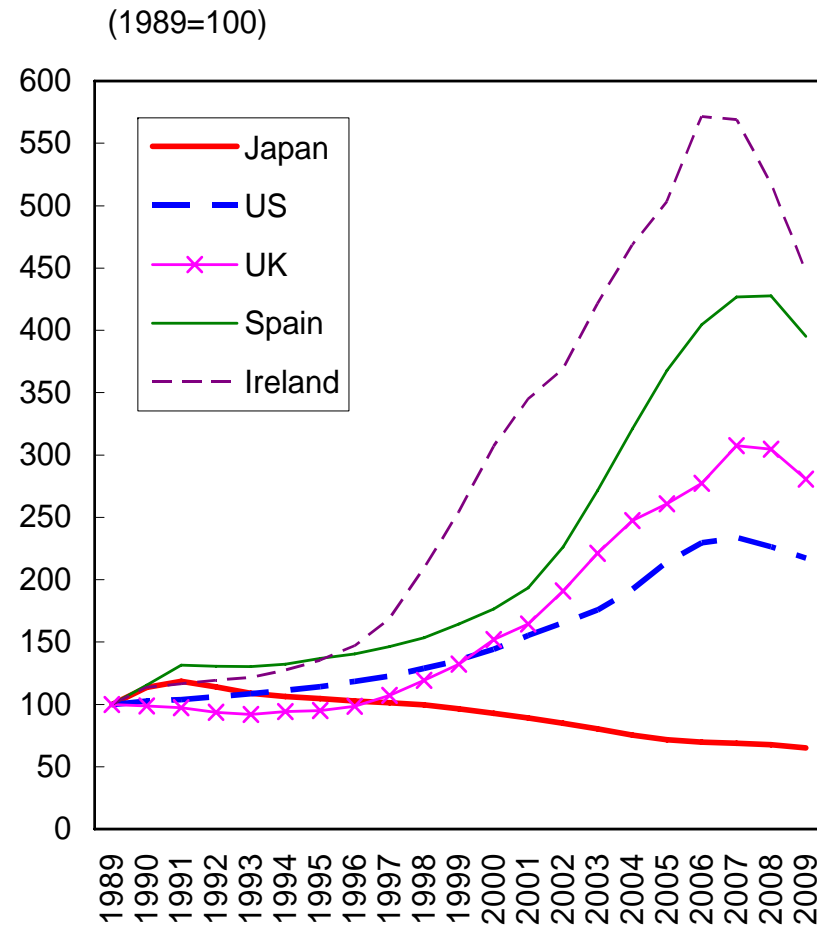
House prices : Up in the US and some European countries

Japanese Land Price index (for Residence)



(Source) Ministry of Land, Infrastructure, Transport and Tourism

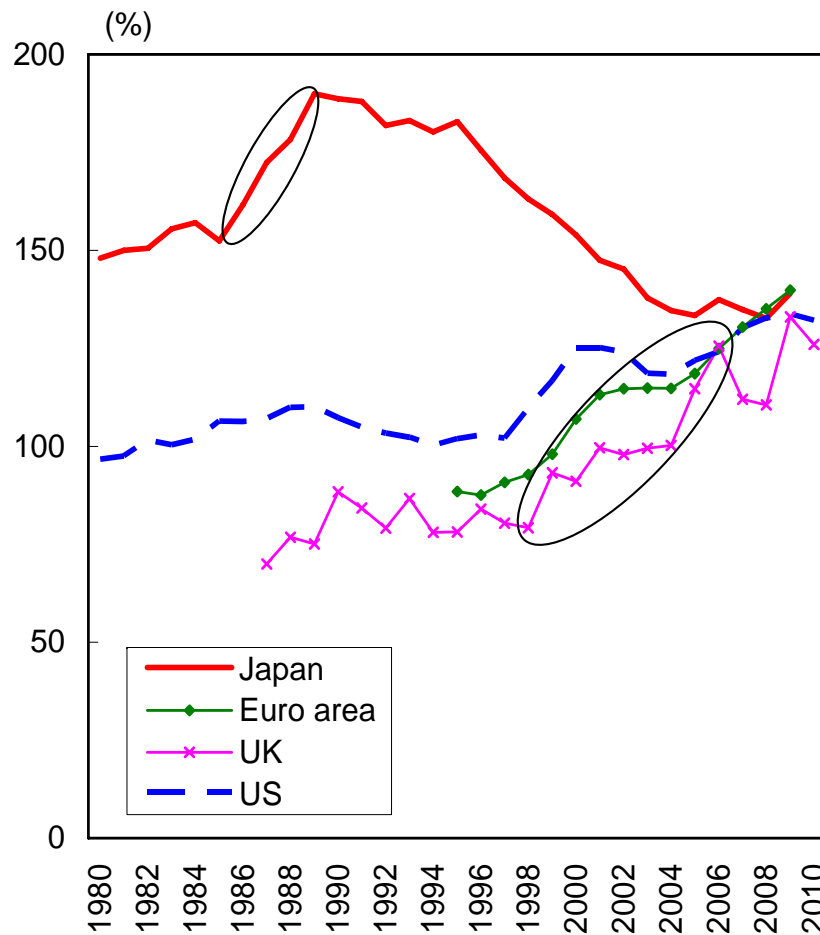
House Prices



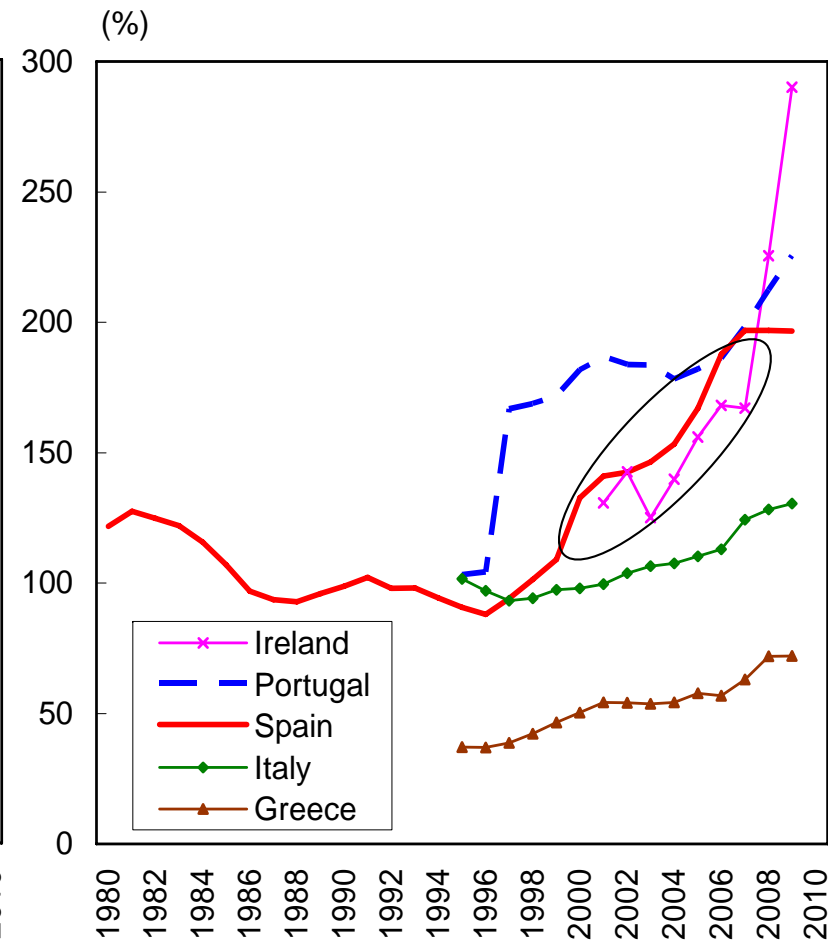
(Source) OECD: Economic Outlook

Non-financial Corporate Debt : Rapid Increase in some European countries

Non-financial Corporate Debt (% of nominal GDP)



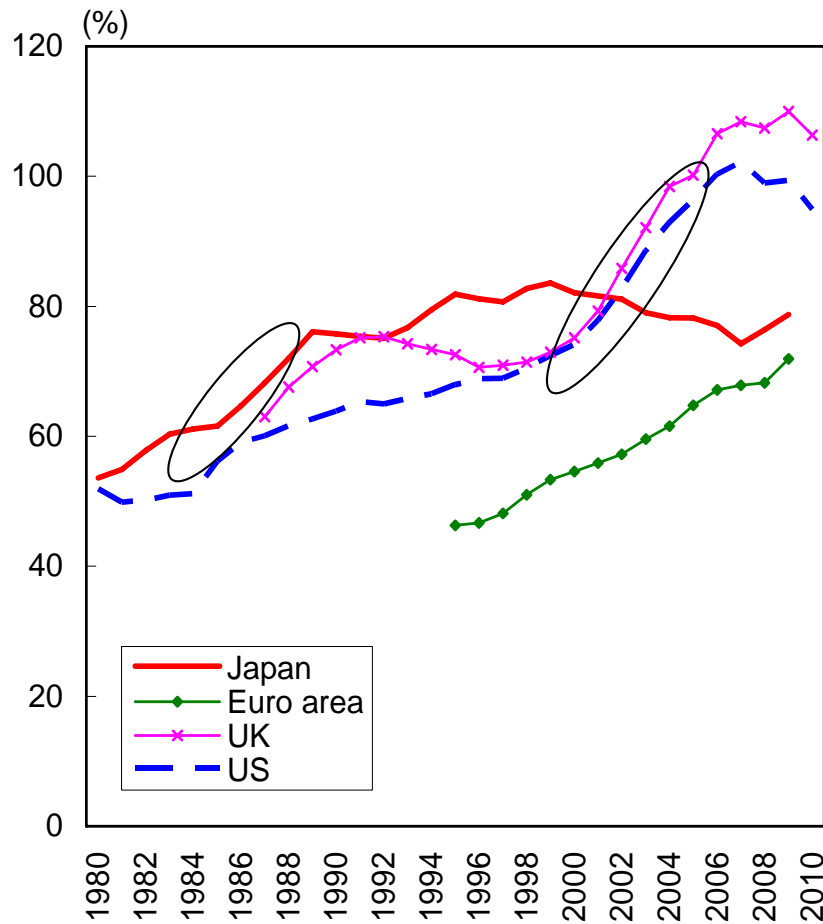
(Source) FRB, BOJ and Eurostat



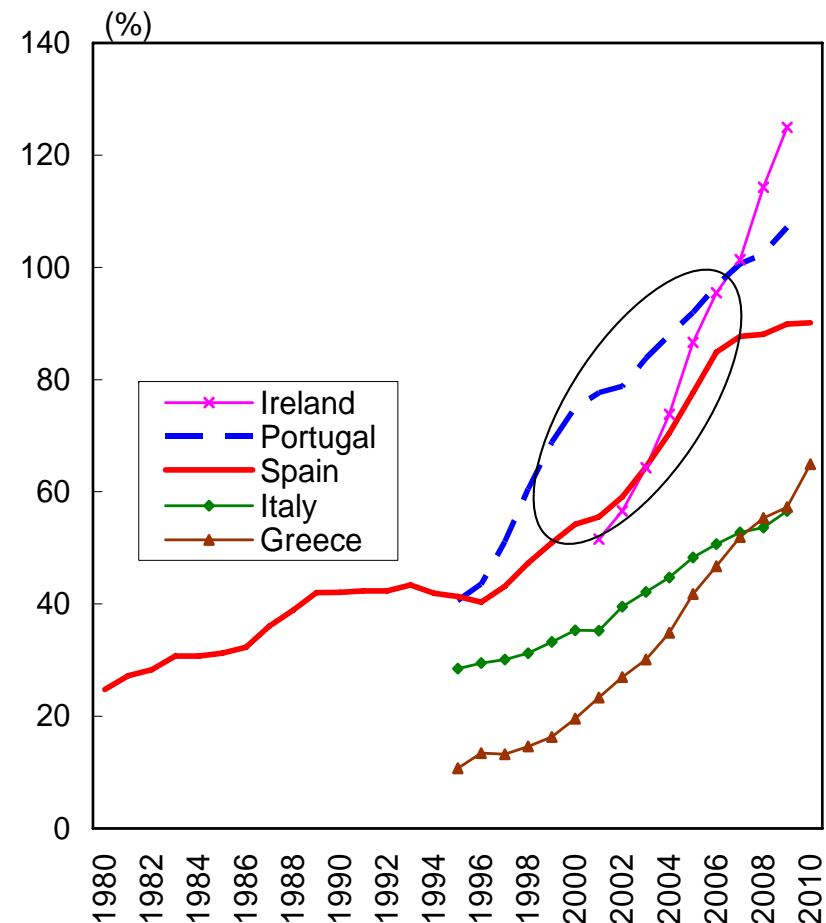
(Source) Eurostat

Household Debt : Rapid increase in the US and some European countries

Household Debt (% of nominal GDP)



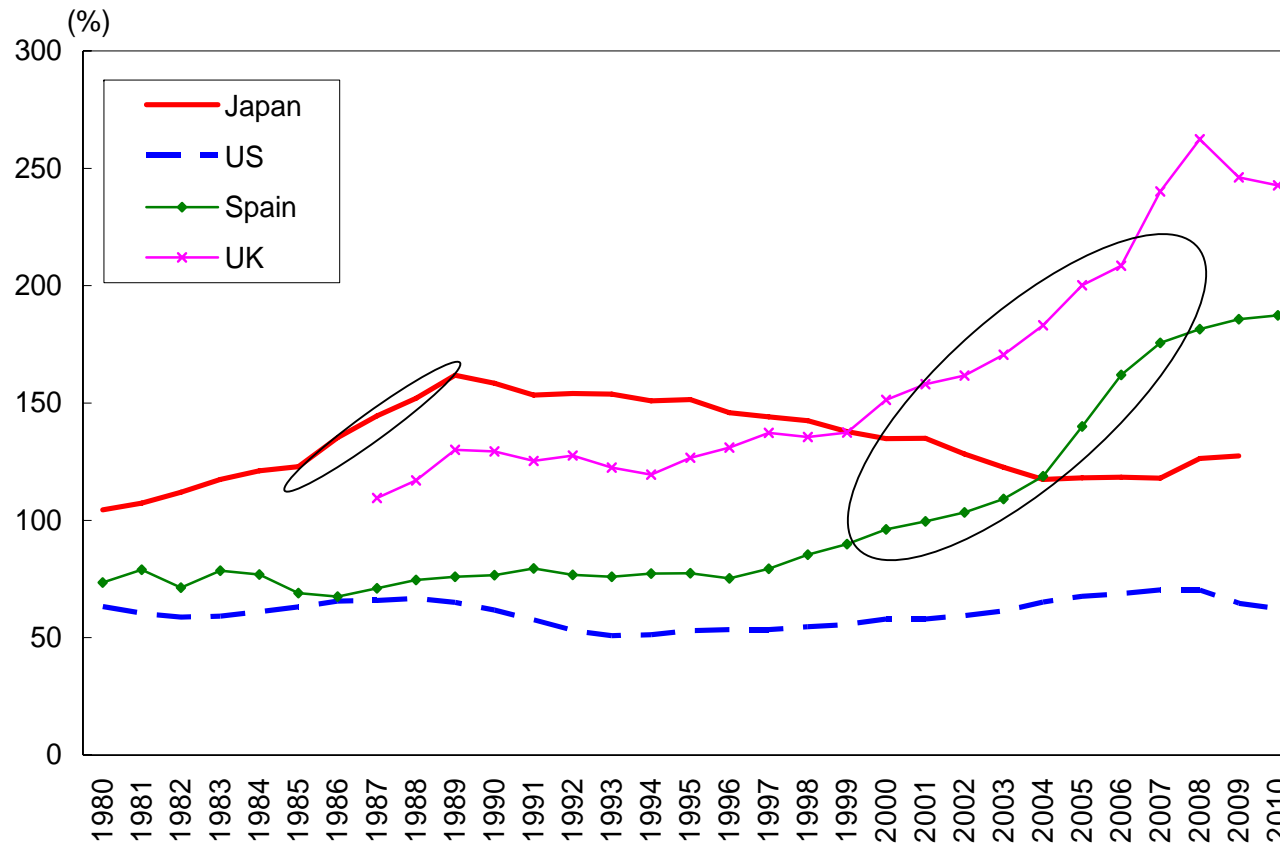
(Source) FRB, BOJ and Eurostat



(Source) Eurostat

MFI Lending : Rapid increase in some European countries

**MFI Lending
(% of nominal GDP)**



(Note) MFI = Monetary Financial Institutions
(Source) BOJ, FRB, BOE and Eurostat

Comparison between global financial crisis and Japan's crisis(2) - Differences -

1. Whereabout of the risk concentration

2. “Bank lending” and “Securitized products”

Bank lending: effect is confined to banks vis-a-vis obligors

Securitized products: products are distributed to all over the world

3. Within or across the border

4. Speed of spill-over

⇒ Need to weave the two strands in a well-balanced manner, that is, combination of domestic regulation and international coordination

Recent international discussions

- **Shift from “Bringing crisis under control” to “Preventing the recurrence of crisis”**
- **Ongoing discussion of “Basel III”, “SIFIs”, “OTC derivatives” etc.**
- **Japan’s priorities in relation to Regulatory Reform**
 - **Improving soundness of the financial system in the medium and long term**
 - **paying consideration to differences of financial system between countries**
 - **taking account of potential impact on real economy**
- **FSA will contribute to international discussion with these priorities in mind**

Some issues to consider

1. Combination between “short-term” and “mid-to long-term” objectives

2. Virtuous cycle between “financial sector” and “real economy”

3. Collaboration between “macro-prudential” and “micro-prudential” supervision

Issues to consider

- “Better Regulation” -

➤ **Need to keep well-balanced regulation**

① “Rule-based” and “Principle-based” regulation

② Striking the right balance between “fairness” and “efficiency”

③ “Consumer protection” and “self-responsibility”

➤ **Always changing circumstances and limited regulatory resources**

➤ **Need to do duty effectively and in a forward-looking manner**

I. Four Pillars of Better Regulation:

Direction to Take for Further Evolution of Our Supervisory Approach

- 1. Optimal combination of rules-based and principles-based approaches.**
- 2. Risk-focused, forward-looking approach: prompt & effective response to high-priority issues.**
- 3. Encouraging voluntary efforts by financial institutions and placing greater emphasis on incentives for them.**
- 4. Improving the transparency and predictability of regulatory actions.**

II. Specific Areas to Focus on

- 1. Enhanced dialogue with financial institutions and other relevant parties.**
- 2. Effective dissemination of information.**
- 3. Further cooperation with fellow authorities abroad.**
- 4. Enhanced research functions for prompt recognition of market developments.**
- 5. Human resource development.**

Some thoughts for the future

- **Impossible to prevent recurrence of crisis**
- **Each financial structure or instrument has both positive and negative side**
- **Keeping well-balanced viewpoint**
 - **“Excess is as bad as shortfall”**
- **In order for sound and steady economy to develop, we need**
 - **Market participants’ adequate risk control, and**
 - **Robust and consistent regulation and supervision**

Conclusion

- **Short-term challenge: the earthquake**
- **The medium to long term challenges: many challenges such as aging and shrinking population**
- **FSA has made efforts to accomplish 3 principles.**
- **This disaster showed that 3 principles has been working, and Japan will overcome the current crisis.**

Thank you



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