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Policy paper

# UK-Japan Financial Regulatory Forum 2022 – Joint Statement

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The 2020 Comprehensive Economic Partnership Agreement created a new, financial services focused, annual dialogue between the UK and Japan to strengthen cooperation, reduce the risk of market fragmentation, promote fair and competitive markets and explore opportunities to enhance financial services trade and investment between the two global financial centres. On June 9, 2022, the inaugural Financial Regulatory Forum ('Forum') was held in London, having been delayed from 2021 due to Covid-19. The Forum was chaired by Gwyneth Nurse, Director General of Financial Services at HM Treasury (HMT), Richard Knox, Director of Financial Services at HMT and Tomoko Amaya Vice Minister at the Financial Services Agency of Japan (FSA). It was also attended by senior officials from HMT, the Bank of England, the Financial Conduct Authority, British Embassy in Tokyo and Department for Environment, Food and Rural Affairs from the UK and from Japan the FSA and the Japanese Embassy in London.

To build on the arrangements for regulatory cooperation outlined in Annex 8-A of the UK-Japan Comprehensive Economic Partnership Agreement, HMT and the FSA signed an Exchange of Letters which formally established the Financial Regulatory Forum and set out how the parties would use the forum to progress on their shared priorities for financial services. This included provisions for the exchange of information, consultation, deference, technical mediation and cooperation on diversity in finance, sustainable finance and other emerging issues. The UK and Japan participants also operationalised the provisions in Annex 8-A which provide for the establishment of new 'working groups' to bring experts together from both sides to examine specific issues of mutual interest.

Both parties also reaffirmed the importance of deference and noted that they will continue to cooperate to seek out mutually beneficial opportunities to defer to each other's regulatory and supervisory regimes.

## **Entering UK and Japan Financial Markets**

The UK and Japan participants discussed their approaches to enabling overseas firms to access their markets and strengthening their positions as international financial services hubs. Both parties agreed on the importance of openness, competition and high standards for preserving global markets, avoiding market fragmentation and supporting greater opportunities for cross-border trade in financial services. HMT outlined the approach the UK has taken to enhance its financial services relationships with other jurisdictions since leaving the EU, from exploring greater deference to the negotiation of novel Mutual Recognition Agreements. HMT outlined the vision the Chancellor set out for the UK financial services sector in his speech at Mansion house last year. They highlighted that one of the UK's core strengths as a global financial hub is that not only do many international firms have a presence in the UK but that the UK market is interlinked to other leading centres, enabling UK based clients to access services cross-border from firms around the world.

The FSA outlined its work to expand Japan's roles as an international financial centre, known as the "International Financial Centre Initiatives," through attracting overseas financial institutions and professionals. As part of the Initiatives, the FSA noted that it launched the Financial Market Entry Office in 2021 to assist, overseas asset managers in establishing a base in Japan by providing administrative services in English from pre-application consultation and registration to supervision. This scope was expanded earlier this year to include securities firms. HMT noted that UK industry welcomed the initiative and highlighted the value that it could have in the future for the growing numbers of smaller, innovative firms who are expanding internationally. The FSA also provided an overview of the new schemes it has set up to streamline overseas asset

manager's entry into the Japanese market and agreed to maintain a dialogue on the use of these schemes.

The UK and Japan participants both noted a desire to work closely together to enhance their positions as global financial services hubs and support greater interconnectedness between their two markets.

## **Asset Management**

The UK and Japan participants exchanged views on global trends in asset management, including the global norm of cross-border portfolio management, and acknowledged the importance of continuing dialogue on these topics

The UK was pleased to receive a comprehensive update from FSA participants on supervisory cases with regard to fund of funds management, as well as the fund of funds rules in Japan. The UK committed to sharing its own supervisory experience of this arrangement, including steps taken to enhance transparency and increase investor protection, as well as their view on how these structures can be used effectively and safely.

The UK and Japan participants provided updates on the structure of their respective pension markets. The UK noted its commitment to the resilience and sustainability of its pensions system and outlined how the government has supported buy-outs of corporate pensions schemes to share risk. The FSA noted that corporate buy-outs are not currently permitted under Japanese legislation. Both parties noted that it would be helpful to have further discussion on financial risk transfer mechanisms and to share expertise on the different approaches to pensions regulation within the UK and Japan.

## **The Role of the Insurance and Reinsurance Sectors in a Changing Landscape**

The UK and Japan participants discussed the evolving challenges in the insurance space, including the increased risk posed by climate change, and the approaches taken by UK and Japanese policy makers to enhance economic resilience. The parties exchanged views on the relationship between public and private sector actors in the insurance market, and the different models of effective partnerships that currently exist. The UK, led by HMT, provided an overview of the development and structure of the PoolRe scheme, outlining how the government has worked with the private sector through the scheme to ensure access to affordable terrorism reinsurance for UK businesses, while protecting taxpayers. The FSA set out the key details of their Earthquake Insurance System and other arrangements to facilitate provision of insurance coverage for large-scale risks. Both parties agreed to establish a working group to discuss the role the private sector can play and potential opportunities for future public-private insurance partnerships to deal with various risks, including disaster risks, and to share experience and expertise in this area.

## **Fintech and Innovation in Finance**

The UK and Japan participants discussed the benefits of innovation and technology in the financial services sector, and both parties' aims to create a regulatory and business environment that encourages the development of a thriving FinTech sector.

Both parties shared their views on regulatory developments in the Cryptoasset space and

reaffirmed their commitment to collaboration in international fora on this topic to help create the necessary conditions for safe innovation. They also reaffirmed the necessity of establishing an effective and robust regulatory framework for stablecoins based on the principle of “same activity, same risk and same rules” principle recently outlined by the G7.

The UK and Japan participants also discussed the importance of having transparent and efficient licensing and authorisations processes for innovative firms. They noted that developing regimes which were robust yet accessible for FinTech firms is key for facilitating greater innovation and competition in financial services and for supporting these firms to conduct business in the UK and Japan. The UK outlined how it has developed systems and principles for authorisation to make engagement with individuals and firms easier. For example, applying a principle of proportionality to make processes easier for newer and smaller firms, supporting firms to test innovations in the Regulatory Sandbox and allowing firms to apply for all necessary regulatory activities at once and jointly to both FCA and PRA if they are dual-regulated.

Both parties agreed to establish an innovation working group, which would provide a space for sharing expertise on payments, cryptoassets and financial innovation and would be tasked with exploring how the UK and Japan could share their experience and expertise to support more innovative firms to establish and grow and to consider how licencing and authorisation processes could be improved.

The UK and Japan participants also discussed the importance of collaboration between international regulators to support innovative firms to navigate between countries as they look to scale new ideas. The UK outlined the benefits of being part of the Global Financial Innovation Network which has allowed it to share experience and expertise with other jurisdictions and provided an environment enabling firms to test new products, services and business models across several jurisdictions and on a cross-border basis, supporting greater innovation. FSA outlined the benefits of being part of Blockchain Governance Initiative Network (BGIN), noting that it provides an open and neutral fora for various stakeholders including regulators to attain sustainable development of the blockchain community. Both sides agreed to maintain dialogue to enhance collaboration in this area to facilitate digital innovation led by the private sector.

## **Sustainable finance**

The UK and Japan participants agreed on the importance of maintaining momentum to drive the transition to net zero in both jurisdictions. They exchanged views on the key achievements of the UK's COP Presidency and how these could be taken forward when Japan assumes Presidency of the G7; in particular, focusing on how private sector net zero commitments are to be translated into concrete actions. Both parties exchanged views on the importance of international co-ordination for addressing key challenges and their commitment to an open and collaborative approach.

The parties discussed the progress made by the International Sustainability Standards Boards (ISSB) and the central role this is playing in delivering a global baseline of investor-focussed sustainability standards that is suitable for all jurisdictions to adopt in full in line with each jurisdiction's legal and regulatory frameworks, and that strives to achieve consistent and comparable disclosures across jurisdictions. Both parties reaffirmed their commitment to continue their close collaboration, including through IOSCO's sustainable finance taskforce as well as progress plans for adoption in respective domestic frameworks. Both parties welcome the important role that FSB and IOSCO are playing in supporting ISSB and its work to promote

greater consistency in approaches towards climate disclosure.

On building trust in ESG investment products, both parties agreed on the importance of transparency and strong governance in the ESG ratings and data markets. Both UK and Japan are committed to support internationally co-ordinated discussions in this area and will leverage IOSCO's work in this space for any potential domestic interventions. Similarly, both jurisdictions continue to focus greatly on entity and product level sustainability disclosures for investment products and are committed to increasing the availability of consistent and comparable sustainability-related financial information along the investment chain to combat misleading claims.

On transition finance, participants exchanged views on respective recent work to enhance both transition financing and the disclosure of firms' transition plans. Japan provided an update on its work on creating pathways for hard-to-abate companies and the UK was pleased to provide further detail on the launch and objectives of the Transition Plan Taskforce and invited FSA colleagues to attend a meeting in the near future. Participants agreed the importance of maintaining momentum on private sector net zero commitments and ensuring they have credibility through published transition plans, and agreed to continue collaboration in this area, as voluntary and regulatory option to promote take-up of transition plans emerge.

On financial stability risks from climate change, the UK provided details on the results of the Bank of England's Biennial Exploratory Scenario on climate risk. Both parties welcomed the ongoing work by the FSB to strengthen the analytical basis for monitoring climate related risks to financial stability and the publication of an interim report on Supervisory and Regulatory Approaches to Climate-Related Risks.

Both the UK and Japan participants noted that nature-based solutions can play a role alongside carbon-focused projects in fulfilling net zero commitments. The parties welcome the high ambitions of the Taskforce on Nature-related Financial Disclosures and look forward to its recommendations.

To further these ambitions, the UK and Japan have agreed to establish a dedicated sustainable finance working group, in keeping with the commitments made in the Comprehensive Economic Partnership Agreement. This group will steer co-operation between the UK and Japan and enable authority experts to exchange views and work towards international alignment on live topics such as building trust in ESG investment products and markets, supporting the transition to net zero and nature-related financial disclosures.

### **Anti-money Laundering (AML) and Combating the Financing of Terrorism (CFT) policy and supervision**

The UK and Japan participants reiterated the importance of robust anti-money laundering practices and discussed the work they have been doing to address the evolving challenges in this space. The FSA updated UK counterparts on Japan's ongoing work to further develop their AML/CFT policies taking the opportunity of the publication of the Fourth Round Mutual Evaluation Report of Japan by the Financial Actions Task Force (FATF). The UK and Japan outlined the potential for digital solutions to improve outcomes and customer journeys, speed up processes, enable financial innovation and reduce costs for firms, with the UK highlighting the work it has done to test and grow tech-based Know Your Customer (KYC) solutions as part of their Regulatory Sandbox initiative.

## Creating more diverse international finance hubs

The UK and Japan participants discussed their work to improve diversity in the financial services sector and noted that supporting diversity enables financial services firms and regulators to recruit the best talent and is essential for strengthening the UK and Japan's positions as competitive, global financial services hubs. The UK and Japan participants noted the importance of encouraging effective and representative recruiting strategies and reporting practices on the gender balance of firms, in order to ensure the financial services sector reflects the best of their national workforce. Both sides also agreed on the importance of cultivating a strong pipeline of female executives to attract the best international and domestic talent to the financial services sector.

## Digital

Both sides agreed on the importance of the free flow of data in cross border trade to financial services. Japan updated the UK on the economic security Bill which was recently passed in the Diet. Japan highlighted its commitment to the principle of data free flow with trust, and its centrality to growing the bilateral financial services trade relationship. Both sides agreed to maintain a dialogue as they continue to review their domestic regimes regarding data protection and possible data localisation requirements.

## Collaboration on international priorities

Finally, both parties outlined their priorities in relation to ongoing discussion at international fora, notably the cryptoassets and decentralised finance work at the Financial Stability Board, FATF and the workstreams underway at IOSCO's Fintech taskforce. UK and Japan agreed to collaborate further through these workstreams to ensure an internationally consistent and robust approach to key challenges in the cryptoassets ecosystem. The FSA spoke to their commitment to Japan's upcoming G7 Presidency, building on Japan's recent G20 leadership. Both parties agreed on the central importance of these global fora for discussion and the need for a collaborative approach to meet shared challenges and maximise opportunity.

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