



2018

*Japan-U.S. Symposium on Building the
Financial System of the 21st 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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