

Toward Stronger Financial System: Challenges facing Financial Environment in Japan and Asia

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1. Financial Institutions Growing Hand-in-Hand with Regional SMEs

- Priority given to development of “Relationship Banking” in Japan
- No policy changes on provision of smooth financing for SMEs, even after the expiration of the SME Financing Facilitation Act
- Taking comprehensive support measures to facilitate business improvement of client enterprises, including the use of:
 - ✓ Regional networks of experts
 - ✓ Regional Economy Revitalization Support Corporation of Japan

2. Regime for Orderly Resolution of Financial Institutions

- Robust safety net already in place against conventional banking crises
- Working on development of a regime for the orderly resolution of financial institutions to cope with global market dysfunction; its features include:
 - ✓ covering the entire financial services sector, including insurance and securities companies in addition to banks
 - ✓ providing extensive measures to maintain stability of the financial system, including, providing liquidity, financial assistance and capital reinforcement, while phasing out market transactions

3. Financial Measures to Overcome Deflation

- Revitalizing the economy and overcoming deflation as the top priorities of the new Abe Administration
- Strenuous efforts being made to provide ample financing to the growing sector
- Initiatives in the indirect financing area
 - ✓ Regional Economy Revitalization Support Corporation of Japan
 - ✓ Diverse financing methods

- Initiatives in the direct financing area
 - ✓ Japanese version of the Individual Savings Account (ISA)
 - ✓ Effort to allocate public and quasi-public funds to growth areas
- Promotion of private-public partnerships (PPP)

4. The Need to Deregulate Financial Regulation to Attract More Long-term Foreign Investment

- How should financial regulations be designed in order to attract long-term foreign investment?
- “Long-term Financing for Investment” is referred to in the G20 Communiqué.
- Issues to be addressed: excessive financial regulation, and lack of transparent and predictable enforcement of financial regulations
- Japan’s way: “Better Regulation” to emphasize the importance of good governance and self-discipline of financial institutions, and to enhance transparency and predictability of enforcement

5. Strengthening Financial Cooperation with Asian Countries

- Japanese financial institutions are expected to work on:
 - ✓ Medium- to long-term growth strategies with Asian customers and long-term commitment to building relations of trust
 - ✓ Cooperation in building financial infrastructures in Asia, such as stock markets and local-currency denominated bond markets
- Japanese government (FSA) will contribute to the development of financial systems and architecture in Asia, including:
 - ✓ Legal structure and financial regulations, with input based on what Japan learned from its failures;
 - ✓ Financial infrastructures, such as electronically-recorded monetary claims systems and solid and transparent methodology to calculate insurance premiums
 - ✓ “Better Regulation” concept
- Further efforts for technical cooperation and staff exchange to strengthen Asia’s financial infrastructure