

3. Opening Remarks

Mr. Hirofumi Gomi

Commissioner, Financial Services Agency, Japan

Good morning ladies and gentlemen. Thank you very much for attending the international conference on Legal and Economic Frameworks for Consumer Protection in Asian Financial Services, sponsored by the Financial Research and Training Center of the FSA and the 21st COE Market Quality Project of the Keio University. Today we have people from Asia who are directly involved in financial administration or who are experts in the field, for direct exchange of views. I believe this is going to be a very precious forum and hope that we can take advantage of this occasion to discuss the current state and the challenges being faced in terms of financial users' protection. We hope we can learn from one another, and hope that your ideas will be useful for the Japanese financial administration. I solicit your cooperation.

Looking at the financial system in Japan, our largest issue has been normalizing the non-performing loans (NPL) issue, which has been achieved already. Now it is time to work towards further reform and vitalization of the financial and capital markets in Japan and to take advantage of the vitality coming from the financial systems. This is the challenge the financial administration is facing. Financial institutions exert their capability to the utmost and the users enjoy the benefits from the results with a sense of assurance and security. This is the financial system we are looking for.

It is essential that we ensure the reliability of the users vis-à-vis financial institutions and make sure that financial and capital markets are fair. But unfortunately, many problems have recently emerged in Japan, for example, the non-payment issue of the insurance benefits, forex margin trading-related troubles, fraudulent disclosures by listed companies, TOB-related matters, spread of rumors, as well as the repeated computer system troubles at the stock exchange.

The legal compliance and the computer systems are, of course the basis of the financial administration; if there are problems in these aspects, the users, or the consumers, suffer. In July last year, FSA established a Counseling Office for Financial Services Users, and on average we are receiving 140 or more enquiries every day. When it comes to the legal compliance and risk management, those who do not observe these

requirements will find no place in the marketplace. This is something that both the private sector and public sector have to be aware of.

In view of this situation, we are looking towards the enhancement of the trust of the users of the financial and capital market. We are paying the utmost consideration to the protection of the users and we are intensively working at a law provisionally titled "Financial Instruments and Exchanging law."

At the FSA, we noted fraudulent sales practices for certain financial instruments not covered with the user protection, and we have taken individual measures in order to enhance the user protection from the systems side. For example, in December 2004, a revision was made to the Securities and Exchange Law so that it is now applied to a *kumiai*-type (investment association-type) investment scheme. Also in July 2005, we revised the Financial Futures Trading Law so that restriction was introduced on the forex margin trading. But there are still reports of, for example, business-type funds sold as *tokumei*-type partnerships to the general investors who turned out to be victimized. Also, some financial institutions were found to be engaged in inappropriate practices with regards interest rates swap. There are obviously certain loopholes in the current legal framework for the protection of users, and hopefully we can find some way to come up with a broader cross-sectional user protection framework covering all the financial instruments. That is why we have been trying to enact this particular law.

As for the basic framework of this law, we hope that current laws with similar characteristics should be consolidated into a single law to the extent possible. We are also considering consolidating the Financial Product Solicitation Law, which is geared to consumer protection, to the new law. Currently, we are working for the prompt enactment of the new law, because it would contribute to the further restructuring of the financial system and will be able to make the financial system in Japan even more vital. The regular Diet session is now on and we hope we can submit the bill to the current Diet session.

In the process of enacting the laws, we need to pay consideration to the harmony with the international rules. Today's conference is particularly significant as well in this regard, too.

In addition to preventing financial crimes, on February 10, the so-called Depositors'

Protection Law was enforced. Steps have thus been taken steadily to strengthen the financial users' protection. In the country report session later, Prof. Kozuka from Sophia University and Dr. Sugiura from FSA Research Institute will be reporting on the current status of financial users' protection in Japan.

I hope that you can have a great time attending today's conference. I hope that it will also be of some reference to your future work, and I hope that the results can contribute to the further enhancement of each country's financial users' protection. Well, thank you so much.