

Opening remarks

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**at the
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Good morning, distinguished guests, ladies and gentlemen.

It is my great honor and pleasure to be with you this morning on the occasion of the 12th IADI APRC Annual Meeting and International Conference, hosted by Governor Tanabe of the Deposit Insurance Corporation of Japan.

This meeting is held at a most timely moment, when the G20 Leaders have placed the topic of resolution of so-called too-big-to-fail (TBTF) financial institutions at the forefront of its financial regulatory agenda this year, leading to the G20 Brisbane Summit in November of this year. The most recent communique of the G20 Finance Ministers and Central Bank Governors, held in Washington DC on April 10-11, referred to the subject by first welcoming the progress in the development of proposals by the Brisbane Summit on the adequacy of gone-concern loss absorbing capacity of global systemically important banks (G-SIBs) if they fail. The communique also noted that the proposals should give home and host authorities and markets confidence that an orderly resolution of a G-SIB without exposing taxpayers to loss can be implemented. It then stated that, to improve the resolvability of global systemically important financial institutions, we commit to reduce uncertainty in agreements for cross-border recognition of resolution actions and accelerate progress on firm-specific cross-border cooperation agreements.

During the past five years, I have personally participated in the discussions of the Financial Stability Board which reports to the G20, and addressing the problem of too-big-to-fail (TBTF) for systemically important financial institutions has been one of the main pillars of the international financial regulatory reform agenda at the FSB. The policy framework to end TBTF consists of five elements; 1) assessing the systemic importance of institutions, 2) requiring additional loss absorbency, 3) enhancing supervisory intensity and effectiveness, 4) building more effective resolution

mechanisms, and 5) strengthening the core financial market infrastructure.

More than five years having passed since the failure of Lehman's ignited a global financial crisis, and by now, major progress has been made in almost all of the pillars of work dealing with the problem of TBTF. For enabling effective resolution, a major achievement was to agree and implement the Key Attributes of Effective Resolution Regimes for Financial Institutions ("Key Attributes") in 2011. Jurisdictions have been implementing the Key Attributes, and peer reviews have been conducted. An important tool to enable orderly resolution is to introduce GLAC (gone-concern loss absorbing capacity), which is now being developed into a FSB proposal to be delivered to the G20 Brisbane Summit later this year in November.

It is one thing, however, to have a proper framework for an orderly resolution, including the establishment of a framework for international cooperation, and having the capacity and the resources to actually resolve a major financial institution in an orderly manner even under stressed market conditions and a severe time constraint. Even the best-designed resolution framework cannot by itself ensure an orderly resolution. Typically, a resolution of a major financial institution takes place under severely stressed market conditions, in which the normal assumptions of available information, deep and liquid markets, and normal functioning of critical market infrastructure would not hold. Any credible resolution authority must be able to mobilize robust and resilient operational capabilities and resources to deal effectively with such situations. In other words, an effective resolution framework must be underpinned by a robust and resilient operational facility.

The resolution regime also cannot be too rigid or simple, as a crisis is always full of unexpected events, giving rise to uncountable operational risks and uncertainties. Maintaining

flexibility and national discretion, taking due account of the cross-jurisdictional differences in resolution regimes, the statutory powers of resolution authorities, and the financial institution's business models and organizational structures, is required. Dealing with a "live" crisis inevitably requires an element of flexibility in the rules and arrangements governing the process of maintaining financial stability.

Needless to say, we cannot predict the future only from past experiences. Even though there are commonalities among historic financial crises, each crisis has its unique characteristics, and the dynamic nature of any financial crisis is such that a one-size-fits-all rules-based approach would not be appropriate or successful.

The role of deposit insurance systems is central in the development of effective bank resolution regimes and ensuring their credibility and effectiveness in implementation. Deposit insurance not only provides the ultimate safety net for individual depositors, but also has been playing a crucial role in maintaining the integrity and stability of the financial systems around the world through their operations. Very often, the deposit insurance agencies are the resolution authorities and/or financial administrators/receivers in resolution. A resilient and robust deposit insurance system is a key element in the infrastructure of any truly international financial market. A credible and well-funded deposit insurance system instills confidence and stability, even without actually being invoked as a last resort in a financial crisis.

The last few years have been challenging for the deposit insurance systems around the globe, and many of the provisions and arrangements were actually tested, and weaknesses and gaps have emerged in some cases. Most major financial market jurisdictions have undergone reforms of their deposit insurance systems lately, substantially strengthening the framework and

resources to be mobilized once necessary. The work is far from over, but the progress has been truly remarkable. The work to develop the operational capabilities and enable the deployment of resources is ongoing.

I should not forget to emphasize the important role of the International Association of Deposit Insurers (IADI) in this process. Building robust and resilient deposit insurance systems across the globe requires principles, standards and guidelines that lead and guide the work across an increasingly larger number of jurisdictions. The role of IADI should be expected to grow even further in the coming years, as more countries introduce deposit insurance regimes, and existing ones are to be strengthened and reformed.

The Financial Services Agency of Japan (JFSA) places great importance on the work you are doing at the IADI, and considers it integral with the resolution-related work at the FSB. The JFSA has been making its utmost effort itself in putting in place a robust and resilient resolution framework covering a wide range of financial institutions, and in conformity with the FSB's Key Attributes. It participates in the numerous ongoing work streams at the FSB and elsewhere, for example, in those work streams developing a proposal for GLAC and the establishment of workable cross-border resolution frameworks and international cooperation in resolution. In this process, we would like to learn even more from your experiences and share ideas with you, and ensure that our measures are consistent with the reforms in other jurisdictions.

I am sure your discussions over the next two days on the trends and challenges for deposit insurance systems and bank resolution frameworks, as well as on the operational aspects of resolution will be extremely useful and informative for us, as well as for all participants. This conference will provide an excellent opportunity to learn from each other's experiences and insights,

and to further strengthen international coordination and cooperation among the relevant institutions involved in the Asia-Pacific. This is indeed a very long way of saying, "I very much look forward to a most interesting and useful discussion."

Thank you very much for your kind attention.