



## FINANCIAL SERVICES

The Financial Services Working Group of the Japan-U.S. Business Council and the U.S.-Japan Business Council endorsed collective actions in three areas: *Realization of a Sustainable Society*, *Promotion of Digital Financial Innovation*, and *Securing the Future for an Aging Population*.

1. ***Realization of a Sustainable Society.*** In order to achieve a sustainable society and meet the United Nations Sustainable Development Goals (SDGs), business leaders should consider the impact of their decisionmaking on society and the environment. The financial services sector plays a key role in this effort by encouraging and engaging in sustainable finance, incorporating climate-related risk assessment in decisionmaking, and investing in infrastructure. The Councils' recommendations include:

Sustainable Finance. Businesses are increasingly reevaluating their financial decisions with environmental, social, and governance (ESG) considerations in mind. The Councils recommend that both countries' financial regulatory agencies engage in a public-private dialogue to establish a framework to facilitate fair and informed decision-making with regard to financing of innovation and other efforts to catalyze the transition toward sustainable societies.

Climate Change. Climate change and increasingly devastating natural disasters could pose a threat to economic and financial stability. Therefore, it is critical that the financial services industry build its resilience by including climate-related risk assessments in business and investment decisions. The Councils support the Task Force on Climate-related Finance Disclosure (TCFD)'s Final Report of 2017, which calls for the assessment and disclosure of decision-useful information of risks and opportunities associated with climate change, and urge the governments of Japan and the United States to work together and lead international efforts to create and implement a global standard to help investors make informed decisions.

Infrastructure Financing. Infrastructure is a driving force for growth and prosperity and an important component of economic recovery and resilience. The Councils urge the governments of the United States and Japan to share and implement best practices to foster and encourage infrastructure investment, such as through incentivization, public-private cofinancing, and other policy measures.

2. ***Promotion of Digital Financial Innovation.*** Digital innovation is a catalyst for change in the financial services industry, allowing for the efficient provision of financial products and services as well as broader consumer outreach. Due to the evolving nature of digital innovation and its applications to the financial services sector, cooperation between the public and private sectors is critical to fully harness the benefits of this innovation while sufficiently mitigating the risks that emerge in tandem with it. The Councils recommend the following three areas of Japan-U.S. cooperation in the public-private sphere:

Level Playing Field. Digital and business innovation introduces various actors in the financial services value chain. Effective financial regulatory frameworks should apply the same regulations and supervision to the same activities regardless of the actor. This activity-based supervision promotes competition and innovation, while ensuring financial stability and consumer protection. The Councils urge, and regard as a key priority, financial regulatory agencies in Japan and the United States to implement activity-based supervision.

Digital Currency. The Councils appreciate that the governments of Japan and the U.S. are actively conducting research related to central bank digital currencies, while carefully considering the associated security risks and effects on the existing financial system. The Councils support cooperation between these issuers of two globally traded currencies and encourage both governments to lead related international efforts among other like-minded countries.

Financial Center Tokyo. The Councils support a multifaceted effort to establish Tokyo's position as a global financial center, and believe it will contribute meaningfully to diversifying risk amidst an uncertain geopolitical environment. The Councils applaud the Tokyo Metropolitan Government (TMG)'s efforts to encourage financial innovation and invite foreign financial technology firms to establish operations in Tokyo, as well as the Japanese Financial Services Agency (FSA)'s commitment to take measures to improve domestic financial and capital markets. The Councils encourage the TMG and FSA to engage in and advocate for policy measures to enhance Tokyo's attractiveness, including through competitive corporate and individual tax rates.

3. ***Securing the Future for an Aging Population.*** In the Indo-Pacific and around the world, population aging poses a threat to financial sustainability on both an individual and a fiscal level. The Councils urge both governments to collaborate with industry to formulate and implement policy recommendations in the following priority areas:

Long-term saving. With societal aging and increased pension fund liabilities, the risk of pension shortfall for current and future retirees continues to rise, particularly in terms of fiscal sustainability and retirees' financial security. The Councils recommend public and

private cooperation in raising awareness of and incentivizing private retirement saving, financial planning, and long-term savings, including through insurance and private pension funds, along with other financial products designed for asset accumulation.

Aging and Financial Inclusion. Thanks to business innovation and digitization, financial products and services are becoming more accessible and affordable. Without technological and financial literacy, however, consumers cannot enjoy these benefits and are excluded from the financial system. The Councils encourage public-private cooperation to increase technology and financial literacy particularly for vulnerable populations, as it will continue to be critical to increasing financial inclusion in the coming decades.

Policy Framework. Finally, the Councils urge the adoption of 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 establishing appropriate capital standards for insurers at the global, national, and jurisdictional levels that strike the right balance between financial stability and transparency, as well as ensuring that long duration insurance and savings products remain widely available to consumers.