

ADBI – JFSA Joint Conference
Strengthening the Asian Financial Sector toward
Sustainable and Inclusive Growth
[March 8, 2013]

Session IV:
Financial Regulation in Asia – The Way Forward

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- I. How Do Asian Financial Regulators Contribute to Growth?**
- II. Japan's Approach**

* Any views expressed in this presentation are those of the speaker, and do not represent the official views of JFSA.

I. How Do Asian Financial Regulators Contribute to Growth?

- Attracting foreign investment is the key to sustainable growth.

⇒ There is much that financial regulators can do.

Communiqué [Meeting of FMs & CBGs, 15-16 February 2013]

Long-term Financing for Investment

6. We recognize that long-term financing for investment, including infrastructure, is a key contributor to economic growth and job creation in all countries. there is scope for some sources of long-term financing, including local currency bond markets, domestic capital markets, and institutional investors to play a larger role for investment. At the same time, country-specific factors affect access to long-term financing and there is therefore much that countries can do to attract long-term financing.

I. How Do Asian Financial Regulators Contribute to Growth?

1. Investor-friendly financial regulations

- Excessive financial regulations could have negative impact on foreign investment (in particular for infrastructure)

e.g.) ✓ Priority sector lending

✓ Cap on loan-to-deposit ratio

⇒ Need to strike the right balance between:

- domestic policy considerations (e.g. prudence of financial institutions and industry protection); and
- building a better foundation for higher & sustainable growth by investment in infrastructure

I. How Do Asian Financial Regulators Contribute to Growth?

2. Predictable & transparent enforcement of financial regulations

- Predictability is crucial for better investment climate.
(See page 6 for Japan's approach)

3. Better financial infrastructure

- e.g.)
- Solid inter-bank settlement system
 - Earthquake & flood insurance systems

⇒ Japan is happy to share its knowledge and expertise with Asian countries

I. How Do Asian Financial Regulators Contribute to Growth?

4. Better corporate governance

- “World–class rules” alone do not produce outcomes. (“tick-the-box” approach does not suffice.)
Improve enforcement for better outcomes.
- Full disclosure is crucial to enable investors to measure competitiveness & governance of firms.
- Protection of minority shareholders should be given priority to attract foreign direct investment.
- Application and proper enforcement of high quality international accounting standards should help enhance investors’ confidence and capital inflows.

II. Japan's Approach

- **For transparency and predictability:**
 - JFSA publishes its Supervisory Guidelines* and Inspection Manuals, as well as FAQs and Inspection Casebooks;
 - * see for an example: <http://www.fsa.go.jp/en/refer/guide/conglomerate/index.html>
 - JFSA's supervision and inspection are clearly and explicitly based upon the pre-stipulated & published Guidelines and Manuals; and
 - JFSA hears views of financial institutions through:
 - 1) seeking public comments for any draft (new and revised) regulations, Guidelines and Manuals;
 - 2) having dialogues with financial institutions when JFSA considers important new initiatives.
- **JFSA also publishes its basic principles: “Four Pillars of Better Regulation.”**

II. Japan's Approach

– Better Regulation : Outline

- **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.
- **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.