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Enhancing comparability of regulatory regimes to help close the fragmentation gap

In the current climate of rising trade tensions and slow economic growth, the regulatory community is faced with an ongoing challenge of seeking the right balance between ensuring resilience of the financial system and promoting economic growth. While the goal of ensuring resilient financial institutions has been addressed through a globally agreed regulatory framework, there are also concerns that certain markets are at risk of becoming fragmented along jurisdictional lines.

MUFG welcomes Japan's leading role in the debate on market fragmentation by putting it on this year's G20 agenda. It is also encouraging to see that the Financial Stability Board (FSB) has recognised the need to address the risk of market fragmentation and its potential impact. According to the FSB, market fragmentation arises for various reasons, most notably due to differences in national regulations and supervisory practices, governing financial activities that are international in their nature.

One of the potential paths to close the gap, particularly in the interest of reducing regulatory and supervisory overlaps between jurisdictions, could be to further enhance processes of mutual recognition – also known as equivalence in the EU. The aim of these processes is to avoid that two (or more) regulatory regimes are being applied to the same market or activity. For a diversified globally operating financial services group such as MUFG, mutual recognition of regulatory regimes is an important element for continuing our cross-border activities in the jurisdictions where we operate. It also provides our home regulator with a sense of comfort about the foreign regulator's supervisory oversight.

It has been recognised that the EU process for granting equivalence needs to be further improved and streamlined for cross border activities. Supervisory and regulatory cooperation is key in this process.

The G20 and FSB can play an important role in specifically targeting fragmentation by defining a consensus approach and overall framework for these various types of cross-border regulatory cooperation and coordination. The assessment process could focus on more of an outcome-based approach that avoids line-by-line compliance and facilitates comparability. The most recent report published by IOSCO provides a number of practical examples where early cooperation between regulators on recognition assessments, methodology and criteria has resulted in some practical solutions for the ongoing work in this area. The use of memoranda of understanding (MoUs) and potentially creating a repository

of these agreements, could be part of the solution to enhance regulators' access to the information required to make equivalence decisions in a more effective manner.

Further work to enhance comparability of regulatory regimes is not only important for the globally standards agreed today, it will become even more important when formulating the regulatory framework for risks that face the financial system tomorrow. Continuous dialogue, not only between regulators, but also taking into consideration the timely input from foreign entities whose cross-border activities are being impacted at an early stage of implementation, is crucial when focusing on prevention of future proliferation of inconsistencies.

We hope to see constructive mutual recognition discussions between EU and UK post Brexit, but given that fragmentation is happening on a global basis, we need a framework to address the global level fragmentation as well as regional (i.e. EU/UK) framework, that allows proper functioning of capital markets and lending activities. ●