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**SUMMARY RECORD OF  
OECD-ADB I 19TH ROUNDTABLE ON CAPITAL MARKET  
AND FINANCIAL REFORM IN ASIA  
("TOKYO ROUNDTABLE")  
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## Background

The OECD-ADBI Roundtable on Capital Market and Financial Reform in Asia (“Tokyo Roundtable”) was established jointly by the Asian Development Bank Institute (ADBI) and the OECD in 1999 in the aftermath of the Asian financial crisis. Since the inaugural event, the Tokyo Roundtable has provided an annual forum for high-level policy dialogue among OECD and Asian countries on topical issues of high interest from the viewpoint of capital market reform in Asia.

The Roundtable benefits from high-level participation from a range of backgrounds. The meeting in 2019 attracted high-ranking officials from finance ministries/treasuries, central banks and securities regulators from 11 non-OECD Asian economies, as well as OECD member countries. It also brought together experts from international organisations, particularly BIS, AMRO, and IFC, as well as private sector representatives and academics.

## Agenda items

Developed jointly with the ADBI, the agenda for the Roundtable was designed to reflect the challenges and risks facing the Asian capital markets and financial sectors. The agenda also included a number of structural issues which pose challenges to further economic development of Asian economies.

In a departure from previous Roundtables, the agenda this year contained four sessions over two days to allow sufficient time for discussion among participants on each topic. In addition, participants benefitted from three keynote addresses.

The following four topics were chosen for discussion:

- Global market trends and prospects in the Asian capital markets
- Monetary and fiscal resilience under population ageing
- Capital markets of the future
  - Digital Finance: How, Blockchain and AI are transforming financial entities, business, and products
  - New digital financial services may be replaced by traditional banking roles
- Responsible, viable, and lifecycle Infrastructure investments

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## Opening Remarks

*Mr. Greg Medcraft, Director, Directorate for Financial and Enterprise Affairs, OECD* discussed the fact that the Asian capital and financial markets have projected a tremendous growth compared to twenty years ago. Given the closer interrelation between the Asian and the global markets, we need to discuss the risks in the longer term focusing on 1) Ageing; 2) Digital finance; and 3) Infrastructure investment. First is ageing. In fact, Asia's population is getting older fast, and recognizing the economic and social effects accompanied by the ageing is important, but considering how the financial system supports the elderly is also important. Second is digital finance. The rate of change recently has been extraordinary including big data analytics and machine learning, and AI, etc. It is certain that data is the future of financial markets, and policymakers need to start thinking and acting digital. Final is infrastructure investment. This is critical to our future because investment in infrastructure plays a major role in lifting productivity and, in turn, long-term economic growth. The economies of Asia and of the world face a mammoth task in mobilising capital to build the infrastructure our future economies need. Data is going to be key to bringing investors into the market, and we have to look at how new technologies can help standardise and automate the collection and reporting of infrastructure data. At the same time, we need to recognise that infrastructure projects have to be quality projects – and that means being responsible and viable over the full lifecycle of the asset. It means adhering to international laws and norms, meeting the needs and expectations of communities, financing sustainably, and aligning with the world's carbon transition goals.

*Mr. Naoyuki Yoshino, Dean, ADBI*, highlighted four topics for upcoming discussion. First is finance mobilization. The speed of mobilization is tremendous as Fintech develops. In reality, most people in Asian countries own a mobile phone, and they can access to global financial products via their mobile. This implies that their economic activities could potentially increase capital flow, which may make exchange rate more volatile. Given the potential risk that next financial turmoil with massive capital move may occur based on a mobile phone, it would be important how to regulate capital flow in order to mitigate big impacts. Second is data in digital economy. The incident is still fresh in our mind that crypt assets leaking happened in Japan due to illegal cyber-attack. In such case, finding out the illegal attacker is the most important thing. Going forward, it is inevitable to form an international framework for aiming at monitoring and deterring such illegal conducts. Third is aging society. The effectiveness of fiscal and monetary policy has been drastically diminished when population is aging because ageing people are out of scope of those policies. Theoretically, when monetary policy becomes less effective, fiscal policy could work effectively instead, but in the case of ageing society, the particular measures such as tax release for working people, would never be beneficial to aging people because they are outside of its target. Final is infrastructure finance. Many Asian countries have started formulating pension and insurance fund, but they hesitate to invest into infrastructure projects because all instruments related to infrastructure in Asia tend to be short maturity, which means that investment for infrastructure is risky. It is a huge problem how to utilize long-term finance into infrastructure.

### Keynote address:

*Mr. Masatsugu Asakawa, Vice Minister of Finance for International Affairs, Ministry of Finance, Japan*, remarked that there are truly existing risks including monetary policy normalization, the trade conflict between the U.S. and China, and Brexit, which deals with substantial spillover effects into Asian markets. Mr. Asakawa emphasized the importance of careful monitoring of their impacts on the Asian region, and of the roles of ASEAN+3 Macroeconomic Research Office or AMRO to help the authorities in such a complicated situation, and guide the Asian countries to the right path. Next, aging is a critical long-term policy challenge for both advanced and emerging economies. Each country has a different speed at which their population ages. Mr. Asakawa highlighted that new technology helps the countries cope with demographic shifts; advances in Artificial Intelligence (AI) and Internet of Things (IoT) will

transform manufacturing processes, making them less labour-intensive while creating new products. When it comes to financial innovation, the various innovations in the financial sector are providing us with new opportunities and growth potential in the financial sector. Regarding Crypto-Assets, the G20 will work closely with the SSBs (Standard Setting Bodies). The FSB will compile a directory of crypto-regulators, which will serve as a starting point for cross-border supervisory cooperation and policy dialogue. Finally, Asia is facing a huge amount of the infrastructure gap. The amount of spending to fill in this gap is undoubtedly important. Indeed, the G20 recognizes the need to mobilize more private sector capital. One such an example is the G20 Roadmap to Infrastructure as an asset class, endorsed by Leaders in 2018. However, boosting the quantity of investment is not the end of the story. We also need to care about the quality of infrastructure investment. Infrastructure investment can bring about positive economic impacts, such as job creation and technology transfer, beyond the value of the infrastructure itself. Pursuing quality of infrastructure investment leads to maximizing such impact, which is critically important in the face of weak long-term growth prospect. This year, as the Presidency, Japan aims to ignite the discussion among G20 members on what elements can be included in quality infrastructure investment.

## *I. Recent developments in the capital markets*

### *Session 1: Recent trends and prospects in the Asian capital markets under rapidly changing economic and financial environment reflected by a series of the U.S. interest rate hikes and China's economic slowdown*

*Mr. Akira Otani, Deputy Director-General, Financial Market Department, Bank of Japan, delivered remarks focusing on the recent market trend under heightened uncertainty. Mr. Otani elaborated interrelation between increase in the U.S. future short rate and investment outflows from emerging markets; in the case that increase in the future short rates are expected, emerging markets have not experienced capital out flows, but, on the other hand, increase in the term premium projected the implication to provoke the investment outflows from emerging markets. Given that, it is observed that the Fed's communication would contribute to stabilizing the markets with concern over a global economic slowdown during the year-end and New Year holidays. However, risks of volatile market movements remain due to the widespread impact of the U.S.-China trade tensions, etc. During the above period, emerging markets have generally been stable, and capital outflows from emerging markets have been marginal. This is partly because the Fed's meticulous communication on future monetary policy has constrained unexpected spikes in long-term interest rates.*

*Mr. Robert Patalano, Senior Financial Expert and the co-ordinator of the OECD's Committee on Financial Markets highlighted that trust in financial markets is the core concept of the OECD's report; Business Finance Outlook and Asia Financial Markets: Structure, Risks, and Outlook. Trust is critical for well-functioning market because trust is that:*

- markets will effectively and efficiently intermediate between investors and issuers,
- innovations can foster economic/other benefits (speed, choice, safety, cost efficiencies, etc.), and
- safeguard against macro financial vulnerabilities that could erode financial sector resilience.

The growth of trust above mentioned would contribute to sustainable and inclusive growth. When it comes to the trust in monetary policy, sovereign and corporate debt has risen to historically high levels due to central banks asset purchasing programs, as low interest costs accommodated higher indebtedness without raising viability concerns. Sovereign and corporate debt markets will face refinancing risks because rising debt costs could strain public deficits and high leverage could threaten viability of low-rated corporates amid rising yields and weaker earnings. Next is the trust in market-based finance. While the impact of

toxic assets through shadow banking declined, the rise of asset managers, which indicates that spillover effects, would amplify the transmission risks. There has been growing concern over the rise of leveraged loan market over USD 1.1 trillion, and the similar rise of CLOs, which hold 60% of leveraged loans. This situation entails enormous risks because the transition of structured products would be deteriorated quickly in the stressed market condition. Focusing on Asia, corporate debt issuance has been robust in Asia, led by China, but rising corporate leverage, particularly in China and other emerging Asian countries, raises viability concerns in a higher-rate environment. Furthermore, growing losses and failures in the banking and shadow banking in China raise concerns over spillovers to the real economy. In fact, monetary policy of the U.S. or EU has played a substantial role in markets for supplying liquidity contributing to growth of debt, and leveraged lending. Central banks have been confronting big challenges how and when to exit from unprecedented monetary easing policy given the role of macro prudential policy.

*Mr. Ilhyock Shim, Head of Economics and Financial Markets for Asia and the Pacific, BIS*, mainly spoke about the capital flows in Asia in terms of 1) global liquidity indicators; 2) EME non-financial corporate bonds; and 3) presence of EME banks in global banking. First, one of the most important landscapes showed that in terms of the U.S. dollar-denominated credit to non-banks outside the U.S., the growth rate of bonds issued by non-banks is much faster than that of bank loans to non-banks, and the share of bank loans has been declining steadily less than 50%. This implicates that credit underlying bonds is more important and impactful on markets outside of the U.S. Second, regarding the components of holders of EME corporate external bonds, it is observed that Asian asset managers are major holders of EME corporate bonds. While there are certain risks in terms of credit in Asian markets, EME corporate bonds tend to be long maturities, and EME corporate issuers are often global firms accumulating cash flow in foreign currency. However, it is not easy to define the Asia asset managers. In theory, asset managers include various types of funds including pension and mutual funds, whose investment decisions would be changeable according to their business strategy. In this regard, grasping the nature of investors with their background is critical for further analysing the capital flows.

*Mr. Satoru Yamadera, Principal Financial Sector Specialist, ERCD, ADB*, spoke about developments and risks of Asian markets. Mr. Yamadera highlighted that the escalation of the trade war would create bigger risks because Asian markets have been more integrated through cross-border activities, and their interdependencies could potentially enlarge negative impacts due to settlement risks among local currencies. Having a look at the linkage with China, the interregional trade share of Asia shows the steadily increase, and similarly, the linkage between the U.S. and China also does increase economically. This shows that the escalation of the trade war would seriously affect not only China but also the U.S., and the worst scenario is that the slowdown of both China and the U.S. deteriorate the Asian markets through close linkages. In this sense, local currency denomination is a matter. Given that emerging East Asia's LCY bond market has been growing and its size is almost comparable to Euro areas, USD still continues to dominate in payments because it is not easy to find buyer or seller of LCYs. Relying on settlements by USD would be potential risks for financial institutions in emerging Asian countries when some unfavourable market events happen. Technically, a large cross-border transfer is likely to be over the amount of credit limit and it needs to be covered to USD due to limited liquidity in LCY direct dealing. In such cases, since sending USD from the U.S. accounts cannot take place in the same day due to the difference of time zone, sending LCY in the same day may face counter-party exposure risks. These types of risks would not be covered by CMIM (Chiang Mai Initiative Multilateralization) - scoping of macro economic crisis. In order to facilitate the settlement of LCYs, we need to consider how to liquidate the transaction without risks. For example, the business scheme: cross-border collateral and repo would be able to mitigate risks. This scheme is that financial institutions deposit a collateral to a central bank in a given region and the financial institution conducts a cross border transaction, the central bank can intermediate and mitigate settlement risks with the transaction based on the agreement of collateral.

## *Discussion*

The discussion noted the substantial potential risks focusing on bond markets in Asia. Statistically, Asian bond markets have developed significantly. Some Asian countries have increased the issuance of the bond denominated in local currency, and this type of bond drew attention in terms of the new option to raise capital. However, even if the bond is denominated in local currency, certain risks still exist. First is the currency mismatch. Bonds denominated in local currency are often purchased by USD partially because investors prefer to use USD for the settlement in terms of convenience and/or requirement. Likewise, new type of bond, which is denominated in local currency, but is linked with foreign currency such as USD because this type of bond is issued at foreign markets. Given that, these bonds are denominated in local currency, but investors or issuers would face risks underlying currency volatility. Second is the liquidity in bond markets. In fact, bond market finds it difficult to maintain adequate liquidity by nature because the variety of products is too high to find suitable buyers or sellers effectively. Furthermore, the structure of bond has tendency to be complicated. In other words, it is not easy for investors to grasp bond's composition including how to be structured and where potential risks are hidden. In reality, Asian markets cannot play a role of the U.S. or the EU markets at this point because cross border transactions have to rely on major currencies. Even though financial technology develops, the settlement structure relying on USD would not change in short term partially because of the regulatory requirements such as the obligation of centred clearing and settlement, etc. Thus, we should be mindful that in order to consider how to mitigate the existing risks, it would be important to grasp and observe the nature of markets as well as behaviour of market participants carefully.

### ***Session 2: Some Asian countries in the face of population aging are required to adjust monetary and fiscal policies including social welfare; moreover, financial systems with rapid technological improvement should include elderly population***

*Mr. Junji Ueda, Director for Economic and Fiscal Policy Co-ordination, Ministry of Finance, Japan* led off the discussion on this topic. His remarks focused on sustainability of pension and healthcare system under demographic changes in Japan. With stable decrease in younger age who mainly sustain the public pension system, it is important to consider how to combine public and private pension system efficiently. The Japanese government has introduced new measures coping with demographic impacts on public pension system for assuring fiscal sustainability, including 1) fixing future contribution rates on wages; 2) automatic adjustment for benefit level; and 3) increasing subsidies basic pension from consumption tax. In addition, the Japanese government promoted the measures utilizing private systems; personal DC pension with tax allowance (iDeCo) and tax allowance for small saving by households (NISA). These measures have been beneficial to complement smaller public pension by voluntary private saving. Other than setting up the enhanced pension system, the Japanese government has been working on further reforms; securing more flexibility of the starting age to receive public pension, etc. When it comes to the sustainability of healthcare system in Japan, with the healthcare spending sky rocketed, there is no single method for curving the spending. Striking the balance between the quality of health services, decent benefit coverage and limited fiscal burden is a challenging issue, but seeking a better solution is material while taking into account diversified relevant social trends. For sustainable pension and healthcare systems, potential policies may be 1) installing flexible and automatic adjustments for benefit parameters; 2) effective control of demand and supply of services by fiscally responsible institutions; and 3) avoiding commitments based on optimistic assumptions and projections.

*Dr. Charles Yuji Horioka, Vice-President and Research Professor, Asian Growth Research Institute,* spoke in general about the roles of financial literacy, incentives, and innovation in order to deal with

population aging. In general, even before the advent of population aging, many working age people are not saving enough for retirement, and many elderly (retired) people seem hesitant to decumulate their wealth. This attitude may lead to the possibility that the elderly will not be able to lead comfortable retirement life. He identified three main problematic areas that are 1) low levels of financial literacy; 2) lack of well-designed financial incentives for saving; and 3) inadequate wealth decumulation after retirement. Against the first problem, it is important to ensure that people have equal access to financial education from a young age. This policy prescription covers not only enhancing the contents of financial education in cooperation with a variety of stakeholders, but also conducting empirical analysis of existing financial education. For solving the second problem, he proposed that it is for employers to enrol workers automatically in company pension plans, as well as that another solution is the automatic escalation of pension contributions such as the “Save for Tomorrow” program, which commits workers to save more each time they receive a pay rise. As for the prescription against the third problem, it would be effective to promote the introduction of financial products not only facilitating wealth decumulation but also safe, simple, well-designed, and with favourable terms. It is important to consider that the nature of lifetime annuities are to totally eliminate longevity risk by utilizing Reverse Mortgages or Home Equity Loans, for instance.

*Ms. Flore-Anne Messy, Head of Insurance, Private Pensions and Financial Markets Division, Directorate for Financial and Enterprise Affairs, OECD*, raised several points regarding the possible impacts on financial markets and potential policies from the perspective of financial education and consumer protection. With ageing society accelerating rapidly, aging is likely to affect financial markets indirectly through the influence on growth, public finances such as health care, pension expenses and other economic variables, etc. Normally, it is challenging for ordinary people to make a decision about a life plan appropriately because it may be difficult to grasp and consider the vast range of factors that would be impactful on long term financial plans. When introducing a pension reform, for example, policy makers should identify relevant factors including human behaviour through close communications with the public, and elaborate an effective policy that can transfer responsibilities on longevity to individuals properly. In this sense, promoting financial education can support individual decision-making as well as enhance consumer protection. Financial education from young age, in particular, is able to encourage long-term financial planning and help individuals improve: knowledge; attitude; and skills. Through the financial education, people are expected to be able to gain financial knowledge and to harness awareness about their life plans. 2019 is the year of Japanese presidency of G20. The OECD has been working on the ageing issue including financial inclusion in cooperation with the Japanese government. Both financial education and consumer protection are long-term challenges. Given that, it is important to grasp and seek solutions by utilizing the coming up opportunities such as OECD events, etc.

*Dr. Kirida Bhaopichitr, Director of TDRI Economic Intelligence Service, Thailand Development Research Institute (TDRI)* spoke about the situation and challenges of ageing society in Thailand. Similar to other countries, Thailand is aging rapidly – almost half of Thais will be above 50 years old in next 15 years – and the reduction of working age would negatively affect Thailand’s economy. When having a look at the situation with elderly people, many unfavourable facts exist including low education levels, low incomes – high dependency on child’s incomes, and early retirement without enough pension coverage. This implicates that the poverty issue of elderly people is a serious problem. With respect to the economic implications of ageing society, Thailand has to tackle the explosion of social welfare costs including health care while its economy shrinks. The hypothetical model estimates that public health care expenditures will triple in 15 years, which could show certain concerns over its fiscal uncertainties. In order to solve this situation, Thailand needs to consider policy options enabling to provoke changing nations’ mind-set. For example, there may be raising retirement age with incentive schemes for hiring elderly, increasing female labour force participation, enhancing productivity through life long education, etc. In addition, the government can consider further policy options with macro perspective, which

potentially include downsizing its public sector corresponding to aging society and utilizing the technology for an efficient society.

### *Discussion*

The material points of the discussion were how to cope with challenges from both a macro and a micro perspective in the face of an ageing society. In theory, as society ageing accelerates, the labour force shrinks and it would lead not only to curve a macro economic growth, and but also to make fiscal balance unstable. In order to develop a macro economy through a demographic change, the simplest way is to set up the scheme incentivising elderly people, who want to keep healthy, to continue to work after their retirement age, which can be beneficial to the growth of economy and the fiscal sustainability. For facilitating it, the government may enhance a liquid labour market with functions to match the needs of labour force including not only retired people but also other potential labour force: women with a child and/or external labour force: migration, for example. However, policies to promote health longevity is not cost-free, and there have been no evidences to prove the causal effects that if people can achieve health longevity, whether they want to continue to work or not. It is certain that there is no perfect solution, which implicates that policy makers have to grasp a vast range of relevant factors and choose the most effective and economic policies. Next, the discussion focused on micro - individualistic - problems associated with an exclusion or inclusiveness of financial services and poverty of elderly people. In emerging countries, dozens of people cannot have opportunities to access financial services nor to gain enough knowledge or advices on fundamental financial skills to be able to judge suitable financial options such as preparedness for future. In this sense, providing financial education and securing financial inclusiveness are critical in improving the financial exclusiveness linkage with poverty issues. Some researchers noted that knowledge or skill of decision making on financial services tends to be taken over from parents to their children. This means that the level of financial education has cyclical and long-standing effects.

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## II. Capital markets of future

### Session 3 Part 1: Digital Finance: How, Blockchain and Artificial Intelligence are transforming financial entities, businesses, and products

*Ms. Caroline Malcolm, Head, Blockchain Policy Centre, OECD*, mainly spoke about the landscape with the development of blockchain technology. Blockchain based on the distributed ledger technology has been pervasive in various aspects partly because this type of technology can easily transform financial services that had to previously rely on traditional intermediaries. The prominent use cases in financial sector are payments clearing and settlements (e.g. JPM coin), issuance and trading of tokenised assets and digital financial assets, etc. The usage of digital financial assets, which has been well known as an option of investment, is categorised into three types; payment tokens; security (or “asset and financial”) tokens; and utility (or “consumer”) tokens. The proceeds of ITO have developed rapidly over the last five years, and ITO is bringing attention to Asian markets. However, needless to say, these innovative services come with certain risks, and against the risks, policy makers have to consider effective regulations. What policy makers should be mindful is that futuristic services with the use of new technologies can potentially change not only contexts of services but also entire business models. Thus, policy makers should grasp the roles of players in their business framework at first, and regulate the changeable services effectively.

*Mr. Motonobu Matsuo, Deputy Director-General of the Policy and Markets Bureau, FSA, Japan*, spoke about the crypt assets regulation in Japan. Internationally, regarding exchanging virtual currencies for legal tender, an institutional framework should be established from the viewpoints of regulating money laundering and the funding of terrorism, and of user protection. In Japan, the Payment Services Act defines the virtual currency in accordance with the definitions of FATF, and the FSA has introduced a registration legal system to regulate virtual currency exchange service providers in 2017. When it comes to the regulatory and supervisory challenges, the prominent issue is how to secure the staff who entails the necessary expertise to be able to understand the nature of services providers and judge the appropriateness of governance. As it is tricky for competent authorities alone to hire and harness competent staff with latest technology knowhow, cooperating with self-regulatory associations, which have staff coming from industries would be a useful prescription. Given that, the FSA will continue to discuss effective regulations against virtual currency services at the official study group of the FSA.

*Mr. Sadakazu Osaki, Fellow, Head of Research, Center for Strategic Management and Innovation CMA, NRI, Ltd.*, delivered the landscape on digital financial assets regulation in Japan. The amendments to the Payment Services Act have been implemented in 2017 in response to emerging digital assets. Though the development in this area is very early stage, the JFSA regulated this type of futuristic services as a nearly first case in the world following that the asset leaking incident: MtGox incident happened. The incident was impactful enough to draw attentions to risks underlying digital assets, and the protection of investors trading relevant to virtual currencies continued to be the most imminent regulatory issue. Regarding the recent trend, certain developments have been made based on the discussion at the JFSA study group taking into account different type of digital assets. Finally, Mr. Osaki highlighted that flexible interpretation and application of laws and regulations are necessary in order not to hinder innovation.

*Dr. Xianguo (Jerry) Huang, Economist, AMRO*, discussed the concept and development of Security Token Offering (STO). Security Token offering is the process of offering security token which represents a pre-defined right or rights on security assets, including a couple of steps such as securitizing a non-security asset, tokenizing securitized asset on a blockchain platform, and selling tokens to investors through private placements or public offerings. Through securitization, it can potentially transform an illiquid asset into more liquid security. Compared with activities based on traditional infrastructure, offering and trading security tokens based on a blockchain could have potential advantages such as lower transactions fees, faster execution, and enlarge investor base. The evolution from ICO to STO could be associated with the

benefit-cost dynamics between the non-compliant token and compliant security token. With regard to recent developments, Ethereum and ERC20 are the dominant tokenization platform and standards, while other platforms with more sophisticated standards and functionalities are currently developing to fit security token better. There is a short list of security exchanges currently operating in the market. Meanwhile, some of the traditional exchanges in Europe and in Asia, have already been building and investing in crypto exchanges infrastructure for digital assets. Security token offering was still relatively thin. The raised funds have been mainly used to investment, developing technology, and into financial services. Finally, he touched upon the policy fronts related to regulators' difficulty, balancing risk and innovation, and public education.

### *Discussion*

There is no doubt that to regulate and supervise potential high risks such as AML is critical, but the regulatory approach differentiates country by country. It is challenging for regulators to grasp business models and risks with the innovative services. For example, custody business normally intermediates settlement procedures between financial institutions and customers. Given that, the custody business model is unlikely to owe high risks in terms of balance sheet (e.g. exposure risk; market risk) and conduct (e.g. money laundering), but it is tricky to regulate new services without ambiguity given the nature of business and risks because there is objectively no difference between traditional financial institutions and custodians in terms of having exposure risks in their balance sheets. In the early stage, taking multilateral approach would be effective. Primarily, in order to establish common rules, it is the prerequisite to harmonise a uniform language and a conduct code through the discussion with various stakeholders, and then elaborate practical international rules with consistency. Following the establishment of the common rules, policy makers should move on to the next stage to leverage soft regulatory approach such as non-legal binding rules including voluntary disclosure rules.

### **Part 2: Some new digital financial services may require additional consumer and/or data protection, and be supported by the traditional safety net such as deposit insurance or lender of the last resort**

*Dr. Stephen Lumpkin*, spoke about the implications of digital innovation for bank roles. Recent technological improvements have enhanced economic efficiencies, and these developments have led to consolidate different type of financial services into a single umbrella, as a result of consumer demands. With an accelerated emerging of digital banks, the one question is come up with; will the special function such as deposit, that traditional banks own, change, or will digital bank get rid of their specialness and replace traditional banks? Generally, three main functions which can keep banks special are 1) taking deposits; 2) providing liquidity; and 3) saving as conduits for monetary policy transmission, and for that reason, banks are allowed to access all financial safety net components such as deposit insurance, etc. On the contrary, digital banking initiatives basically unbundle selected bank functions and products. The digital banks network has not yet had impact on an entire financial market, but given the overlap in functions with traditional banks, policy makers should consider the necessity of requirements such as protection frameworks, etc., equivalent to regulations that traditional banks are required to follow. Contract banks, for example, are allowed to have check writing capabilities; it is not clear whether they should adhere to incumbent banking regulations. Since regulatory burden is costly, policy makers should be careful not to implement excessive regulatory obligations, but at the same time, they should pay attention to keep the same or equivalent requirements across different kinds of financial institutions while taking

account of the balance between their functions as well as cost and benefits of adherence to regulatory requirements.

*Dr. Marcelo Corrales, Visiting Scholar at the Institute of European and American Studies, Academia Sinica in Taiwan*, discussed impacts of digital finances for regulatory landscapes. The largest companies ranking has changed over the last ten years shifting from energy company to data-driven platform one. Big platform companies are becoming main players of economy in the use of sheer amounts of data, and the business network centred around them has been expanding in various aspects. In financial services, some banks have embarked on collaborating with technology companies. Recently, Goldman Sachs, the U.S. investment bank, announced to launch credit card business with Apple. Goldman Sachs can utilize Apple's technology and customer networks, and Apple can expand its business with financial services without paying costs of banking regulations. This transformation of business framework shows that the implications of technology will be even more critical, and that flexible ecosystems driven by technology – collaborating formats varying according to service contents – would replace the stable economic framework where banks play the centre role of the business framework. The velocity of developments is too fast for policy makers to regulate futuristic services. Thus, it is important to make principle-based regulations with substantial flexibility while orchestrating industries. The solution: the banks themselves have to step in and take over tech-regulation. However, in order to successfully achieve this, banks and regulators need to become part of the same “ecosystem”. The role of the governments will become more as “facilitators”, monitoring the norms set by the banks themselves.

*Mr. Yutaka Soejima, Head of Fintech Center, Deputy Director-General, Payment and Settlement Systems Department, Bank of Japan*, delivered implications on emerging Quasi-Money of potential clearing systems. The use cases of Fintech in Japan appear to be in payment services. The growth of cashless payments may change payments system structure. The new types of cash, not legal tender, are created by prepaid money, escrow account (e.g. Alipay) that is a kind of deposit account of e-commerce. In this business model, there are two types of pool hoarding “Quasi-money” and “Real money”. Cash settlements are undertaken between the two pools by exchanging Quasi and Real moneys, while clearing of debts can be settled within Quasi-money systems. The usage of payment services with the Quasi-money would get even more common due to cost effectiveness in financial services such as payment measure of e-commerce, P2P transfer, and channel of other financial services. Regarding the approaches in response to such cashless economies, there are mainly twofold ways. First, payment service providers with other platform businesses obtain a banking license to leverage their businesses, and secure the access to accounts of central banks. Second, central banks take an initiative on cashless economy. Sweden, for example, has promoted cashless economy and uses of cash are getting limited in the society unintentionally. The Sweden's central bank is planning to let all nations open their bank account at the central bank directly in response to the problem. This approach is relatively radical, but presumably, financial services in the use of technologies will surely develop and change its landscape. Policy makers have to consider the impacts that cashless payment structure comes with.

*Mr. Robert Patalano, Senior Financial Expert and the co-ordinator of the OECD's Committee on Financial Markets (CMF)*, spoke about the bank specialness in terms of digital finance and the financial safety net. Historically, banks have served some special roles in financial markets such as taking deposits, maturity transformations, providing liquidity, payments, monetary policy transmission, etc. In addition to banks, at the financial crisis in 2008, it was observed that shadow banks outside of banking regulations had contagious effects on financial markets because they played partly same roles with specialness mentioned above. In the case of current QE environment, central banks QE responses show that banks, while special, are not sufficient to transmit monetary policy during periods of crisis, and also markets and non-bank market intermediaries are critical channels of transmission. This implicates that we should take into consideration the extent to which non-banks play role of backstop at crisis in terms of monetary policy

transmission. Focusing on trust of financial field, policy-makers severely underestimated the implications of shadow banking activities and risks, but in reality, some consumers decide to trust non-banks and Fintech products and/or services more than banks. Given that the growth of Fintech and BigTech fundamentally changes the financial landscape, policy makers can act to address the current underestimation of Fintech for monetary policy transmission, financial stability, and the financial safety net.

### *Discussion*

At the time of a crisis, banks, which are protected by safety net systems, are expected to serve a conduit to stabilize financial markets. In the aftermath of the crisis, regulators have implemented mandatory and costly regulations for SIFIs such as capital requirements of Basel III because these banks could offer special roles that would be able to contribute to liquidate financial markets. However, the rapid development of Fintech has been replacing the services of traditional banks gradually. Namely, the shift from traditional banks services to new financial ones based on the technology cast doubt on the current regulatory approach of not only macro prudential policy but also regulations against new financial services. Originally, spillover effects must differentiate among service categories such as banking, insurance, securities due to gaps between regulations, and measuring the extent of spillover effects is not easy. The growth of Fintech in the use of DLT (e.g. blockchain) makes it more difficult for regulators to grasp where risks lie. In reality, although central banks are mainly expected to play a backstop against a crisis by pouring liquidity to markets via safety nets, the existing rules to undertake the safety net are all or nothing with no flexibilities. Given the difficulties in regulating changeable financial services with technologies, regulators may redesign the safety net framework with more flexibilities. In order to do that, regulators have to grasp the mechanism of financial services containing the analysis of regulatory impacts on behaviors of market participants.

### **Session 4: Responsible, viable, and lifecycle infrastructure investments**

*Mr. Naoyuki Yoshino, Dean, ADBI*, highlighted how to cope with the two risks of infrastructure investment including decreasing risks and increasing rate of returns in infrastructure. In Asia, it is difficult to hold ownerships of lands, which is one of the factors to hinder infrastructure investments. For solving it, Mr. Yoshino proposed to introduce the method; Land Trust system. This is the scheme to manage properties. Land owners transfer their ownership of their properties to trust banks and the owners can receive regular returns from the banks according to profits made on the properties. Thanks to the Land Trust method, the owners can foresee a regular revenue in longer term, which makes it possible to stabilise their lives. In addition, Mr Yoshino mentioned that the quality infrastructure should have the function to spread positive spillover effects to broad regions. In other words, the growth of high quality infrastructure is having the potential to develop massive areas. There are three channels to deliver the spillover effects; 1) direct effects by the infrastructure itself; 2) spillover effects generated from private capital; and 3) spillover effects generated from the job creation in a given area. Taking into account that user charges cannot be set too high and are not enough, a stable income stream can be sustained through a spillover of tax revenues.

*Mr. Greg Medcraft, Director, Directorate for Financial and Enterprise Affairs, OECD*, stressed that investors are looking for projects that are viable and responsible over the lifecycle of the asset. In order to shape investor's ability to pursue viable, responsible, long term investments, it is necessary to develop the policy environment as well as the market environment. The OECD has been working on developing

guidelines for quality infrastructure, in reference to this year's G20 priorities. The guidelines collect best practices into one place as a reference guide for governments looking to better use their policy levers to support the market to deliver viable and responsible infrastructure. Regarding a strategy for implementation, it is important to develop it into overarching principles for sustainable infrastructure strategies, forming the basis of new benchmarks and indicators, assessment of countries' policy settings, etc. Finally, Mr Medcraft intensified that ESG performance should be comparable between infrastructure projects and ESG performance. In this sense, the OECD is pursuing to standardise data and make infrastructure investment deliver such tools: 1) the OECD's Infrastructure Financing Initiative and 2) an Integrated Profit and Loss Initiative in cooperation with the private sector.

*Mr. Munenari Nomura, Director for Development issues of the International Bureau of the Ministry of Finance, Japan*, provided the overview of the quality infrastructure investment (QI) issue among its financial priorities under the 2019 G20 presidency, as well as the deliverables. First, the reason to see the QI as a priority of the G20 is that the QI is able to contribute to higher and sustainable growth, which is one of the goals of G20. Namely, the growth of the QI can positively influence 1) enhancing the economic efficiency; 2) attracting more investors; and 3) setting off virtuous cycle between investment and growth. Historically, the core concepts of the QI are agreed in 2016 with the G20 Hangzhou Leaders' Communiqué. And the roadmap to Infrastructure as an asset class was endorsed by the G20 FMCBG in 2018, which refers to the QI as one of the pillars of its work streams. In terms of deliverables regarding the QI, Japan aims at providing; 1) more concrete definitions based on the core concepts; 2) new elements to the concepts, such as anti-corruption, etc.; and supplementary documents – how to apply to the principles. In this frame, Mr Nomura stressed that cooperation with and technical support from international organisations are vital to develop the works of QI.

*Mr. Ranjit Ajit Singh, Former Chairman of the Securities Commission (SC) Malaysia*, spoke about three initiatives, including; 1) the IOSCO's work on long-term financing; 2) ASEAN Green Bond Standards through ASEAN Capital Markets Forum (ACMF); and 3) the Malaysian experience on sustainability and infrastructure financing. He stressed the significant estimates on demands and costs of infrastructure development, estimated at USD 57 trillion for 2013-2030 globally and at USD 26 trillion for 2016-2030 (climate adjusted) in Asia, and also highlighted the growing interest by investment funds globally for sustainable investments. With respect of the IOSCO's work, he identified four key issues that the initiative addressed; 1) availability of long-term financing; 2) investment knowledge; 3) managing and sharing risk with the private sector; and 4) tracking the challenge of scale. In the ASEAN Green Bond Standards (GBS), it is estimated to play a main role in ASEAN green financing, accounting for USD 3 trillion in green investment are needed. Finally, as for the Malaysian experience, he highlighted two main prospects of sustainability (e.g. ESG, SRI Sukuk, etc.) as well as infrastructure financing, and also referred to main principles containing maximizing affordability, ensuring completion and operationalization of the projects, etc.

### *Discussion*

The outstanding issues of infrastructure investment are relatively explicit. There are substantial gaps between demands for infrastructure in emerging countries, in particular, and investments into infrastructure projects. Members of international working frameworks have conducted a wide variety of works including the G20. As mentioned at a couple of presentations, there are no uniform criteria or references to measure the risks and benefits accompanied by an infrastructure project. In order to encourage investors to invest into infrastructure projects, the working frameworks have been addressing to developing existing principles/guidelines into more practical documents with more concrete definitions and/or new elements. In reality, as the discussions made so far have not necessarily engaged private sectors, it is important for policy makers to have close interaction with private sectors and to develop the practical documents for facilitating the investment into infrastructure projects. Nowadays, companies are required to contribute to

flourish a society as a member of society, which is sometime deemed as having a “Social Licence”, rather than to distributing their profits via social benefits such as tax. Unless the uniform criteria or guidelines ingesting social problems such as ESG, divergence, etc., are agreed, companies with responsibilities toward wider stakeholders would hesitate to take action with risks. On the other hand, the other thing that policy makers should be mindful is to look back original objectives of vast variety of works under the G20 for example, and that it is important to analyse their effectiveness by making use of check tools (e.g. back test).