

*Sound Policy Framework for Effective
and Efficient Financial Regulation :
Perspectives as Market Regulator*

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Agenda

1. **Better Regulation and the Financial Crisis**
2. **Responses to the Financial Crisis**



1. Better Regulation and the Financial Crisis

Better Regulation Initiative by FSA (2007-)

- **Best mix of Principle-based approach and rule-based approach**
- **Forward looking approach; identification of risks and risk-based approach**
- **Leveraging self-discipline of market participants and incentives**
- **Transparency and accountability of financial regulation and its implementation**

Better Regulation for SESC as market regulator;
Policy Statement of the SESC (2007) (1)

Policy Objectives; Market integrity and investors protection

- 1. Timely and comprehensive oversight with more strategic focus;**
 - Best-mixed combination of tools of oversight**
 - Proactive oversight for potential risks and misconducts**
 - Enhanced cooperation with SROs and overseas regulators**

Better Regulation for SESC as market regulator;
Policy Statement of the SESC (2007) (2)

- 2. Leveraging market discipline with enhanced outreach to stakeholders for market integrity**
- **To enhance self regulatory functions by SROs**
 - **To encourage self discipline among market participants**
 - **Enhanced dialogues and communication with market participants**

Current market environment (I)

Increased risks

- Credit risks
- Liquidity risks
- Counterparty risk
- Systemic risks; institutions (banks, investment banks, global firms, hedge funds...), products (CDS, non-regulated products), markets (dark pools, OTC transactions...)
- Market misconducts; insider dealings, market manipulations, false financial disclosures by public companies, financial fraud...
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Current market environment (2);

Changes in regulatory environment

- **G20, FSB, BCBS, IOSCO**
- **Capital adequacy for banks**
- **Oversight of non-regulated institutions and products; hedge funds, credit rating companies, CDS, OTC derivatives,**



2. Responses to the Financial Crisis

Enhanced surveillance and oversight of regulated institutions, products and markets

More proactive and forward looking approach to identify risks and misconducts

- Target and thematic on-site examination of broker dealers and investment banks; short selling, solvency..
- stock prices
- CDS spreads
- financial disclosures
- changes in external auditors
- a watch list of listed companies

Enhanced oversight of new products, markets and institutions

- **CDS; transaction process, risk management and internal control at market makers**
- **OTC derivatives**
- **Direct Market Access (DMA)**
- **Alternative markets and dark pools; transparency of transactions and their oversight**
- **High speed and frequency transactions; Arrowhead at Tokyo Stock Exchange (Jan 2010-), impact to transaction patterns and broker dealers**

Enhanced collaboration with Self Regulatory Organizations (SROs)

- **Industry associations**
- **Stock Exchanges**
- **Bilateral and multilateral collaboration among SESC, industry associations and stock exchanges**
- **Sharing information and expertise; rule-makings, dialogues, trainings**

Enhanced outreach to stakeholders for market integrity

- **External auditors and CPAs**
- **Law Firms and Bar Associations**
- **Professional gatekeepers (tax accountants, due diligence, investor relations...)**
- **Listed companies**
- **Investor education**
- **Media**
- **IT company; digital forensic**
- **Law schools, accounting schools and other academics**

Collaboration with stakeholders

- Market integrity cannot not be ensured only by regulators/supervisors
- Collaboration between regulators and other stakeholders for market integrity is essential.
- Enhancing discipline among stakeholders for their respective role for market integrity by
 - supervisory oversight; off-site and on-site
 - enhanced dialogue
 - enhanced outreach



Thank You

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<http://www.fsa.go.jp/sesc/index.htm>