

## **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