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Global market access challenge and COVID-19

Thank you for kindly introducing me. It is a great honour to participate in this Eurofi forum. Let me touch upon my personal and valuable tie with Europe. Starting from 1996, I spent three years in Brussels serving as financial attaché at the Japanese mission to the European Union, so I had a number of exciting moments to see the launch of the euro and the preparation for EU enlargement. Before starting, I have to make a regular statement of disclaimer. Any views expressed here are my own and should not be understood as ones of JFSA or any body that I am associated with.

Now, I will start with one question. Are there increasing signs of market fragmentation at the global level due to COVID-19 events? A simple answer is yes or no. The uncertainties stemming from the pandemic and from the associated possible paths which economists may take have brought new challenges to authorities across jurisdictions. The magnitude and the shape of the impact caused by market fragmentation on financial institutions, markets and users may now be both increasing and decreasing.

Obviously, the global economy has been subject to a significant economic shock caused by the rapid spread of COVID-19. In light of this, authorities rushed to reconstruct and implement policy measures in an expeditious manner, under new operational setting and constraints. There was no time to consult and coordinate, and these circumstances may have contributed to the risk of market fragmentation. On the other hand, facing the same challenges, authorities across jurisdictions have taken similar measures, even without prior consultations. At the onset of the pandemic, precautionary lockdown measures have tested the contingency plans of all financial market participants. Financial institutions as well as we authorities adopted a work-from-home arrangement at very short notice. Many jurisdictions introduced extraordinary support measures to alleviate the financial and economic impact of COVID-19. These include a range of payments, moratoria and government guarantees for bank loans and so on.

As time progresses, divergence among the industries has been becoming apparent. At the same time, authorities have begun to consider how to phase out the emergency measures. Faced with these challenges, authorities have widely shared largely common policy objectives and priorities which have formed an important factor for decreasing fragmentation.

This leads me to the next question: how have authorities responded in order to avoid unnecessary fragmentation due to COVID-19? How the authorities worked closely and coordinated action to maintain global financial stability is the right place to start. From the beginning of the pandemic, the Financial Stability Board (FSB), working with the standard-setting bodies, has facilitated a timely and effective information-sharing mechanism with regard to the policy measures that the authorities are taking or considering.

Authorities also took concerted communication strategies. For example, the Basel Committee on Banking Supervision (BCBS) published a series of statements and papers since March 2020 in order to announce authorities' objective and priorities, provided technical interpretations of the standards and stressed the flexibility embedded in the standards. More generally, in April 2020 the FSB set five principles for official sectors.

Namely; one, to monitor and to share information on a timely basis to assist and address financial stability risks from COVID-19; two, to recognise and use the flexibility built into existing financial standards to support the response; three, to seek opportunities to temporarily reduce operational burdens on firms and authorities; four, to act consistently with international standards rather than rolling back reforms or compromising the underlying objectives of existing international standards; and five, to coordinate on the fit and timely unwinding of the temporary measures taken. These are principles that underpin the official community's rapid and coordinated response to support the real economy, maintain financial stability and minimise the risk of market fragmentation.

Authorities faced the pandemic almost simultaneously. However, the timing and the route to start moving towards exit may differ depending on how the infections are contained, the risk of premature lifting of multiple measures and so on. That is why monitoring is so important now. The current events demonstrate how financial regulatory reforms contribute to the resilience of a financial system. Going forwards, full, timely and consistent adoption of implementation of Basel III is essential.

Next, let me go on to the challenges ahead. In the conventional sense, we have discussed market fragmentation with the assumption that financial activities are still bounded by the jurisdictional borders, with the physical presence of entities providing services. Thus, different regulatory and supervisory approaches to such entities in different jurisdictions cause fragmentation among international markets. However, such an assumption may not be the case for rapidly developing more borderless financial activity without, in some cases, a physical presence. The case of the global stablecoins is a typical example of such new development, as entities within a global stablecoin arrangement may spread in multiple jurisdictions. In addition, a large, globally operating platform easily allows users to perform a financial transaction across the globe. As a result, financial authorities are required to address associated risks through global regulatory and supervisory actions, even before implementation.

More recently, so-called decentralised finance, which is provided by a combination of computer codes of smart contracts, enables completely borderless financial activities in cyberspace. Coordinated and comprehensive regulatory approaches are essential for the effective supervision and sound development of these activities.

Technology is there to migrate more financial activities to cyberspace for more frictionless financial transactions. However, jurisdictional borders between their own regulatory and supervisory approaches still prevent users from enjoying the full benefit. For example, we are still frustrated by expensive, slow and less transparent cross-border payment and remittance, which the FSB and other international organisations are tackling, with guidance from the G20. In addition, the more financial activities migrate to cyberspace, the more important a global response to cyber risks will become. In a broader sense, jurisdictionally fragmented responses to operational incidents would not be enough to achieve a sufficient level of operational resilience of financial service providers.

In short, we are facing a new challenge as the nature of financial services changes from jurisdictionally bounded financial institutions with a physical presence to borderless financial activities in cyberspace without a physical presence.

The last 18 months of the fight against the COVID-19 pandemic reminds us that even the closing of physical borders can neither stop financial activities across borders nor break the financial system into pieces. The financial system is still global and becoming even more borderless, as we are all aware. Thus, avoiding harmful fragmentation is becoming even more important. The great fact we have confirmed through these difficult 18 months is that financial authorities have been capable of maintaining close cooperation and coordination, even without travel and physical meetings, thanks to technological developments such as rapid developing video conference systems. As we are entering a new normal and maybe becoming a world with more borderless financial systems, we need to prepare ourselves for this new reality in a forward-looking manner, and I believe we can.

Having said all of this, although I appreciate the technology of video conference, I strongly miss face-to-face interaction with the international community. I hope I can participate in the next Eurofi forum physically and exchange views with you in person. With this, I conclude my remarks. Thank you very much for your attention.