



U.S. Chamber of Commerce
International Affairs

U.S.-Japan
Business Council



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: *Maintaining a Healthy Financial System, Realizing a Sustainable Society, Advancing International Cooperation in Finance, Promoting Digital Financial Innovation, and Securing a Brighter Future.*

1. Maintaining a Healthy Financial System

Level Playing Field

The Councils embrace innovation and the healthy introduction of new financial products and services both by incumbent players and new entrants. At the same time, the lines between traditional and new financial products — as well as between traditional financial institutions and tech-focused newer entrants — are becoming increasingly blurred. It is important that regulators remain focused on the potential emergence of risks presented by specific activities and products regardless of the nature of the entity from which they are offered to customers and apply regulations designed to address similar identified risks in the financial markets across all similar providers. Policymakers should give due consideration to the changes needed to adhere to these principles. Doing so will enhance customer protections, preserve financial system stability, and encourage continued competition and innovation in finance.

Regulatory Coherence

Regulatory fragmentation in financial services has been exacerbated by strategic, environmental, and technological developments that have motivated national governments to act before international standards and best practices can be established. In this environment, it is critical that the U.S. and Japanese governments align on the development of appropriate policies and regulations that are coordinated, strike the right balance between global consistency and local relevance, and are evidence-based and outcomes-oriented, thereby facilitating pursuit of the objective of financial regulatory coherence. The Councils encourage the two governments to establish a bilateral financial services regulatory forum, patterned after the one between the US and the EU, in order to, inter alia, formalize regulatory dialogue between two countries to discuss the potential impact of their respective policies and regulations on cross-border financial services and facilitate efforts to identify financial services and products that may be susceptible to regulatory mutual recognition or deference and to act in pursuit of such agreements.

Finalized Basel III Framework

The finalized Basel III framework, which was agreed by Basel Committee on Banking Supervision (BCBS) in December 2017, has already been introduced or is being considered for implementation by national financial regulatory agencies. Both Councils stress the importance of the framework being applied in each country in a harmonized manner in terms of the agreed intent and timeline, so as not to overly restrict the operations of banks while simultaneously ensuring a level playing field.

2. Realizing a Sustainable Society

Appropriate Evaluation of the Initiatives of Financial Institutions

The importance of transition finance was reaffirmed at the G7 Apulia Summit, and there is a growing international understanding of its significance. Financial institutions are expected to support companies' efforts towards decarbonization through transition finance and similar initiatives to achieve a sustainable society and economy. Both governments should collaborate in examining a framework, including measures for evaluating and disclosing financed emissions, for appropriately assessing the efforts of financial institutions for transition, so that they can smoothly provide finance to sectors that require transition.

Promotion of Blended Finance

In order to further attract private investment towards the realization of Green Transformation (GX), it is of utmost importance for public institutions, including multilateral development banks (MDBs), export-import banks, and others, to establish a blended finance framework through measures such as assuming risks that cannot be fully covered by the private sector. Considering the confirmation of the importance of blended finance at the G20, both governments need to cooperate to strengthen the international framework for expanding blended finance. From these perspectives, the councils support the efforts of the government of Japan to stimulate private investment in GX, including the provision of debt guarantees through the GX Acceleration Agency and support decarbonization in emerging economies through Asia Zero Emission Community (AZEC), including the provision of these financing solutions.

Reporting and Disclosure

The G7 Finance Ministers and Central Bank Governors' Meeting 2024 welcomed the International Sustainability Standards Board (ISSB) standards for reporting on sustainability and for climate-related disclosures and reaffirmed the importance of globally interoperable sustainability disclosure frameworks. Both countries' financial regulatory agencies should engage in a public-private dialogue to consider how disclosure and reporting standards can contribute towards topics 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. The two governments should collaborate on these standards to ensure they are reliable, accountable, and avoid greenwashing.

Supporting Small and Medium-Sized Enterprises

Small and medium-sized enterprises (SMEs) constitute the backbone of our economies, contributing to the vast majority of jobs, tax payments, innovation, and resiliency. But due to the current geopolitical stress, energy transitions, digital transformation, market volatility and attendant regulatory fragmentation, SMEs are experiencing unsustainable burdens. Both governments should continue to prioritize fostering the diversification and adaptation of SME financing instruments and thus the Councils welcome the new legislation by the Japanese government to promote SME lending focusing on business potential. Both Councils also believe that non-financial support is key to strengthen SME awareness about the steps towards net zero and provide the necessary tools that can enable them to embark and stay on the journey.

Protection Gap

Climate change is testing the resilience of our financial systems through more frequent and severe natural catastrophe (NatCat) events. In particular, the NatCat protection gap in disaster-prone areas, which refers to the difference between the total economic losses from disasters and the amount covered by insurance, is a major issue for both countries, as confirmed at the G7 Finance Ministers and Central Bank Governors' Meeting 2024. The Councils support the collaborative efforts of multiple stakeholders, including the public and private sectors, to

narrow the protection gap by reducing the economic losses caused by NatCat events and promoting the risk transfer measures, such as insurance.

3. Advancing International Cooperation in Finance

Strengthening US-Japan Partnership

Both Councils welcome the two governments intending to organize a roundtable, involving the respective financial sectors and regulatory authorities of the two governments, to discuss capital markets integration and identify potential key reforms, as announced at the Japanese Prime Minister's official visit to the United States in April 2024.

Supporting Emerging Economies

The Councils appreciate both governments supporting sustainable growth of emerging economies. The initiatives such as the Partnership for Global Infrastructure and Investment (PGII) and the G20 Principles for Quality Infrastructure Investment should play a significant role in assisting emerging economies to tackle its development needs especially in infrastructure.

Both Councils welcome these initiatives that must involve private sector perspectives and participation. To foster private sector investment in emerging economies, the Councils believe that sustainable finance and blended finance mentioned in Item 2 of this statement are instrumental and encourage the two governments to work in tandem to help reduce costs of political risk insurance premiums and to lower borrowing costs in Ukraine and select other economies affected by war to speed their recoveries. In addition, aligning the global interpretation of Basel III capital rules and country regulations, sharing expertise of the development banks and financial institutions, and streamlining documentation and standardizing contracts would lower significant barriers for mobilization of private capital in infrastructure investments associated with MDBs and their related organizations.

Finally, both Councils urge their respective governments to take measures to prevent debt problems in emerging economies, which would not only impede their development but also exacerbate instability in financial markets across the world.

Economic Security

Both Councils understand that finance represents a critical infrastructure sector, and that it is necessary for the public and private sectors to work together to ensure cybersecurity and other measures to provide safe and sustainable services. When considering various economic security regulations, both governments should coordinate appropriately to ensure national security while taking care not to hinder free economic activity. Furthermore, given that the increasing number of targets and growing complexity of financial sanctions hinder cross-border capital flows and reduce predictability for financial institutions, both governments should conduct close communication between the public and private sectors to enhance the effectiveness of sanctions and reduce the compliance risks for financial institutions.

4. Promoting Digital Financial Innovation

Digital Financial Innovation, Including Central Bank Digital Currency (CBDC)

The Councils recognize the importance of the continued efforts by both governments to resolve regulatory and operational issues to promote digital financial innovation. As financial regulatory authorities continue to develop legal frameworks, it is vital to provide timely, clear, and integrated guidance to market participants in this field to balance innovation with financial stability and consumer protection, particularly with the emergence of digital assets.

The Councils appreciate that both governments and central banks are deliberating CBDC policy. The Councils are closely following international initiatives aimed to utilize tokenized deposits and wholesale CBDCs, such as Project

Agorá, while encouraging both governments to evaluate the need for retail CBDC by identifying whether there is a shortcoming with other payment systems that retail CBDC would be able to address more effectively than private alternatives.

Data Connectivity

The Councils reiterate the importance of data connectivity for financial services and call on both governments to pursue high-standard rules in the digital economy. The Councils urge the two governments to reaffirm their commitment to supporting free flow of data across borders and to actively promote the work of the OECD in advancing Data Free Flow with Trust (DFFT), including through the newly established Expert Community, and in advocating the importance of moving forward with digital trade negotiations.

AI/Generative AI

Considering that the global interest in generative AI continues to grow, both Councils welcome the advancement of international efforts for the expansion of reliable AI systems, such as the launch of the Hiroshima AI Process agreed upon by the G7, and the establishment of the AI Safety Institute by both governments respectively to work on the evaluation of AI safety. Both national governments should lead international discussions on the various systems and guidelines related to the use of AI and the policies for dealing with associated risks, through those frameworks, to ensure that any AI-specific regulations complement and align with existing sector-specific regulations to avoid duplicative or conflicting requirements that could stagnate innovation or increase risk. We also recommend both governments focus on cultivating the human resources needed for the development and application of AI.

5. Securing a Brighter Future

Personal Financial Assets and Japan as an International Financial Center

Both Councils underline the need for the policy measures, such as tax incentives or subsidies, to support adequate individual asset formation and the importance of financial literacy for individuals to take a more active role in managing their personal assets. From this perspective, we recommend that both governments strengthen public and private collaboration in enhancing the incentives for formation of personal financial assets and increasing financial literacy, particularly among vulnerable and young populations.

As Japan exits deflation, there is much to gain by transitioning Japan from a savings economy to an investment economy, and in so doing help promote the circulation of assets within local markets. The Councils support the government of Japan's "Policy Plan for Promoting Japan as a Leading Asset Management Center," which aims to help with personal financial asset formation and secure Japan's prominence as a global and regional financial center. This Plan includes policies for reforming the governance of asset management firms and asset owners by encouraging new entrants from both domestic and international asset management companies and competition within the industry and enhancing outbound information dissemination and communication. The Councils also welcome the Japanese government's initiatives for doubling asset-based income among individual investors and reforming corporate governance.

Insurance

The Councils recommend that both governments ensure that the insurance sectors are able to meet the evolving financial needs of consumers, to include maintaining the wide availability of long duration insurance and savings products. We encourage regulators to facilitate the insurance sectors' appropriate provision of more innovative insurance products that meet changes in customer needs while ensuring sufficient insurance coverage for customers. We also recommend that both governments establish appropriate capital standards for insurers at the global, national, and jurisdictional levels.

Promoting Foreign Direct Investment (FDI)

The Councils welcome the government of Japan's greatly stepped-up efforts to increase inbound FDI, particularly via the Cabinet Office's "Office of Foreign Direct Investment Promotion" as well as the multiple initiatives undertaken by the Ministry of Economy, Trade and Industry as part of the overall government strategy to encourage investment into Japan. Additionally, Japan has been the largest source of FDI in the US for recent 5 years, contributing to economic growth and job creation in the U.S. The Councils believe promotion of two-way FDI presents a win-win opportunity for both countries' corporate sectors and investors.

To this end, we are concerned by attempts to politicize the foreign investment review process, which should be conducted objectively. The U.S. and Japan are indispensable allies and each other's top foreign investors. The deep ties between our two economies support millions of jobs, enriches communities, and strengthens our collective national security.