



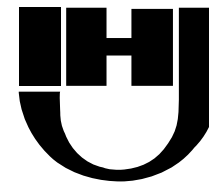
2018

*Japan-U.S. Symposium on Building the  
Financial System of the 21<sup>st</sup> Century*





# **Trumponomics and Financial Deregulation: Impact on International FIs**



## Trumponomics

- Is there a coherent program?
  - Fiscal: tax cuts plus increased spending
  - Regulatory agenda: pro-growth, based on cost-benefit
  - Trade agenda: “fair and reciprocal”
    - Highly confrontational – effective tactic or threat to global system and trust?
    - Is core objective containment of China?
    - Desire to make currency central element of trade agreements
- Effects
  - Increased growth, lower regulatory burden
    - Is rapid growth sustainable?
  - Regulatory effects
    - How much change for large FIs?
    - Are “regulatory vacuums” (fintech, non-banks) opening door to next crisis?



## **Diverging Approaches to Regulation**

- Dilemmas of financial regulation
  - Stability (Europe) vs. growth (US, Japan)
  - Function vs. entity
  - Principles vs. rules
  - What constitutes a level playing field?
- International coordination
  - Is US willing to abide by international agreements?
  - Is US still able to set global agenda?
    - Importance of US-Japan cooperation
  - Will there be sufficient trust to cooperate in crises?



## Key Issues for Regulators

- **Fragmentation**
  - Derivatives: onshoring of clearing by EU in reaction to Brexit
  - Ringfencing of bank capital
  - Overlapping and contradictory regulations
- **Risk migration**
  - From banks and insurers to fintechs, non-banks, asset managers
  - Are we creating conditions for the next crisis?
- **Insurance**
  - If Solvency II is basis of global regulations, will stunt ability to invest in growth assets
  - Fintech incursions – JFSA is way ahead
  - Postal insurance still privileged relative to private sector
- **Data and Regulation**
  - Data protection and privacy
  - Data localization
- **Uncertainty as regulatory regimes diverge**
  - What rules will apply to Japanese and other foreign bank subsidiaries in US?
  - How will US-EU divergence be managed for multinational FIs?



## International Cooperation

- Financial industry increasingly globalized, but regulation less coordinated
  - Implications for crisis management: is US more isolated and/or vulnerable?
- US-Japan cooperation
  - Common preference for growth-oriented regulation
  - Opportunities for cooperation to push growth to top of G20 agenda
- Bilateral vs. multilateral
  - Trump has stated preference for bilateral
  - Will this be stumbling block to global supply chains and regulatory cooperation?
    - Particularly for electronics and IT, where security is implicated
  - Provisions of bilateral agreement can serve as templates for broader cooperation
    - Perhaps US-Japan FTA is an opportunity for both countries to set precedent
  - Will CFIUS be just China-focused or will it affect FDI from Japan and elsewhere?



# **Financial Technology and Banking: Threats and Opportunities**



## What Do We Mean by Fintech?

- Client-facing vs. operational
  - Not all fintechs are alien disruptors
  - Fintech can also improve existing FI operations and functions (trading, ledgers, credit assessment, KYC, etc.)
- Some key disruptive technologies
  - AI and Big Data – credit rating, trading, roboadvising, etc.
  - Distributed ledgers – not just cryptocurrencies; record-keeping and settlement probably more important
  - Platformization – Ethereum, etc.
- What is unchanged?
  - Trust remains key to financial intermediation
  - Many fintech functions are just more efficient ways of managing standard tasks
- What is different?
  - New products and services
  - New algorithms and sources of data





## Uses and Implications

- **Cryptocurrencies**
  - Public vs. private vs. token
  - Are they currency or asset?
  - Should private cryptocurrencies even be allowed?
    - Money laundering, tax evasion concerns
    - Potential impact on monetary policy
- **Distributed ledger technology experiments**
  - ASX declaration (and postponement)
  - Shipping, trade finance, custody, post-trade settlement
  - Still testing within and among traditional FIs
- **Insuretech**
  - Biometric verification
  - Claims adjustment through Big Data, AI, sensors
  - Streamlining processes and client-facing technologies
- **Fraudulent activities**
  - May damage reputation of fintechs, slow down innovation



## Regulatory Challenges

- Whom to regulate?
  - When does a fintech become a regulated FI?
  - How to regulate platforms and vendors?
- Regulation vs. innovation
  - FIs need to understand regulatory environment
  - Many fintechs see themselves as tech firms, lack understanding of financial or legal context
  - Regulatory sandboxes as intermediate
- What to regulate
  - Data security and privacy
  - Prudential
  - AML, KYC
  - Resilience planning



## Regulatory Challenges, cont.

- Fintech risks
  - Herd behavior stemming from common strategies
  - Unforeseen consequences of new, unproven data and algorithms
  - Fraud and consumer protection
- Regulators' capabilities
  - Knowhow and tech capabilities
    - Regulators around the world need to improve
    - Via own staff or public-private advisory mechanisms
    - Investor education
  - Cross-border cooperation
    - Whose jurisdiction? How to manage?



## Other Issues

- Who wins and loses?
  - Redistribution of value from traditional FIs to new actors and clients
  - Tendency of scalable tech toward concentration
  - Small FIs likely to lose out
    - Rising concentration in finance
    - Reliance on platforms – small banks may become just servicers
  - Generational issues affect implementation, demand for fintech services
- Japan issues
  - Are Japanese FIs and software firms up to the challenge?
    - Need to develop skills
    - Even large FIs playing catch-up; must embrace change
  - Japanese people still love cash
  - Japan is ahead of the game but regulatory framework still a work in progress
    - Learning from Mt. Gox and Coincheck
    - ICOs still not allowed
    - Sandboxes not yet in place



## UPCOMING EVENTS

### Europe-U.S. Symposium

*Paris, France*

March 20-22, 2019

### China-U.S. Symposium

*Washington, DC*

June 5-7, 2019

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