

Financial System Stability and Competition

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The views expressed in this presentation are not necessarily the official views of the FSA Japan.

JFSA Mission Statement

- 1. Ensuring stability of the financial system**
- 2. Protection of users and improvement of convenience**
- 3. Establishing fair and transparent market**

Pillar

- I: Rules-based and principles-based supervisory approaches**
- II: Prompt and effective responses to high-priority issues
(risk-focused, forward-looking approach)**
- III: Encouraging voluntary efforts by financial institutions,
and placing greater emphasis on incentives for them**
- IV: Improving and predictability of regulatory actions**

New Supervisory Approach and Tools

1. Countercyclical capital buffer under Basel III

2. Macroprudential supervision

3. Stress testing

4. Global cooperation (Supervisory college)

5. Ending too-big-to-fail

- Crisis management group for each G-SIB
- Operational resolution plan for each G-SIB
- Gone concern loss absorbing capacity (bail-in)
- Resolvability assessment

Self-discipline of Bank Managers

1. Corporate Governance

- (1) Engagement of the Board**
- (2) Commitment of firm's senior management**
- (3) CRO and internal audit functions**
- (4) Succession planning**

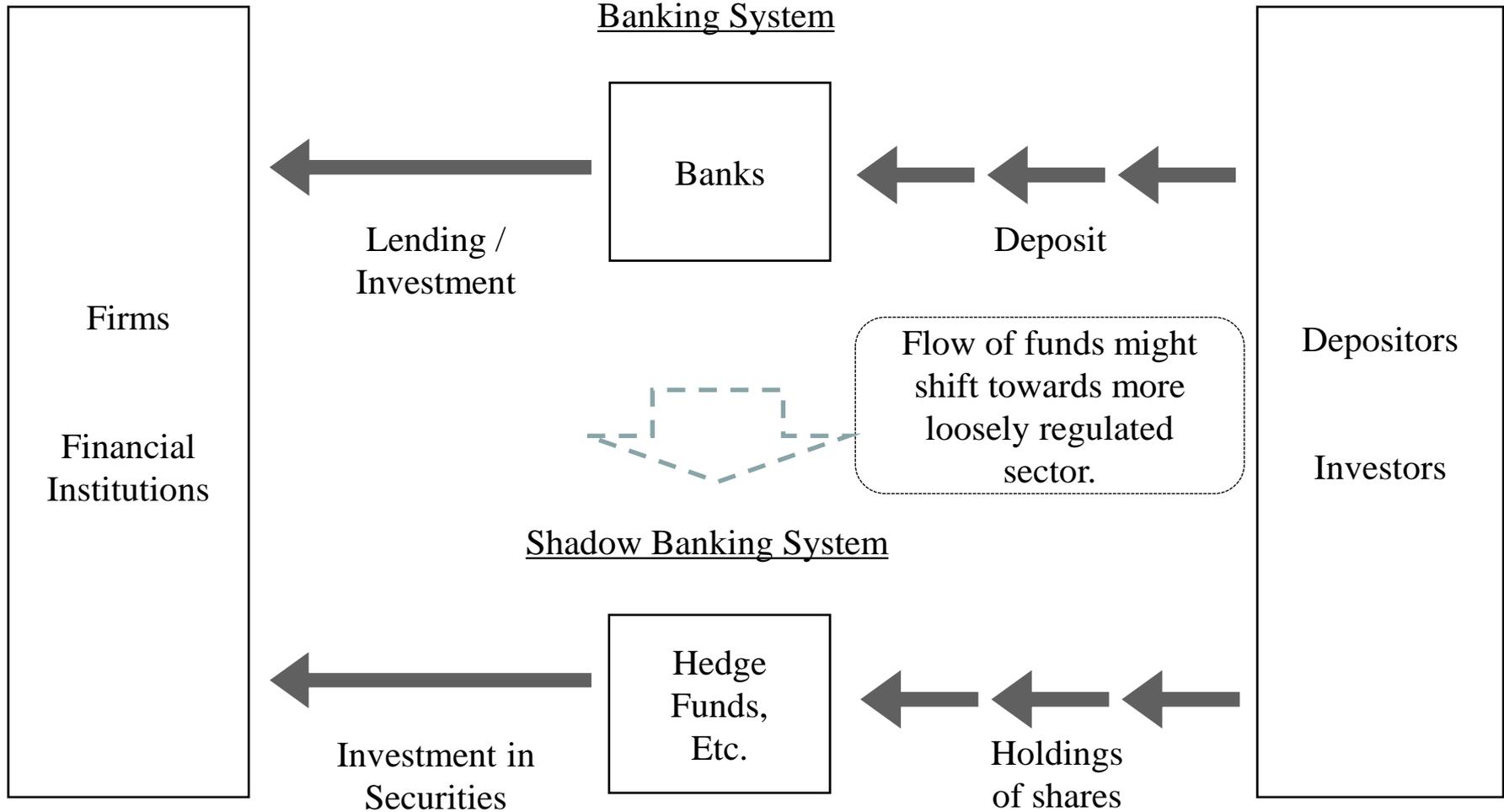
2. Risk appetite and culture

3. Operational risk

4. Sustainable business model

5. Remuneration policy

Shadow Banking (Credit intermediation which occurs outside of banking system)



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- After the financial crisis, it has been recognized that entities which conduct credit intermediation like banks, and such activities themselves, are not subject to capital / liquidity regulation and prudential supervision, and hence regulation and supervision on shadow banking need to be strengthened.
- At the G20 Cannes Summit (November 2011), Financial Stability Board (FSB) was asked to build recommendations for regulation and oversight of shadow banking system in the course of 2012.
- Regulation and oversight of following areas are being examined by the FSB etc.
 - (i) The indirect regulation of shadow banking through banking entities
 - (ii) Money Market Fund (MMF)
 - (iii) Securitization
 - (iv) Securities lendings and repos
 - (v) Other shadow banking entities

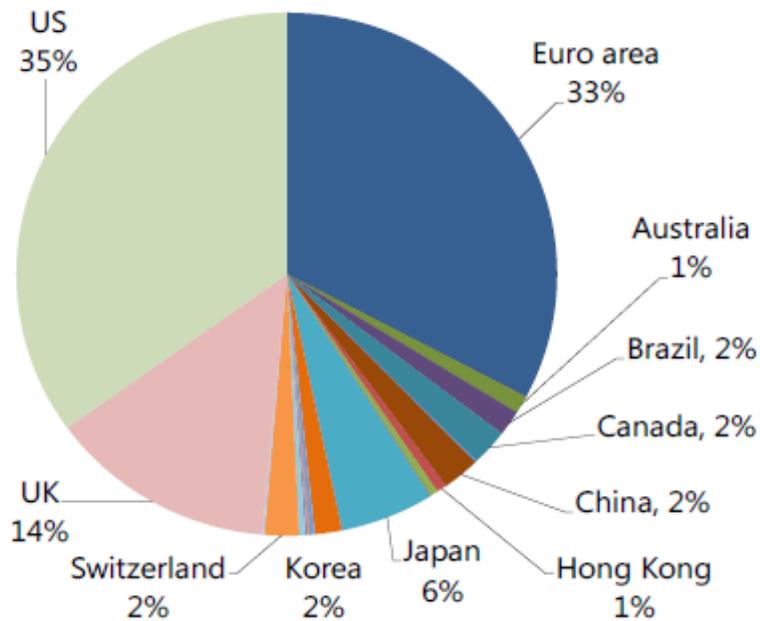
Global Shadow Banking Monitoring Report 2013

Report of the Financial Stability Board , 14 November 2013

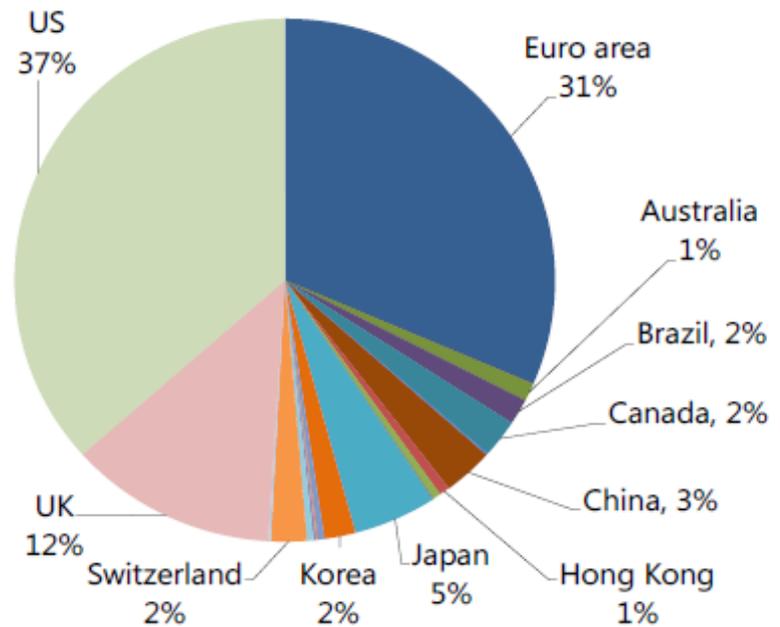
Share of assets of non-bank financial intermediaries

20 jurisdictions and euro area

At end-2011



At end-2012



Sources: National flow of funds data; other national sources.

Conclusion

- 1. To strike a balance between the competition and stability is a challenge. The nature of the regulations is changing, and the role of the supervision and self-discipline of the bank management is coming to the fore.**
- 2. However, the effectiveness of the new approach has not been well tested yet. Another full-scale financial crisis may not be avoidable. Adequate deposit guarantee scheme and resolution fund are needed as a backstop.**
- 3. Healthy competition between banks and non-banks may contribute to the financial stability on the whole. The difference of the size and nature of the shadow banking sector between Asia and US/Europe should not be overlooked, and we should pay attention to the differences in the discussion of the standard setting bodies.**

Feature of Asia Banks' Business Strategy / Model

1. Traditional commercial banking model

2. Strong capital position

3. Not high level of leverage

4. High quality assets

- High loans to assets ratio
- Healthy net interest margin
- Low NPL ratio

5. Enhancement of fee business

6. Simple business segment

7. Selective Focus on geography - Asia market