Japanese Perspective on Bank Resolution and Cross-border Cooperation

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Introduction:

Overview on Financial Administration
Stock Prices and History of the Japanese Financial System

- Historical high of Nikkei Average of 38,915.8 yen (1989/12/29)
- Outbreak of the Gulf War 1991/1/17
- Cabinet Decision on Acts to liquidate Jusen 1995/12/19
- Fall of Berlin Wall 1989/11/9
- 9/11 Attack 2001/9/11
- 2nd Oil Shock (1978-79)
- Lehman Shock 2008/9/15
- Plaza Agreement 1985/9/22
- Sanyo Securities Failure 1997/11/3
- Start of Financial Supervisory Agency 1998/6/22
- Hokkaido-Takushoku Bank Failure 1997/11/17
- LTCB (1998/10/23)
- Capital Injection to Resona Bank 2003/5/17
- Yamaichi Securities Failure 1997/11/24
- NCB (1998/12/13)
- Special Public Management
- Great East Earthquake 2011/3/11
- 1 USD = 75.32 yen in Sydney Market (2011/10/31)

Historical Low after the Bubble of 7,054.98 (2009/3/10)
Four Main Areas of Japan’s Financial System Reforms

1. Establishing a framework for the disposal of non-performing loans and for dealing with failures of individual financial institutions
2. Building and enhancing safety net system
3. Improving infrastructures of financial and capital markets
4. Consumer protection for users of financial services
### Development of the Japanese Deposit Insurance System (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1971</td>
<td>Establishment of DICJ with Coverage Limit of 1 million yen</td>
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<tr>
<td>1998</td>
<td>Revision of DI Act: Expansion of RCB’s function to act as an assuming bank for general financial institutions Financial Functions Stabilization Act: Public Capital Injection to Financial Institutions</td>
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## Development of the Japanese Deposit Insurance System (2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>2002</td>
<td>Revision of DI Act: Introduction of Full Protection for Deposits for Payment and Settlement Purposes (became effective in April 2005)</td>
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<tr>
<td>2011</td>
<td>Termination to Liquidation of Jusen</td>
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<td>2013</td>
<td>Revision of DI Act: Introduction of Orderly Resolution Mechanism</td>
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The DICJ’s Efforts in the Orderly Resolution Framework

- Global Financial Crisis of 2007-2008
  - Characterized as “21st century-type” crisis
- FSB Key Attributes of Effective Resolution Regimes for Financial Institutions
• The orderly resolution framework was introduced in the 2013 revision of the Deposit Insurance Act. The revision took effect in March 2014.

• Triggers of orderly resolution measures
  – When it is recognized that severe disruption in Japan’s financial market and any other financial systems could be caused

• Initiation
  – Deliberation by the Financial Crisis Response Council (FCRC)
    ➢ The members of the FCRC:
      – The Prime Minister [chair], the Chief Cabinet Secretary, the Minister for Financial Services, the FSA Commissioner, the Minister of Finance and the Governor of the Bank of Japan.
Scope of Orderly Resolution Mechanism

• Financial industry-wide scope, including:
  – Banks and other deposit-taking institutions, branches of foreign banks, and bank holding companies
  – Insurance companies, foreign insurance companies, and insurance holding companies
  – Financial instruments business operators (FIBOs) providing securities services (i.e. securities firms), designated parent companies of FIBOs and their group entities
  – Securities finance companies and other systemically-important entities designated by a Cabinet Order
Key Features

Orderly Resolution Framework

Stabilization

- Stabilization Measures
  - Applied to an entity whose net worth is still positive in its balance sheet
  - Special oversight by the DICJ
  - Providing necessary liquidity to perform obligations

Orderly Resolution

- Orderly Resolution Measures
  - Applied to a financial institution which is insolvent in its balance sheet or has defaulted, or is likely to do so
  - Special administration by the DICJ
  - Transferring its critical market business
  - Specified Financial Assistance

- Additional Measures
  - “Stay” for early termination rights of financial contracts
Some Considerations for
Cross-border Issues
Key Perspectives for Cross-border Issues

Cross-border & Interconnectedness

- Economic Activities
- Financial Crisis
- Policy Responses
- Regulation
- Supervision
Recent Developments

Japan’s Financial Crisis

Recent Global Financial Crisis

Global Coordination + Each Jurisdiction’s History & Culture
Similarities: Recent Global Financial Crisis vs. Japan’s Crisis

1. Lax lending; sharp rise of stock prices, real estate prices, as well as the levels of corporate and household debt
2. So-called “Paradigm Shift”
3. Adverse effects of the turmoil on the real economy
4. Failure to declare exactly when the bubble would burst
5. Excessive risk concentration
Differences: Recent Global Financial Crisis vs. Japan’s Crisis

1. Whereabouts of the risk concentration
2. “Bank borrowers” vs. “Securitized products”
3. Within or across the border
4. Speed of spill-over

Need for international discussion on measures to prevent such a crisis
Going Forward...
Some Issues to Consider

1. Combination of “short-term” and “mid-to-long-term” objectives

2. Virtuous cycle between “financial sector” and “real economy”

3. Collaboration between “macro-prudential” and “micro-prudential” supervision
My Perspectives on Financial System

- Finance as risk transformation and risk management, thus adequate risk taking is the key
- Diligent daily risk management by financial institutions and providing proper discipline through robust and consistent regulation and supervision are required
And Deposit Insurance in Cross-border context....

◆ Role of the deposit insurance system will be more and more important

“Times of peace are actually continuation from times of emergency”
Thank you very much for your attention!