



EUROPEAN BUSINESS COUNCIL
JAPAN



Promote Tokyo as a Global Financial Centre

Presentation to the FSA Study Group on the
Internationalisation of the Financial Market

6 March 2007

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What is the EBC?

Trade policy arm of 18 European National Chambers of Commerce, Business Associations and other organisations in Japan:

- Austrian Business Council
- Belgian-Luxembourg Chamber of Commerce in Japan
- British Chamber of Commerce in Japan
- Danish Chamber of Commerce in Japan
- Enterprise Estonia
- Finnish Chamber of Commerce in Japan
- French Chamber of Commerce and Industry in Japan
- German Chamber of Commerce and Industry in Japan
- Hellenic Trade Board
- Icelandic Chamber of Commerce in Japan
- Italian Chamber of Commerce in Japan
- Japan Ireland Economic Association
- Netherlands Chamber of Commerce in Japan
- Norwegian Chamber of Commerce in Japan
- Polish Chamber of Commerce in Japan
- Spanish Institute of Foreign Trade
- Swedish Chamber of Commerce and Industry in Japan
- Swiss Chamber of Commerce and Industry in Japan



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Representing more than 350 companies in all and 67 in the Financial Services Sector in **3 committees**

Aeronautics

Airlines

Animal Health

Asset Management

Automobile

Automotive Components

Banking

Business Aviation

Construction

Cosmetics

Defence

Environmental Technology

Food

Human Resources

Insurance

Legal Services

Liquor

Materials

Media & Communications

Medical Diagnostics

Medical Equipment

Patents, Trademarks & Licences

Phytosanitary

Retail, Wholesale & Distribution

Shipping

Space

Tax

Telecommunications Carriers

Telecommunications Equipment

(plus link to EFPIA)

29 EBC Committees



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How to make Tokyo more attractive for Global Financial Institutions

1. Fulfill the "Big Bang" de-regulation promise made by Prime Minister Hashimoto in 1996
2. Deregulate cross-entry restrictions in order to allow the establishment of Universal Banking Structures
3. Improve Regulatory Transparency by moving to a truly rule-based system



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1. Fulfill the "Big Bang" reform programme of Prime Minister Hashimoto launched in 1996

Liberalization of international capital transactions	○
Product liberalization (securities, investment trusts, derivatives, etc)	○
Deregulation of cross-entry among banking, trust, securities and insurance	×
Removal of the ban on financial holding companies	○
Liberalization of fixed brokerage commissions	○
Harmonization of accounting standards with international practices	△
Stricter disclosure rules for banks and securities firms	○
Creation of safety net for securities and insurance firms	○
Creation of the FSA	○
Full revision of the BoJ Law (increased central bank independence)	○
Change in the style of financial administration (towards rule-based)	×



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Deregulation of cross-entry - Promote Universal Banking

- Allow concurrent management of banking and securities businesses (article 33 of the new Financial Instrument Exchange Law is the crucial issue)
- Revise article 1 of the Law concerning the concurrent management of trust business by Financial Institutions to also include Branches of Foreign Banks
- Fully liberalise the sale of Insurance Products through Financial Institutions
- Harmonise licensing, filing and customer disclosure requirements for Investment Trust Management and Investment Advisory Management
- Allow Asset Management companies to place orders on behalf of overseas affiliates as well as promote off-shore funds for related companies without additional licensing



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Why is cross-entry deregulation important?

- An integrated Financial Services Market is becoming the norm of the Global Economy as it has proved to be the most efficient way for financial companies to fulfil their societal function of allocating resources in the economy while dealing with risks for investors
- Stringent firewall restrictions force Financial Institutions to establish *different structures in Japan* from all other global locations at a very high cost
- This makes it difficult for Financial Institutions to offer a full range of financial services to clients and to evaluate and manage group risks
- Firewalls obstruct everyday business and create incentives to conduct business outside of Japan
- Firewalls obstruct competition and the development of a vibrant financial sector in Japan



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How to deal with conflicts of interest?

- Market mechanism has proved to be efficient in punishing actors abusing their position in the interest of certain individuals, departments or clients – “reputation risk”
- Enforce internal control mechanisms and corporate governance through which potential conflicting interests (i.e. underwriting departments and brokerage) are separated
- Enforce disclosure requirements for investment analysts, credit rating analysts and auditors to reveal any interest they have in firms they analyse or audits
- Encourage codes of conduct developed by industry participants in cooperation with supervisors together with clear rules of enforcement
- Provide adequate resources to supervisors to monitor conflicts of interests



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Improve regulatory transparency

- Boost the use of no-action letters and written advice concerning the general interpretation of laws, etc., without the need to pre-negotiate content
- Make use of the system of interpretative letters established in 2005 by advising on the interpretation of laws and other rules given to one regulated entity and making this advice generally available to the industry as a whole
- FSA guidelines should be updated on a regular basis to reflect the content of all interpretative statements
- Improve the inspection process by letting companies appeal findings and discuss the results with third-party bodies and abandon the practice of making them sign confidentially pledges to prove compliance
- On top of Kaito Bunsho System – Tax Rulings and Clarifications should be made publicly available in an anonymous format



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Why is regulatory transparency important?

- Companies need predictability if they are to expand in scope and services
- Innovative products used in other markets do not find their way to Japan as the introduction cost is unreasonably high due to the lack of general information on what is and is not permissible
- Lack of transparency in tax treatment discourages deals in Japan