

# 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: *Building a Healthy Financial System, Realizing a Sustainable and Carbon Neutral Society, Developing Japan as a Global Financial Center, Promoting Digital Financial Innovation, and Securing the Future for an Aging Population.*

## 1. Building a Healthy Financial System

Financial regulations are the foundation for building a healthy financial system to encourage sustainable economic growth. As an essential element of a healthy financial system, regulations should be reviewed regularly to ensure a level playing field, be harmonized across jurisdictions, take into account technological developments, consider structural changes in societies and international regulatory discussions. The Councils' recommendations pertain to the following areas:

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

Regulatory Harmonization. The Councils encourage U.S. and Japanese regulators to continue working together on building a globally harmonized regulatory framework. In particular, financial regulations on climate change are rightfully being developed globally, and international harmonization of financial regulations in major jurisdictions, including the United States and Japan, is vital. We believe it is important to implement a process for consistent bilateral cooperation, as well as to discuss broader multilateral cooperation on climate change and other issues, and urge the U.S. and Japanese governments to formalize the process, such as by establishing a financial regulatory forum to discuss regulatory cooperation in these areas.

Stable Inflation and Economic Growth. In view of surging inflation and its negative effects on the global economy, the U.S. and Japanese governments and monetary authorities should implement policies to strike a balance between stable inflation and economic growth, paying careful attention to the particular circumstances of each country. The Councils request that the U.S. and Japanese

governments and monetary authorities consider providing support to those severely affected by inflation, examining and addressing the side effects of monetary policies, and maintain communication with public to avoid excessive market volatility.

## **2. Realizing a Sustainable and Carbon Neutral Society**

Russia's aggression against Ukraine has resulted in a sharp increase in global energy prices, considerably affecting near-term momentum toward energy sustainability and carbon neutrality globally. Given these challenges, the Councils appreciate the U.S. and Japanese governments maintaining their commitments to carbon neutrality by 2050. The financial services sector can play a key role in this effort, through initiatives such as supporting transition activities, in addition to promoting sustainable finance and assessing climate change risk.

Review of Timeframe. Achieving carbon neutrality by 2050 requires considerable efforts by both governments and private companies. Given the ongoing energy crisis, the Councils recommend both governments review the timeline and milestones in the process and respond flexibly, while maintaining the target of carbon neutrality by 2050.

Transition Finance. The Councils support the transitional activities needed to achieve a sustainable and carbon neutral society in an efficient, sufficient, and orderly manner. The Councils support strengthening public-private collaboration to promote sustainable finance and transition finance and to provide greater flexible financial assistance for attaining the target.

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

## **3. Developing 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. To this end, the Councils encourage the Government of Japan (GOJ), particularly the Ministry of Finance and the Financial Services Agency, to continue these efforts, which should include policy measures to enhance the

growth of Japan's financial markets and better serve the needs of Japan's individual investors. We urge greater cross-ministerial collaboration, which is vital for achieving these goals. In particular, the Councils recommend focusing on four key areas:

Corporate Governance and Transparency: Further 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.

Finance Professional Ecosystem: Far greater numbers and specializations are needed, as well as general modernization of employment practices, including hiring, promotions, performance appraisal and termination.

Individual Investment Market Participation: Greater attention should be paid to financial planning and fiduciary standards, as well as reforms in the individual investor markets, including in advisor quality, sales practices, asset allocation.

Institutional Markets: Institutional markets should be broadened and resources allocated to create a more nimble clearing and market infrastructure, expanded product range, and adoption of more sophisticated Information Technology.

#### **4. Promoting Digital Financial Innovation**

The COVID-19 pandemic has increased the need for digital innovation across every industry. In the financial services sector, it is necessary to address the enhancement of financial products and services and improve customer convenience by promoting digitalization at a faster rate than ever before. At the same time, it is important that governments support regulations and policies that ensure strong consumer protections. The Councils urge the U.S. and Japanese governments to strengthen collaboration in the following ways to harness the benefits of innovation while managing any potential risks:

Central Bank Digital Currency (CBDC). While central bank digital currencies are being researched globally, the Councils appreciate that the United States and Japan are carefully assessing the security risks and their impact on the financial system. The Councils encourage the U.S. and Japan to strengthen collaboration and to lead international efforts in cooperation with third countries, such as aligning a set of shared technical standards that would enable interoperability to integrate CBDC with existing systems and infrastructure, and ensuring fair competition by avoiding differential treatment between domestic and foreign companies in CBDC schemes.

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 as one of the

key factors to economic growth and financial stability. To that end, the Councils recommend both governments recognize the importance of financial services data connectivity and promote public-private collaboration to pursue high-standard rules in the digital economy. We sincerely appreciate the efforts put forth by both governments to promote policy frameworks that facilitate Data Free Flow with Trust (DFFT) through robust digital trade disciplines.

Innovation. We recognize the importance of both governments' continued efforts to eliminate regulatory and operational issues for promoting digital financial innovation. With the advent of decentralized finance (DeFi), cryptocurrency, non-fungible tokens (NFTs), and other digital assets, both countries' financial regulatory agencies should provide market participants with timely, clear, and integrated guidance in this evolving area as legal certainty will be key to harness innovation.

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

With developed countries including the United States and Japan facing an aging population, both countries need to tackle the common challenge of ensuring financial sustainability. The Councils urge both governments to collaborate with industry to formulate and implement policy recommendations in the following areas:

Private Saving. The Councils recommend both governments to strengthen public and private collaboration in incentivizing private saving, including through insurance, private pension funds, and financial planning. The Councils support the GOJ's "Doubling Asset-based Incomes Plan" under Prime Minister Kishida's new economic policy, which will help the public's large personal financial assets to be more effectively invested. We recommend the GOJ to address the obstacles in order to optimize allocation of financial assets across the investment spectrum in Japan, from corporate and public pensions to defined contribution plans and individual savings.

Insurance. The Councils recommend both governments adopt a policy framework, such as through tax incentives or subsidies, that supports adequate individual asset formation. We also recommend the governments establish appropriate capital standards for insurers at the global, national, and jurisdictional levels, as well as ensure that long duration insurance and savings products remain widely available to consumers.

Financial Literacy. As individuals activate private investments, increasing financial literacy becomes even more important. The Councils recommend public-private collaboration on increasing technology and financial literacy, particularly for vulnerable populations, as well as on financial education for youth.