



FINANCIAL SERVICES

The Financial Services Working Group of the Japan-U.S. Business Council and the U.S.-Japan Business Council endorse collective actions in five areas: *Realization of a Sustainable and Carbon Neutral Society, Regulations, Japan as a Global Financial Center, Promotion of Digital Financial Innovation, and Securing the Future for an Aging Population.*

1. ***Realization of a Sustainable and Carbon Neutral Society.***

The momentum to achieve a sustainable and carbon neutral society has accelerated globally. The financial services sector can play a key role in this effort, through initiatives such as developing common taxonomies and supporting transition activities, in addition to promoting sustainable finance and assessing climate change risk. This trend also offers the U.S. and Japanese governments, in coordination with the private sector, the opportunity to align domestic climate-related frameworks and to coordinate in international standard-setting. In this context, the Councils' recommendations are:

Reporting and Disclosure. Both countries' financial regulatory agencies should engage in a public-private dialogue for the purpose of considering disclosure and reporting standards related to sustainable-financing activities, and climate-related risks and opportunities. The goal should be to establish a framework for reporting and disclosure that balances investor needs for transparency and informed decision-making with the need for financial institutions to have flexibility within the framework in view of the uncertainties and subjective interpretation inherent in any analysis of the assessment and impact of sustainable financing activities.

Principles for Taxonomies/Promoting Transition Finance. The Councils support the transitional activities needed to achieve a sustainable and carbon neutral society in an orderly manner, and encourage U.S. and Japanese regulators to work with other countries to develop flexible and practical taxonomies, which avoid a "one-size fits all" approach.

Infrastructure Financing. Infrastructure is the foundation for enhancing productivity and competitiveness and realizing sustainable economic growth. The Councils support U.S.-Japan cooperation in national infrastructure projects and urge the sharing of best practices to promote green and clean infrastructure investment which contribute to green growth.

2. *Regulations.*

Financial regulations encourage healthy markets and sustainable economic growth. As an essential piece of a healthy financial system, regulations should be regularly reviewed to ensure a level playing field, take account of technological developments, and consider structural changes in societies and international regulatory discussions. This should include measures to promote economic security, where U.S.-Japan coordination and private sector input are critical to avoiding negative unintended consequences and ensuring an appropriate balance between growth and national security considerations. The Councils' recommendations are in the following areas:

Level Playing Field. A level playing field is an important regulatory principle for strengthening financial and capital markets and avoiding inefficiencies and distortions in markets. Digital innovation introduces various actors including technology companies into the financial services value chain. Imposing the same regulations on the same activities by assessing risks for the financial system will promote competition and innovation while ensuring financial stability and consumer protection.

Free and efficient capital market system. The amount of financing through global capital markets in 2020 was the highest in history, reflecting enormous corporate finance needs amid the COVID-19 crisis. Businesses of all sizes need well-functioning and multi-faceted capital markets. Excessive and unnecessary regulations constrain access to capital for businesses, making it harder for them to form and grow. The Councils believe that a free and efficient capital market system is essential to economic growth and innovation, and encourage U.S. and Japanese regulators to review regulations based on the business environment.

International Regulatory Coherence. In recent years, market fragmentation has been a key area of focus for global policy makers, regulators and market participants. The Councils applaud efforts by global regulators to address market fragmentation and reduce gaps between global standards and national regulations. We believe the next critical task is to implement a process for consistent cooperation that can ensure deference, mutual recognition and/or equivalency determinations and urge the U.S. and Japanese governments to formalize the process, such as by establishing a financial regulatory forum to discuss regulatory issues in these areas.

3. *Japan as a Global Financial Center.*

The Councils support a multifaceted effort to strengthen Japan's position as a global financial center and laud the continued work to update and improve the quality and coverage of the Corporate Governance Code and Stewardship Code, alongside other important measures to enhance Japan's business environment and overall competitiveness. In this spirit, the Councils encourage the Government of Japan (GOJ), and particularly the Japanese Financial Services Agency (FSA), to continue these efforts including by engaging in and advocating for policy

measures to enhance Japan's attractiveness. In addition, the Councils urge that GOJ and FSA promote market development through public-private cooperation in order to become a driving force in the global green finance market toward the realization of the Green Global Financial Center. In particular, the Councils recommend the GOJ and FSA to focus on four key areas below:

- Corporate Governance and Transparency: Progress on areas such as board independence, diversity, and accountability in accordance with revised Corporate Governance Code, coupled with measures to enhance the availability of diverse talent to fill demand for independent directors is needed;
- Improvement to the Finance Professional Ecosystem: Far greater numbers and specialization are needed, as well as general modernization of employment practices, including hiring, promotions, performance appraisal and termination;
- Increase Individual Investment Market Participation: Particular attention is needed in financial planning and fiduciary standards, as well as reforms in the individual investor markets, including in advisor quality, sales practices, asset allocation; and,
- Deepen the Institutional Markets: Institutional markets should be broadened and resources allocated to creating a more nimble clearing and market infrastructure, expanded product range and enhanced technology.

4. ***Promotion of Digital Financial Innovation.***

After COVID-19, digital innovation has become increasingly important in every industry. In the financial services sector, it is necessary to address enhancement of financial products and services and improve customer convenience by promoting digitalization at a faster rate than ever before. The Councils urge the governments of the U.S. and Japan to strengthen collaboration in the following ways to harness the benefits of innovation while managing any related risks:

Central Bank Digital Currency. While central bank digital currencies are being researched globally, the Councils appreciate that the U.S. and Japan, including respective central banks, are carefully assessing the security risks and the impact on the financial system in their research. The Councils encourage the U.S. and Japan to strengthen collaboration and to lead international efforts in cooperation with third countries.

Data Connectivity. The Councils' financial services firms view data connectivity as a means to connect to their customers, manage risks, and provide critical services globally and one of the key factors to economic growth and financial stability. To that end, the Councils recommend our two governments recognize the importance of financial services data connectivity; support open data architecture; promote greater bilateral and multilateral engagement on data connectivity; and strive for greater cooperation and consistency in general data regulations.

5. ***Securing the Future for an Aging Population.***

The Councils recommend that both governments strengthen public and private collaboration to motivate private retirement saving, including through insurance and private pension funds, and financial planning; to increase technology and financial literacy particularly for vulnerable populations; to adopt a policy and regulatory framework that does not hinder insurers and other financial institutions from supporting the long term protection, investment, and retirement needs of society. This includes ensuring appropriate capital standards for insurers at the global and national/jurisdictional levels and ensuring that long duration insurance and savings products remain widely available to consumers as well as policy framework that supports adequate individual asset formation including tax incentives or subsidies.