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Hiroshi Ugai
Bank of Japan

Concluding Remarks (RCGA Conference)

(Basic views)

I am grateful for the chance to be here today at this stimulating conference and it is a great honor to make concluding remarks.

Five years have passed since the Lehman shock. While we are still halfway to accomplishing the financial regulatory reforms, it would be a good time for us to look back on the reform efforts made in recent years and to utilize lessons learned in the coming years.

In this regard, I would like to share my broad impressions concerning two topics discussed at today's conference.

(Regulation of shadow banking)

Let me start with the first topic of shadow banking. The global financial crisis was a "market-originated crisis" in a sense that the crisis was originated in the financial and capital markets and was propagated across the globe through the markets.

Against this backdrop, the ongoing financial regulatory reforms seem to be paying attention to potential systemic risks related to the markets such as securitization markets and activities of nonbank financial intermediation.

As Mr. Singh pointed out, profiles of shadow banking in Asian countries are somewhat different from those of a certain advanced economies that were the sources of the market-originated financial crisis.

In Asia, financial intermediation through the banking sector is generally still

dominant and shadow banking is assuming a complementary role to cover the projects and areas which banks cannot cover. Even so, however, shadow banking is growing in a high speed and the risks emanated from shadow banking could be transmitted to the banking sector through various different channels, either directly or indirectly. Given this, as Mr. Singh mentioned, interconnectedness between the banking sector and shadow banking would be one of the most important points to be looked into and to be explored in the context of regulation. Also, it would be worthwhile to consider an appropriate shadow banking regulatory framework in light of regional specific features by paying due regard to the fact that both positive and negative aspects exist in shadow banking such as being a tool of promoting financial inclusion and a potential source of systemic risks.

At today's discussion, there was an argument that shadow banking regulatory framework should well take into account proportionality with regard to systemic risks. To address this issue, it would be appropriate to establish a wider regulatory perimeter not to overlook risks while adjusting the level of regulatory oversight to the appropriate level in proportion to the risks generating from shadow banking.

Such perspective is already incorporated into FSB's "High-level principles for monitoring the shadow banking system" which states that "authorities should take into account the structure of financial markets and regulatory frameworks within their jurisdiction in developing a monitoring framework". In the same way, FSB's "General principles for regulatory measures related to shadow banking" states that "Regulatory measures should be proportionate to the risks shadow banking poses to the financial system". Hence it will be safe to say that those perspectives are in line and consistent with FSB's shadow banking regulatory framework.

(Financial intermediation for growth)

Let me turn to the second topic of financial intermediation for growth. The fundamental role of financial regulation would be to reinforce the financial sector by ensuring and maintaining the stability of financial system, which would

underpin and promote growth and resilience of the real sector.

As Mr. Hoshi underlined in his remark, enhancement of long-term investment finance including smooth implementations of public-private partnership projects would contribute to sustainable growth especially in the Asian economy and an appropriate regulatory framework is indispensable to secure long-term investment finance from private funding sources. In this context, financial regulation should fulfill its role of ensuring full and well functioning of financial intermediation while controlling risks in an appropriate manner.

There are some jurisdictional differences in financial intermediation channels and various different channels for long-term investment finance. Some are banking channels and others are market channels or otherwise including some roles of public-private partnership as discussed at G20 level. For instance, since the bursting of speculative bubbles in 1990s, Japan has been seeking to establish a two-track financial system which is oriented toward the development of both the banking and the market sector. This is based on the lessons learned from the Japanese banking crises in the 1990s in which the financial system as a whole was damaged due to the concentration of risks in the banking sector.

After the global financial crisis, the Financial System Council, an advisory body to the Prime Minister, published a roundtable committee report in 2009 titled "Designing the Japanese Financial System in light of the Global Financial Crisis". In this report, it is agreed that Japan still needs to establish a well-balanced financial system by further enhancing the banking sector's financial intermediary function and by strengthening the financial intermediary function of the market sector at the same time.

By the same token, it would be desirable to aim for establishment of a wide range of financial intermediation channels in Asian jurisdictions for greater financial deepening in the region. It would be desirable to establish a regulatory framework which is compatible with those financial intermediation channels while being conducive to the global financial stability.

(Conclusion)

I think today's discussion has been extremely useful to identify region-specific features in the context of the global regulatory reforms. To close my remarks, I would like to express my expectation that all of us will deepen today's discussion further at tomorrow's FSB RCG for Asia meeting. I want to say thank you to all the participants of this conference for contributing to stimulating discussions and many staffs of JFSA who prepared this conference.