Macro-prudential policy in Japan and future challenges (prepared for joint seminar with Hitotsubashi University)

December 2009

Tetsuya Inoue
Chief Researcher
Department of Financial Market Studies
Nomura Research Institute

Contents

1. Macro-prudential policy: Overview

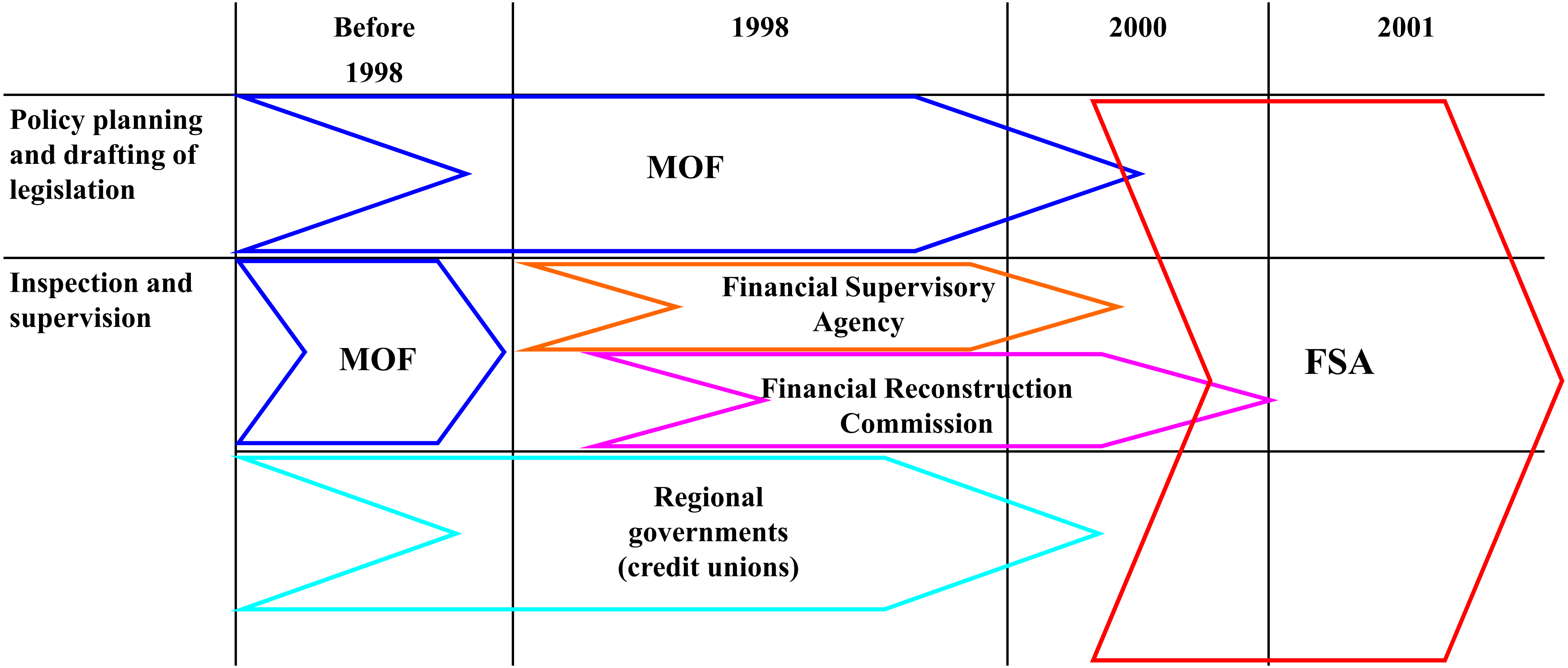
- Financial stability policy in Japan has been jointly conducted by the FSA and the BOJ.

FSA	✓ Regulates banks, securities houses, life insurance companies, etc. by planning laws and guidelines (limited relevance of "gaps and overlaps") ✓ Supervises these institutions by implementing legislation and conducting inspections both on- and off-site
BOJ	✓ Supervises banks and securities houses (which have current accounts with the BOJ) by conducting inspections both on- and off-site ✓ Oversees fund settlement/clearing systems

- Basic framework has been maintained for decades.
  ー Few changes made to framework when Ministry of Finance (MOF) functions were spun off and finally entrusted to the newly established Financial Services Agency (FSA) in 2000.

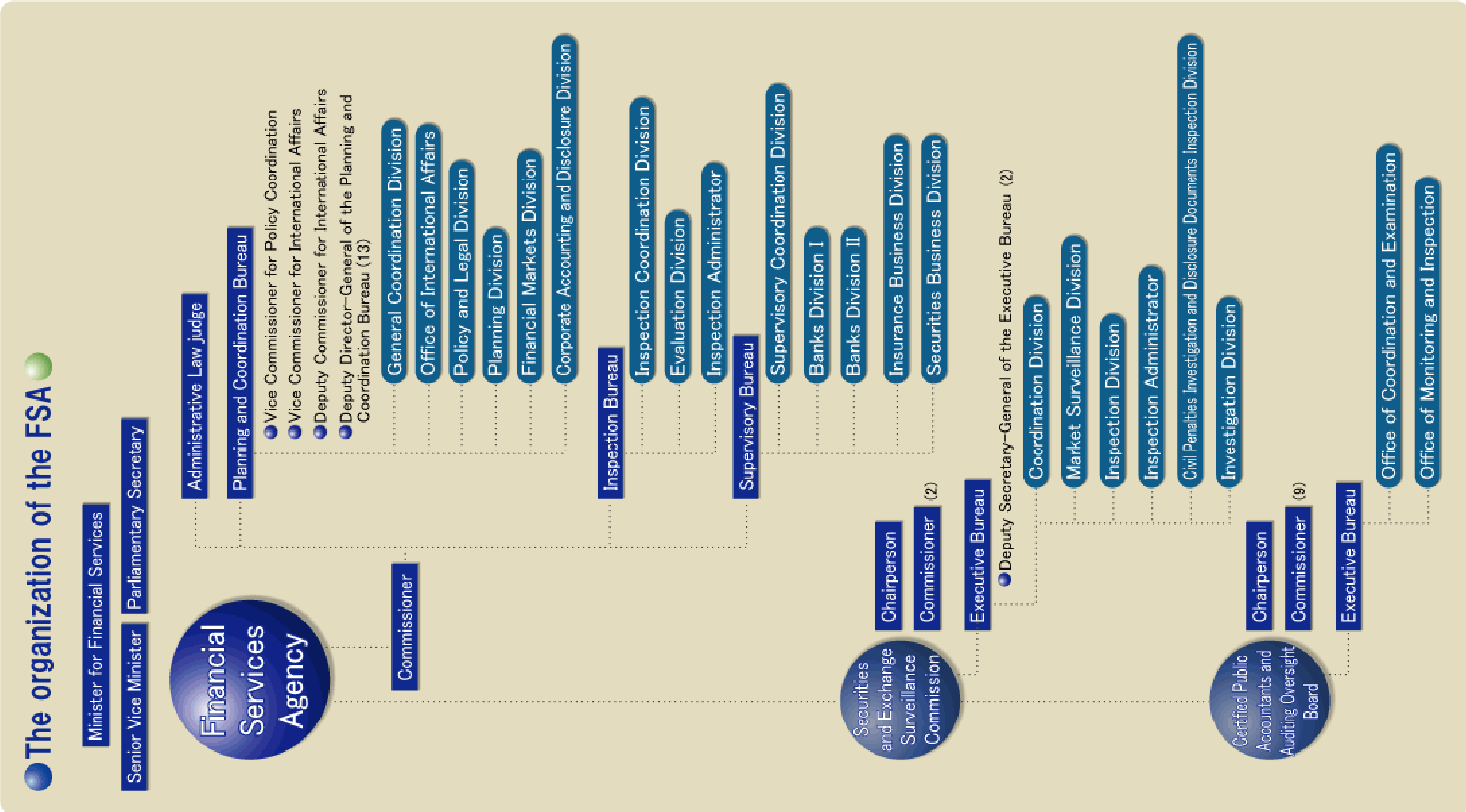
1. Macro-prudential policy: Overview

■ **Reform of government authorities during Japan's financial crisis:**



1. Macro-prudential policy: Overview

■ Organization of the FSA



1. Macro-prudential policy: Overview

■ Timetable of major credit events and policy actions

Year	Events	Policy Actions
1994	･Two credit unions went bankrupt. ー Total number of failed institutions: 3	･Funds were given by regional governments (as primary supervisor), banks, and the Deposit Insurance Corporation (DIC) to deal with insolvencies. ･A special bank was jointly established by the BOJ and banks to purchase bad assets (which was reorganized as the Resolution and Collection Bank, or RCB, in 1997).
1995	･Troubles surfaced at "Jusen" (housing finance companies). ー Total number of failed institutions: 6	･Loans to Jusen were collectively forgiven by major creditors (major banks and agricultural financial institutions).
1996	･The DIC temporarily extended coverage to all deposits and introduced a special premium under the revised Deposit Insurance Law. ･The MOF introduced a system of self-assessment of assets and provisions based on those assessments. ー Total number of failed institutions: 5	
1997	･Collapse of a medium-sized securities house led to broad-based market dysfunctions, triggering the bankruptcy of a major bank and a major securities house. ー Total number of failed institutions: 10	

1. Macro-prudential policy: Overview

■ Timetable of major credit events and policy actions

Year	Events	Policy Actions
1998	･Two major banks fell into trouble. －Total number of failed institutions: 37	･ Public funds (1.8 tril yen) were injected to major banks under Act on Emergency Measures for the Stabilization of Financial Functions. ･Two major banks were nationalized under Act on Emergency Measures for the Revitalization of Financial Functions. ･RCB started to cover banks as well as credit unions. ･Disclosure of bad assets was enhanced under revised Banking Law. ･Prompt corrective action (PCA) was launched. ･Financial Supervisory Agency was established. ･Financial Reconstruction Commission was established.
1999	－Total number of failed institutions: 39	･Public funds (7.5 tril yen) were injected to major banks under Act on Measures for the Early Normalization of Financial Functions. ･Disclosure of bad assets was further enhanced under Act on Emergency Measures for the Revitalization of Financial Functions. ･ Resolution and Collection Bank became the Resolution and Collection Corporation.
2000	－Total number of failed institutions: 18	･Financial Services Agency (FSA) was established. ･Credit union supervisory functions were transferred to FSA.
2001	－Total number of failed institutions: 47	･Bank debentures and deposits by regional governments made eligible for deposit insurance under revised Deposit Insurance Law. ･Current system of resolution of financial institutions was launched with revised Deposit Insurance Law.

1. Macro-prudential policy: Overview

■ The separation of financial regulation and supervision from the former MOF was perceived as a “political action”. However, the transitional period had significance in changing fundamental ideas and policy priorities:

a) The authorities finally abandoned the principle of “no bankruptcies” for banks and introduced a framework for the resolution of failed financial institutions.
<Background> The “no bankruptcies” principle had become clearly unsustainable.

b) The authorities gradually moved to enhance the transparency of the ideas behind policy actions.
<Background> Overseas authorities and market participants lost confidence in “official information”, which impeded Japanese banks’ operations in international markets.

c) The authorities came to understand the importance of accumulating financial expertise.
<Background> Officials had difficulty keeping up with financial innovation.

1. Macro-prudential policy: Overview

(Example 1) System for self-assessment of assets and provisioning for classified assets

Previous practices	New measures	Implications
･As a rule, asset quality was evaluated by government inspectors.	･Banks were required to evaluate their own assets at regular intervals, in accordance with supervisory guidelines (applied since FY 1998). －The FSA began to announce the aggregate amount of classified assets on a semi-annual basis.	･The authorities put more stress on evaluating risk management concepts, systems and implementation.
･Banks were required to obtain tax office approval to accumulate provisions for bad assets. ･Banks rarely accumulated provisions without such approvals, largely because such procedures were not specified and/or banks were fearful of "stigma".	･Based on these evaluations, banks were required to manage provisions for classified assets (applied since FY 1998).	･Investors could put more confidence in disclosed information.

1. Macro-prudential policy: Overview

(Example 2) Introduction of pre-emptive policy actions against banks

Previous practice	New measures	Implications
・The authorities provided support for distressed banks. ーThe decision to offer support was discretionary, and measures were chosen on an ad-hoc basis.	・The authorities required banks with lower official "ratings" to improve resiliency through measures such as an increase in their capital adequacy ratios (since April 1998). ーThis corresponds to the Prompt Corrective Action (PCA) of overseas markets.	・"Early warnings" by both the authorities and the banks could minimize market turmoil and/or avoid unnecessary bankruptcies of financial institutions.
	・The government can also inject public funds to those banks in a "pre-emptive" manner, on the condition that such funds will reinforce their banking functions. (Act on Emergency Measures for the Stabilization of Financial Functions <effective from February 1998>)	

1. Macro-prudential policy: Overview

(Example 3) Introduction of measures for orderly resolution of banks

Previous practice	New measures	Implications
・The authorities "asked" peer banks or major banks to merge with troubled banks. —The process depended on moral suasion and was largely successful until the early stages of Japan's financial crisis.	・The authorities were authorized to establish a "bridge bank" when seeking buyers for a troubled bank (Act on Emergency Measures for the Revitalization of Financial Functions <effective from October 1998>)	・The authorities could "buy time" to manage a troubled bank in a more orderly manner. —The financial system tends to become most unstable when the markets perceive a sense of desperation at troubled banks.
	・The authorities were entitled to appoint a "Financial Administrator" to manage the resuscitation or liquidation of troubled banks (Act on Emergency Measures for the Revitalization of Financial Functions <effective from October 1998>)	・The authorities could mitigate systemic risks caused by serious problems at major players. —However, the risk of moral hazard becomes more acute.
	・The authorities were allowed to nationalize "systemically important banks" when seeking buyers for a troubled institution (Act on Emergency Measures for the Revitalization of Financial Functions <effective from October 1998>)	

1. Macro-prudential policy: Overview

■ Current framework for bank resolution:

• **Under the Deposit Insurance Law, the Council for Financial Crisis can implement the following solutions:**

	Measures under Item (1)	Measures under Item (2)	Measures under Item (3)
Conditions	Financial institutions submit plans for sound management	Failed or insolvent financial institutions	Failed and insolvent financial institutions that could cause systemic risks
Solutions	Subscription of shares by the DIC to boost equity capital	Appointment of a Financial Administrator and provision of funds －Deposits fully insured by the DIC	Nationalization by the DIC －Deposits fully insured by the DIC

1. Macro-prudential policy: Overview

(Example 4) Enhancement of coordination between the FSA and the BOJ

Previous practices	New measures	Implications
・Minister of Finance and BOJ Governor met occasionally to exchange opinions and to coordinate policy actions. －The meetings were held mostly on an ad-hoc basis and were sometimes driven by political considerations. －Staff at the two entities kept in closer touch.	・ Minister of State for Financial Services, Commissioner of the FSA, Minister of Finance, and Governor of the BOJ join the Council for Financial Crisis, which is chaired by the Prime Minister. (Deposit Insurance Act <Effective from April 2001>) －The Council has significant mandates, including the injection of public funds to troubled banks, the appointment of a Financial Administrator, and the temporary nationalization of banks.	・While this measure may be symbolic and most crucial issues would be discussed in more informal settings, it could relieve criticism about a lack of transparency in policy actions.

1. Macro-prudential policy: Overview

(Example 5) Enhancement of deposit insurance

Previous practices	New measures	Implications
・Deposit coverage was limited to retail depositors and to a maximum of 10 mil yen per depositor.	・The 10 mil yen ceiling was temporarily removed. (Deposit Insurance Act <Effective from April 1996>) ・Regional governments were designated as being eligible for insurance. (Deposit Insurance Act <Effective from April 2001>)	・The authorities could prevent unnecessary instability in the financial system by reducing the risk of bank runs.
	・An extra premium was levied on banks to cover the increased cost of bank resolutions. (Deposit Insurance Act <Effective from April 1996>)	・The authorities could share the costs for restoring the financial system with private banks.

2-1. Challenges for Japan's financial system

- **Several aspects of macro-prudential policy in Japan should be discussed, taking into account its unique features and overseas debate:**

1) Are we justified in reconsidering the concept and the implementation of macro-prudential policy if we have no potential sources of systemic risk in our system? **－Ironically, Japan's financial system has few "speculative" players…**
2) Even if macro-prudential policy is important in general, are there any aspects of the Japanese system that require revisions and/or improvements? **－Japan's framework of prudential policy has experienced few problems in the recent crisis…**
3) Is there any effective and practical way of analyzing and evaluating systemic risk? **－Overseas central banks and supervisory authorities still appear to be struggling to find or adopt such methods…**

These issues are discussed below…

2-1. Challenges for Japan's financial system: Potential avenues of transmission

■ **Japan does not have the kinds of players capable of generating systemic risk, but there could still be cases with systemic impacts.**

Feature	Discussion
Importing systemic shocks	・Due to greater inter-connectedness in international finance, shocks in overseas markets could have non-negligible impacts on Japan's financial system. －This was underlined by certain events in the recent crisis.
Providing support for risk accumulation	・For the same reason, Japanese policies could have a greater impact overseas. －Asset-price bubbles could be triggered by "favorable" conditions such as growth optimism, low interest rates relative to the rate of inflation and growth, distorted incentives, and the existence of speculative players. －There could also be "feedback" effects from overseas markets.

The impact of shocks from the above-mentioned sources could still be considerable if our system has underlying problems. The concentration of risk in some specific areas of the financial markets poses a particular threat (the "common factor" problem).

－"Once in a century" is a description more applicable to the extraordinary magnitude of market volatility than to the impact on economic fundamentals.

2-1. Challenges for Japan’s financial system: Major elements of systemic risk

■ “Common factor” problem has not been well addressed in a global context.

1. Generation of systemic risk by collapse of large and complex financial institutions

3. Amplification of systemic risk by convergence of investment strategies

2. Transmission of systemic risk by settlement system vulnerabilities

・After the recent financial crisis, numerous measures to prevent systemic risk have been proposed. But most of them are related to 1 and 2 above, and little has been done to address the “common factor” problem (3 above).

－Tightening capital adequacy rules and introducing ceilings on leverage and liquidity ratios are apparently intended to reduce risks from source 1.

－Requiring players to transact derivatives on exchanges and encouraging the introduction of CCPs are intended to reduce risks from source 2.

2-1. Challenges for Japan's financial system: Common factor problem

- **Even if major players (such as LCFIs) and key settlement systems are under tight control, risks could still accumulate in a systemically important manner.**
  - **A financial institution is expected to orderly manage the impact of shocks in a static world, but is that still possible when a number of players try to reduce the same kind of risk exposure simultaneously?**

- **This kind of problem becomes more acute when certain kinds of players or markets are less overseen or regulated.**
  - **This is what we observed in the US securitization markets (the "shadow banking" problem).**
  - **While it is often argued that Japan would not have such troubles because of the less diversified structure of its financial markets and wider coverage of the industry by the authorities, it should be remembered that Japan had its own "shadow banking" problem in its financial crisis (the "Jusen" problem of real estate lending), largely incentivized by government regulation.**

2-1. Challenges for Japan's financial system: Political economy

- **Common factor phenomena tend to be reinforced by "seemingly rational" reasons.**
  - **Financial bubbles are always driven partly by "good reasons" rooted in economic fundamentals. Otherwise, rational financial players would not accumulate similar risk exposures.**
  - **In Japan's financial crisis, excessive bullishness towards the stock and real estate markets was supported by the idea of a growing global presence for Japan as its products became highly competitive on international markets.**

- **Difficulties in identifying a few speculative aspects among many fundamental factors would prevent "pre-emptive" policy actions.**
  - **Proposals for "pre-emptive" actions would face strong resistance rooted in the ideas of pro-growth policy, the belief in "financial innovation", the interests of the financial industry, and fears about a loss of competitiveness in global markets.**

2-2. Areas for improvement in macro-prudential policy

- The authorities would like to claim that Japan already has a good macro-prudential policy framework. They do, in fact, keep a close eye on systemic aspects of financial stability based on the changing environment.

Old regime

The former MOF and the BOJ maintained the principle of "no bankruptcies" for banks.

<Considerations>

✓ While cases of systemic risk were rare, stress tended to be concentrated in the banking sector.

✓ Restrictions on entry/exit of banks was necessary because interest rates for both deposits and loans were tightly controlled.

✓ "Lender of last resort" function was flexibly managed due to BOJ's involvement in financial stability.

→

Current regime

The FSA and the BOJ prioritize resiliency to systemic shocks via the banking system.

<Considerations>

✓ While our domestic system remains intact, the cross-border transmission of shocks can be considerable.

✓ Measures for orderly resolution of banks have been introduced, making bankruptcies possible.

✓ Monetary operations by the BOJ have focused more on the financial system since the financial crisis.

2-2. Areas for improvement in macro-prudential policy

■ Nevertheless, there remain several challenges for the FSA and the BOJ that deserve further review:

FSA	✓ Formulating a comprehensive evaluation of Japan's financial system by more efficiently utilizing knowledge dispersed across the agency ✓ Introducing a system to compile information on financial conditions in a more timely manner
BOJ	✓ Extending surveillance to such important players as life insurers and non-bank financial companies ✓ Conducting comprehensive evaluations of the financial system by streamlining analytical methods

→ There is a prospect for a reallocation of mandates between the FSA and the BOJ, along with enhanced collaboration between the two.

－This could contribute to greater efficiency in public resources and a reduction in unnecessary regulatory costs for the financial industry (i.e. an answer to Japan's overlap problem) .

2-2. Areas for improvement in macro-prudential policy

■ **The FSA and the BOJ also share the challenge of overlapping mandates.**

FSA	FSA and BOJ	BOJ
・Protection of depositors/investors and small and medium-sized borrowers	・Maintenance of financial stability	・Maintenance of price stability

- **There is an inherent risk that either entity might give priority to other mandates over financial stability.**

－**While there are cases in which the mandates would not conflict with each other and policies could satisfy both goals, there might also be ambiguous situations. Problems are more likely if consideration of financial stability requires a longer-term viewpoint.**

Establishing a board of policy makers who meet regularly to discuss financial stability would be a meaningful option

－**Regular members would be the General Secretary of the FSA, the BOJ Governor, and the Chief Secretary of the Cabinet, with other ministers invited depending on the issues at hand.**

－**This would be a version of the Financial Crisis Panel for normal times as well as a Japanese version of the Financial Stability Oversight Board discussed in the US.**

2-3. Improved analysis of systemic risk

- One important rationale for delegating larger supervisory roles to central banks in major economies is the potential for "economies of scope":
  - Because central banks have been monitoring large areas of the financial markets (e.g. short-term funds, government bonds, credit, foreign exchange and commodity) for the sake of monetary policy, their existing resources—including knowledge, information, human networking, data collection systems, and expertise–could be utilized to enable broader and timelier surveillance of systemic risk.

- However, it is becoming gradually apparent that finding effective and practical methods of systemic risk analysis is still a challenge.
  - Although the BOJ is in a better position in the global context because it has continued to engage in financial supervision, systemic risk analysis is still a challenge.
  - A realistic option for central banks in general would be to focus on the LCFIs as an interim strategy. In addition to the fact that LCFIs would be analytically "manageable" thanks to their small numbers, such a strategy would have the convincing justification that LCFIs could play a major role in generating and/or transmitting systemic risks.

2-3. Improved analysis of systemic risk

■ **Existing proposals for analyzing and evaluating systemic risk due to LCFI activities:**

＜Basic logic＞

•Estimate risk characteristics of both the system and individual LCFIs

•Estimate potential losses both for the system as a whole and for individual LCFIs in the event of a failure

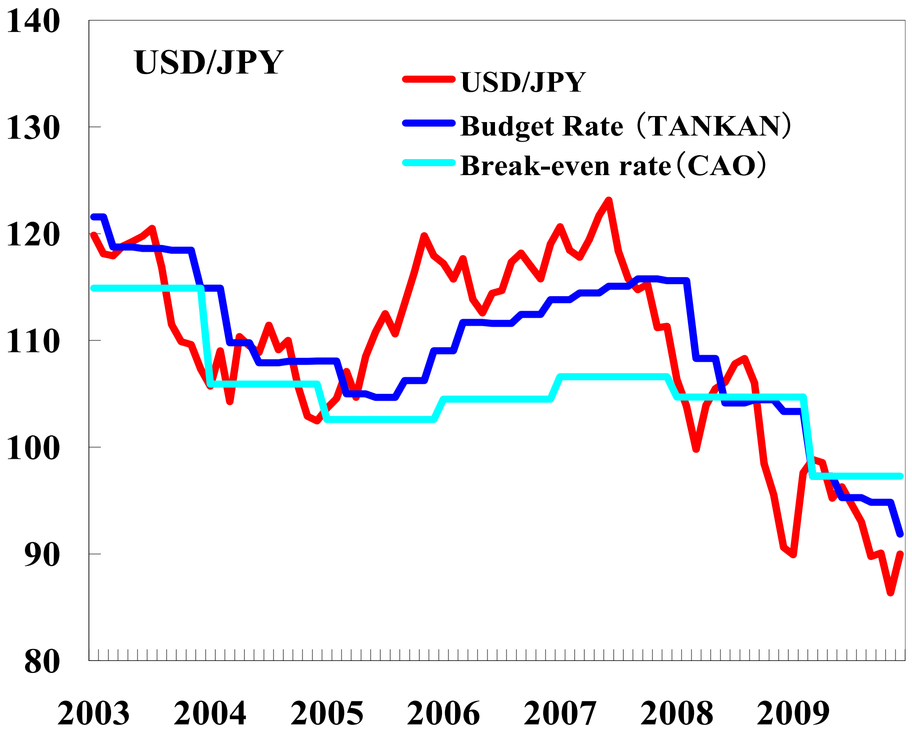
ーRepeat this process for different shocks or sets of failed LCFIs

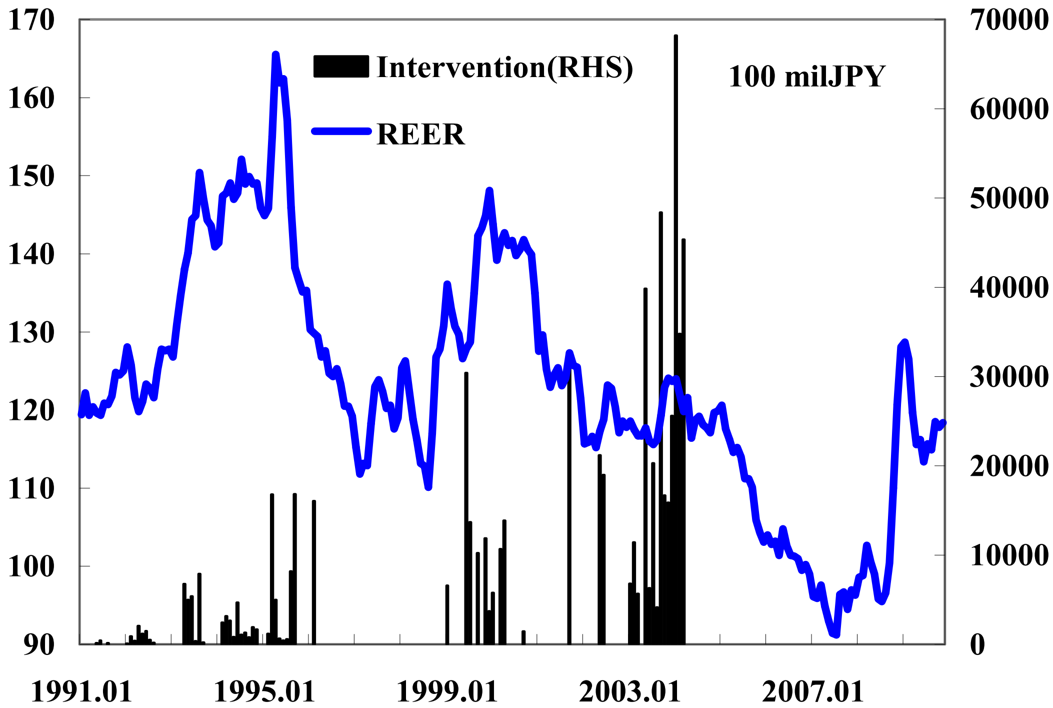
Example	Outline
CoVaR (Adrian and Brunnermeier)	•Define ΔCoVaR as the difference between "VaR of LCFIs in aggregate" and "VaR of surviving LCFIs on condition of the failure of a specific LCFI (CoVaR)" •Fairly simple to estimate to the extent that the relevant data can be collected timely. •Deal with asymmetries of risks based on differences in risk sensitivities at individual LCFIs •Deal with "conditional CoVaR", which refers to ΔCoVaR in the event of a series of LCFI failures
Shapley Value (Tarashev, Borio and Tsatsaronis)	•Allocate Shapley Values to respective LCFIs as the difference between the potential loss for the system and the potential loss for sets of LCFIs ーEstimate potential losses through calibration of factors like PD, LGD, and common factors •Fairly simple to estimate •Deal explicitly with common factor problem •Deal with TBTF problems by estimating impact on potential losses of different market shares for individual LCFIs

(Annex) Financial market and monetary policy updates

1. Market developments: Foreign exchange

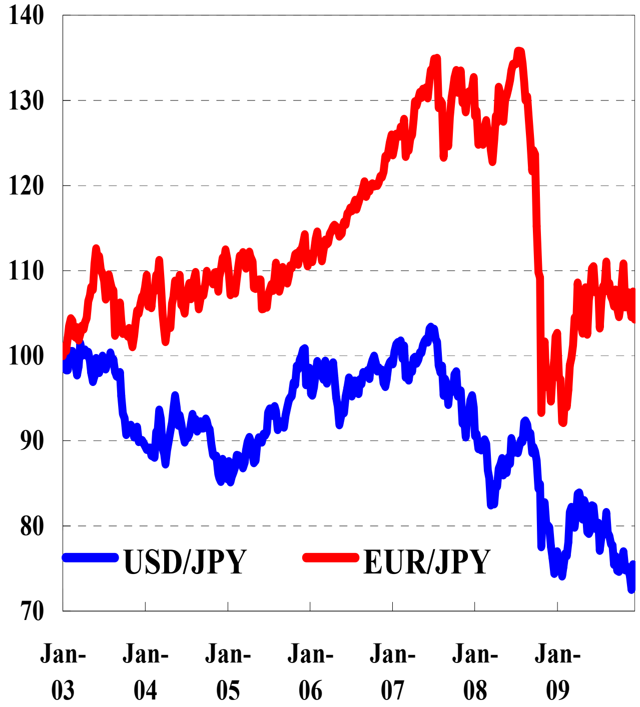
■ **The depreciation of USD against JPY has outpaced downward adjustments in the break-even rates of Japanese exporters.**



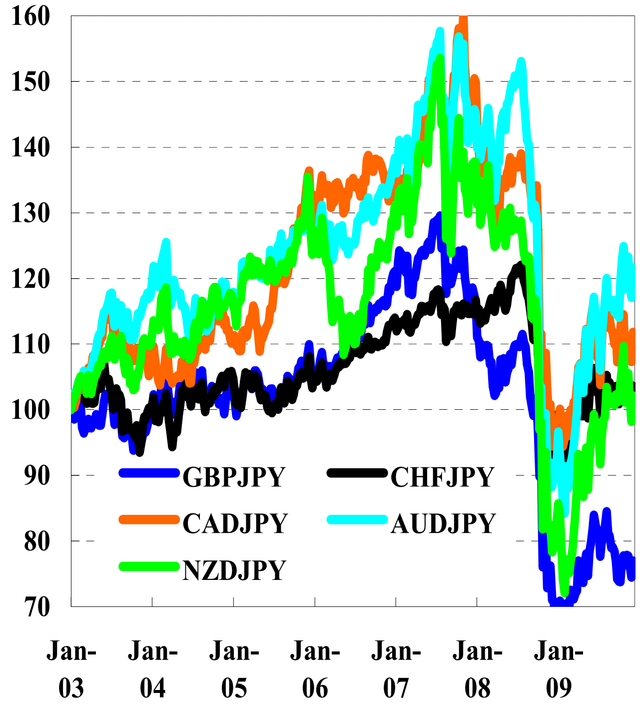


1. Market developments: Foreign exchange

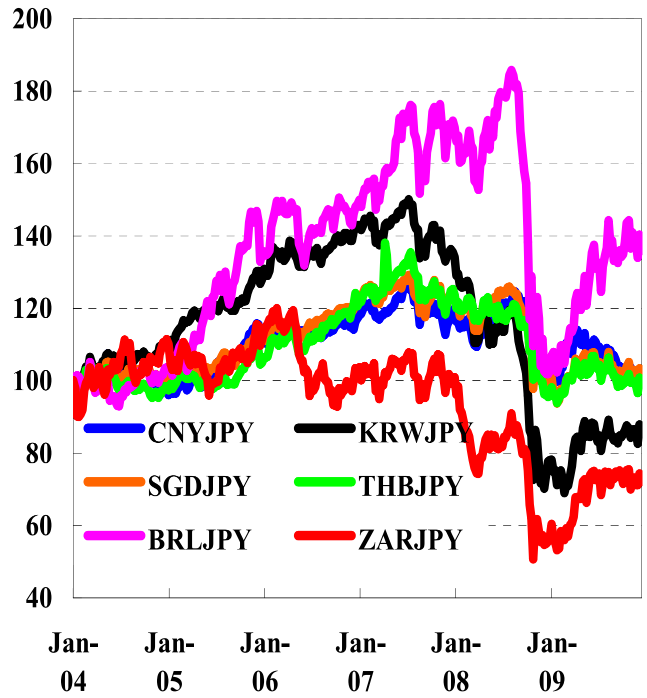
■ **Recent movements in cross-JPY rates have been polarized: while higher yielding and/or commodity currencies have rebounded, most emerging currencies have been sinking lower.**



Jan 2003 = 100



Jan 2003 = 100

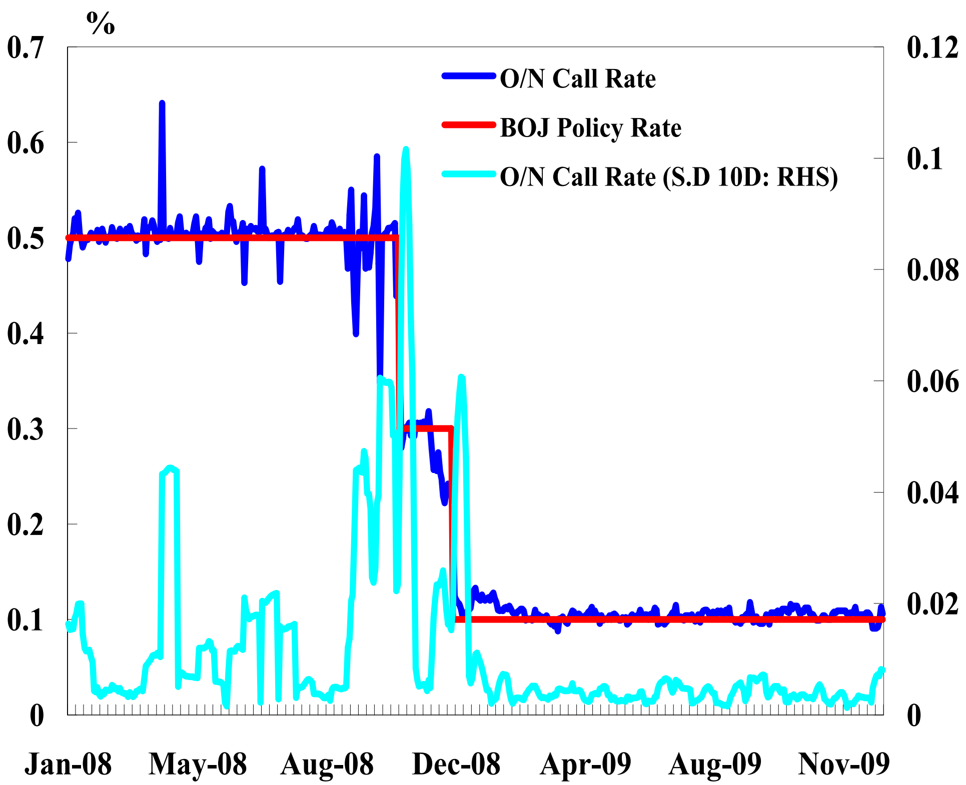


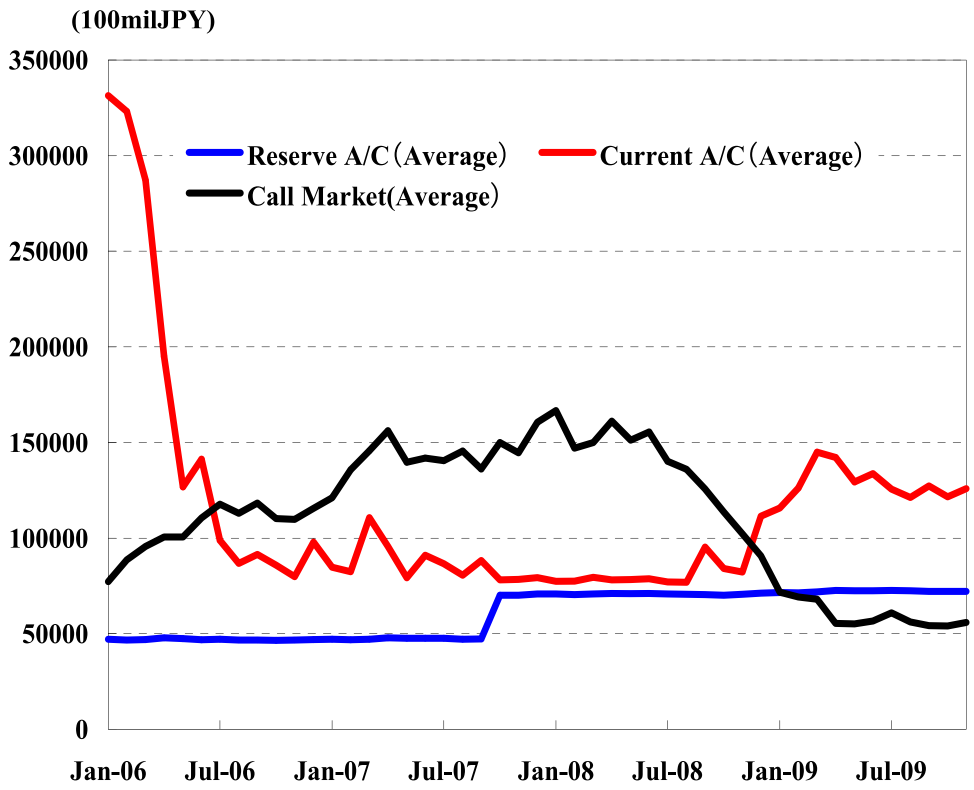
Jan 2004 = 100

*** Higher values indicate depreciation of JPY against respective currencies.**

1. Market developments: Money markets

■ **Markets are watching closely to see whether the BOJ will increase excess reserves in coming months.**

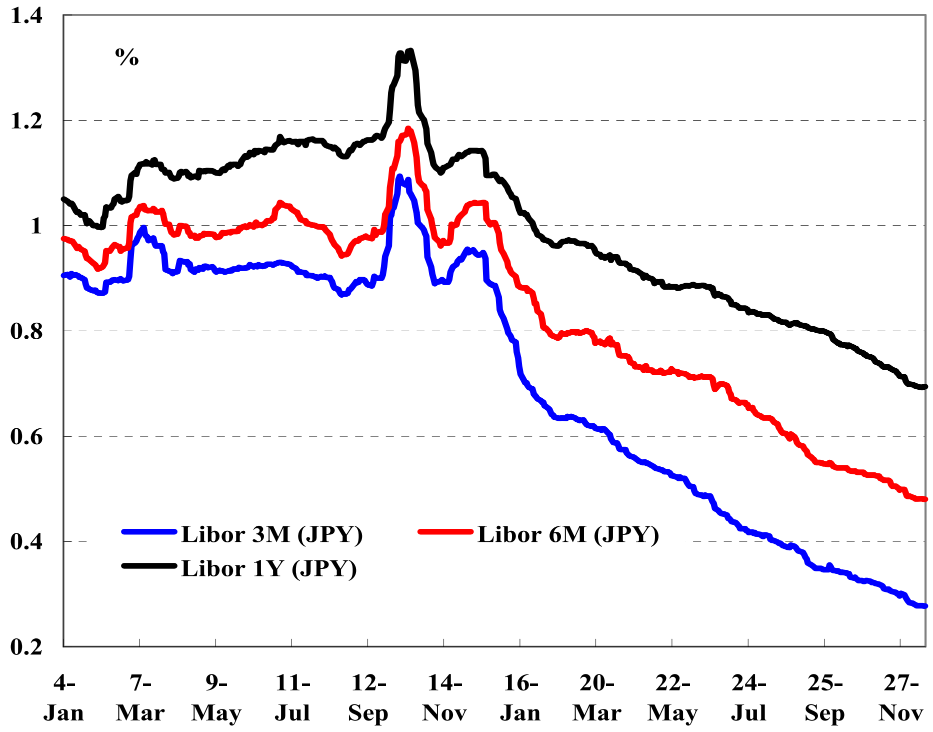


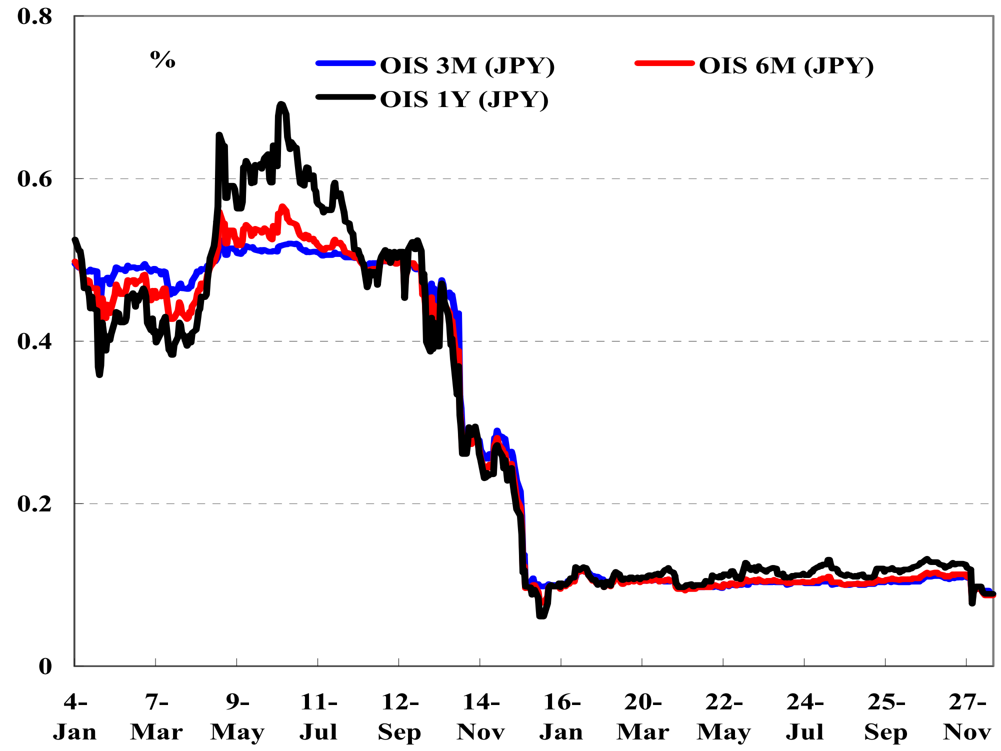


1. Market developments: Money markets

■ Implicit time commitment

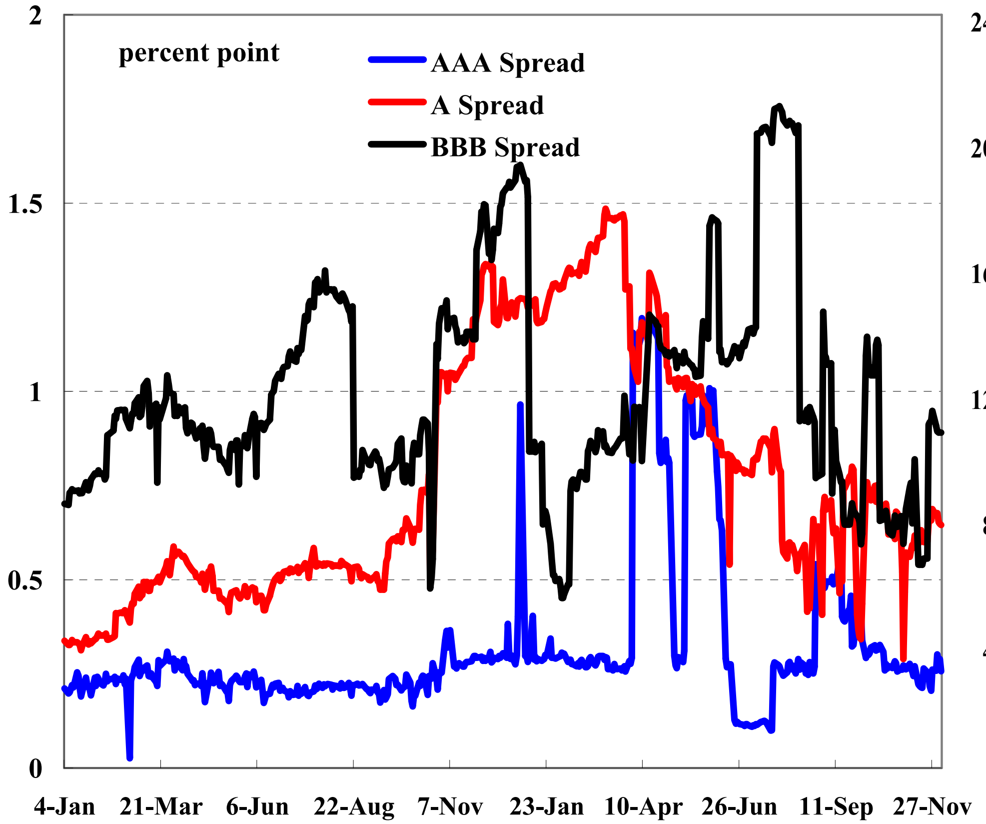
• Markets appear already to have priced in the implicit effects of a time commitment policy.

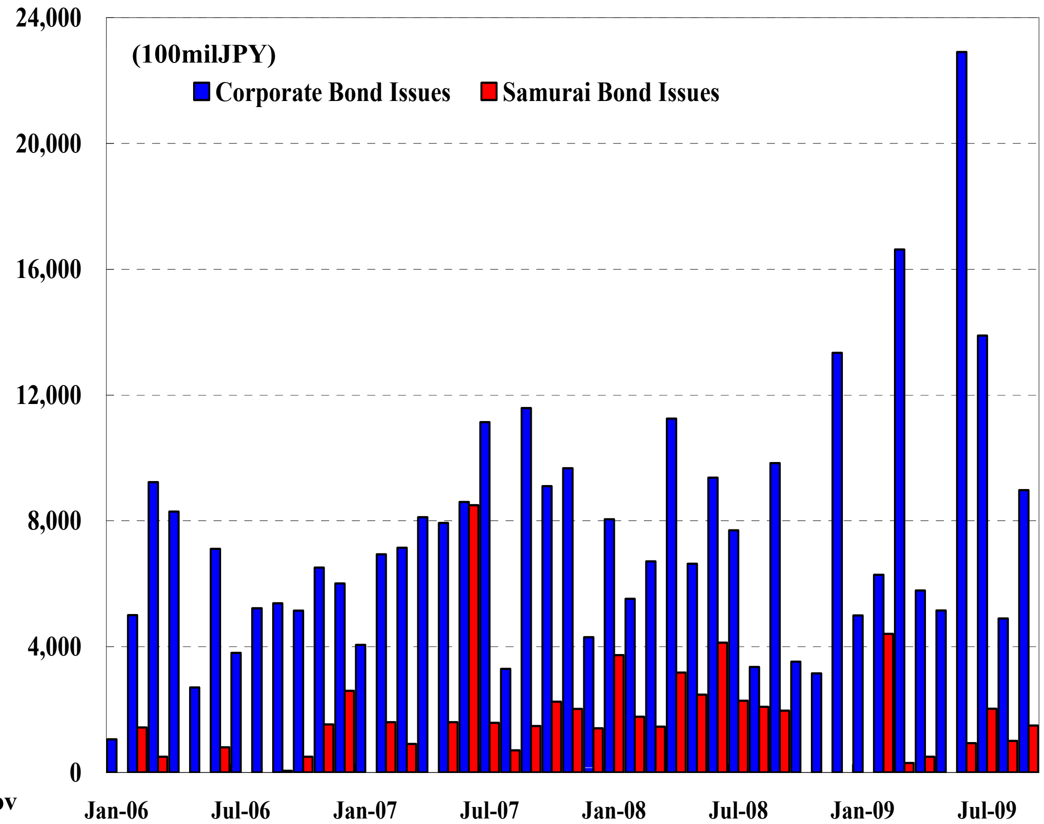




1. Market developments: Credit markets

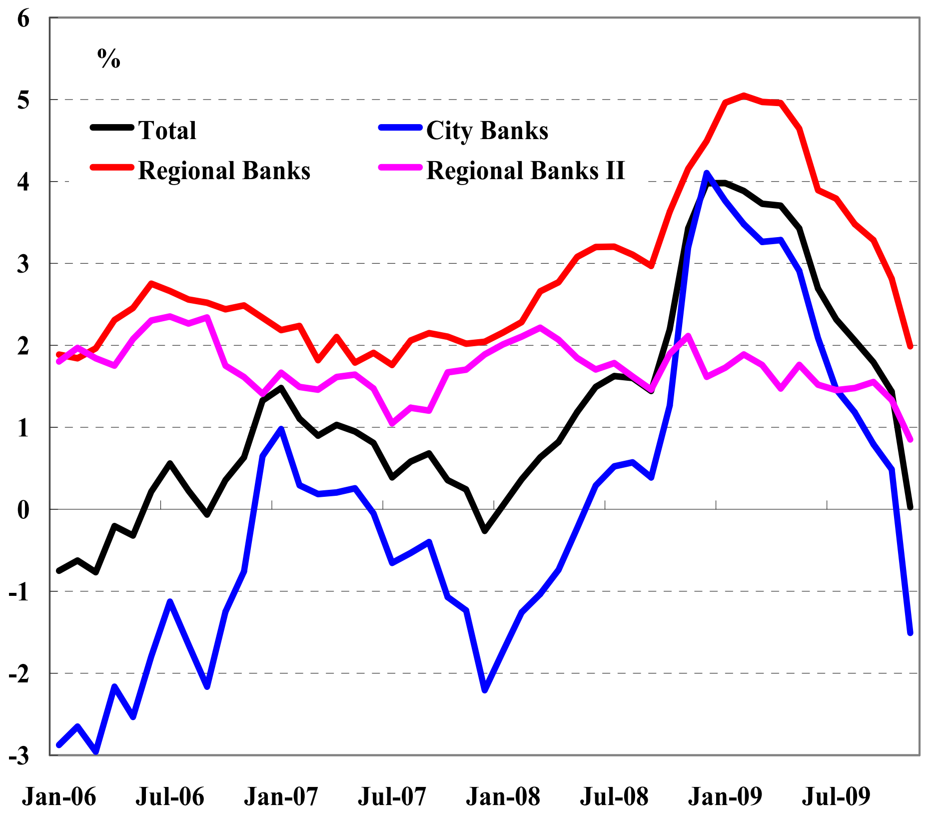
■ **Corporate bond issuance surged in 1H in Japan. Credit spreads have also been tightening, albeit with fluctuations due to reduced liquidity and concerns about specific industries.**



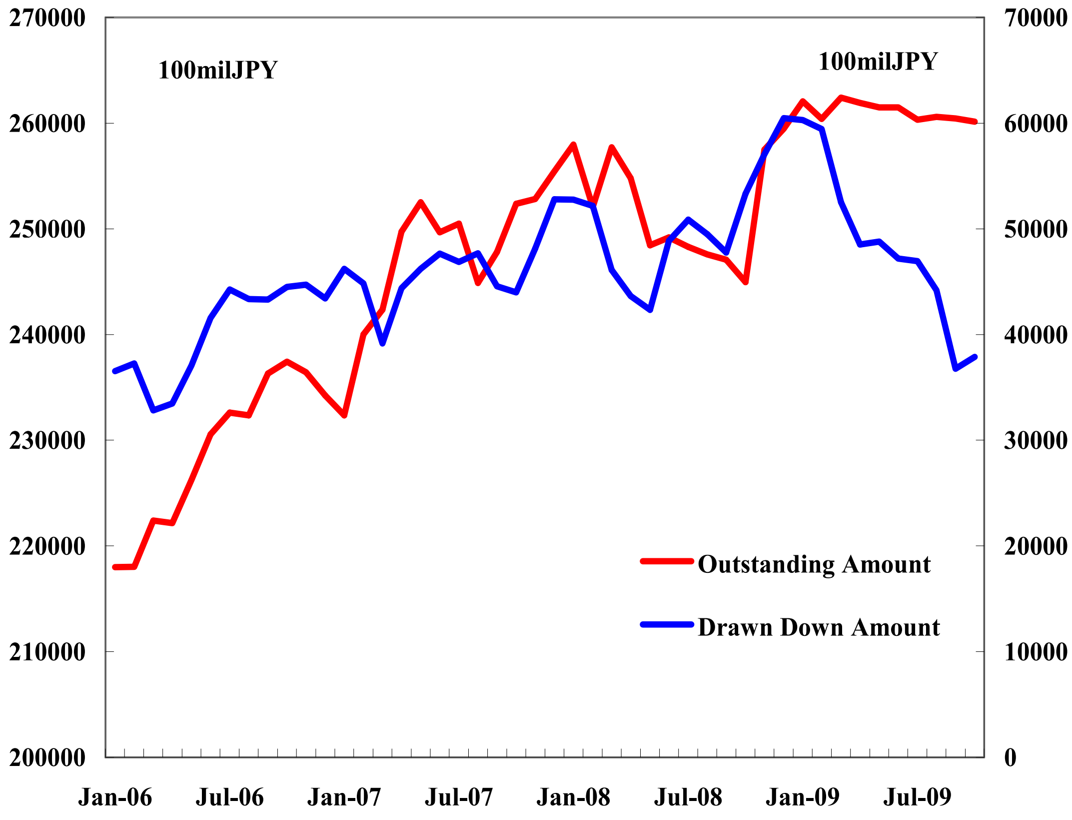


1. Market developments: Bank lending (1)

■ Sharp slowdown in loan growth implies that (1) the surge around the turn of the year was driven by “precautionary” borrowing, and (2) real demand has been falling due to weakness in the domestic economy.



Bank lending (%, y-on-y change)

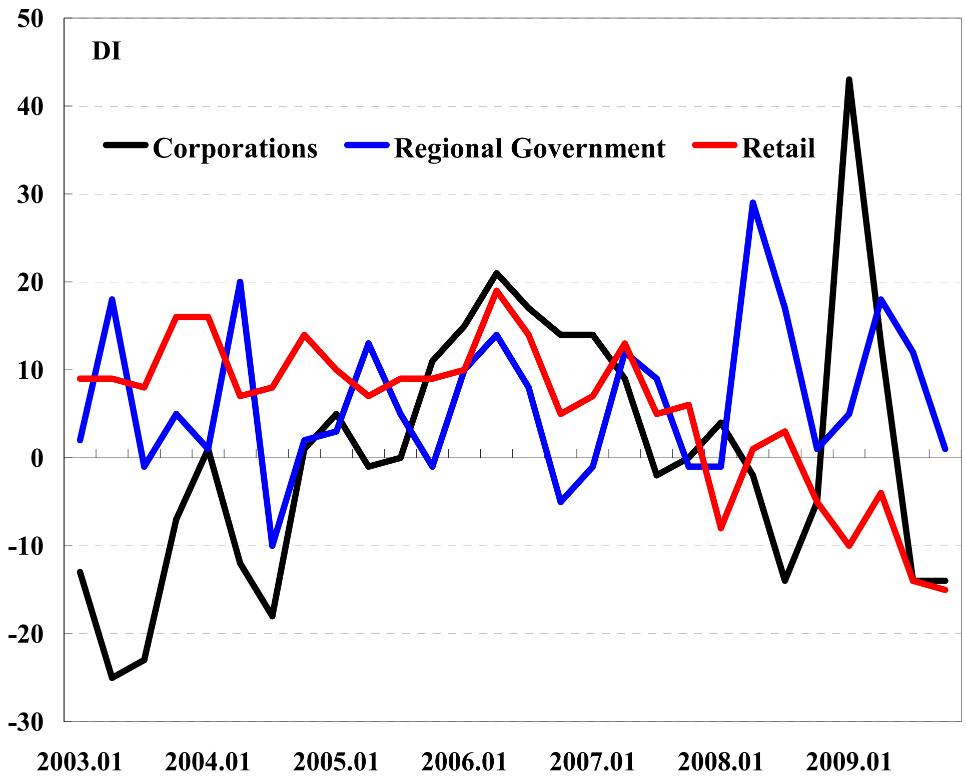


Commitment lines (outstanding)

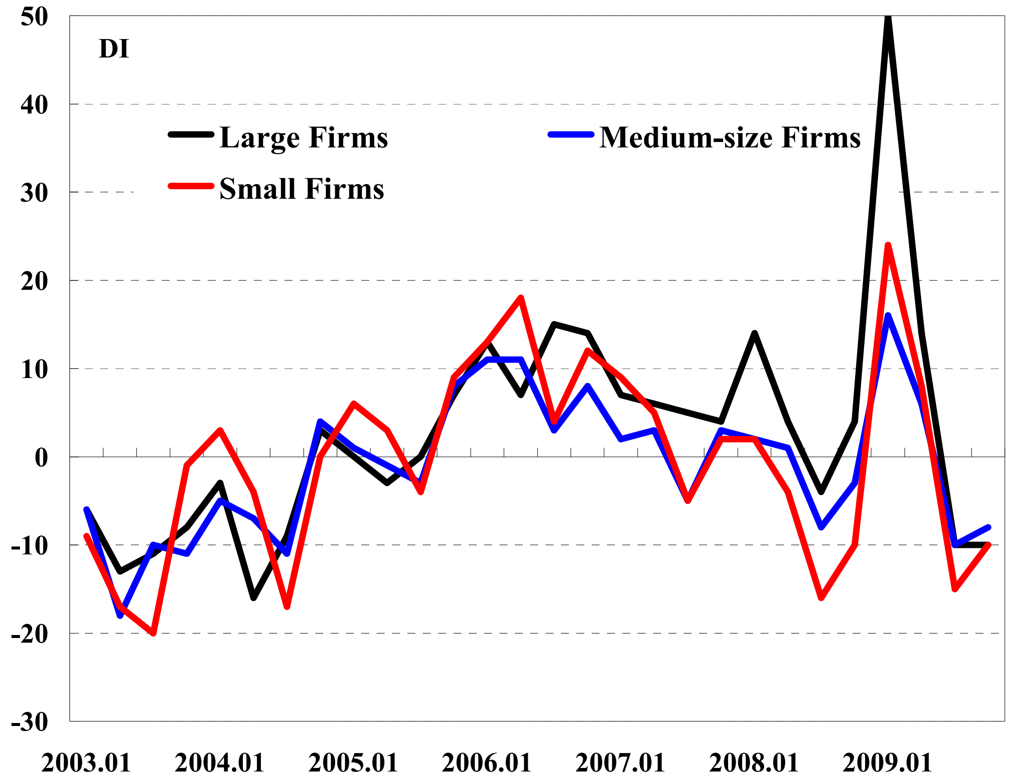
1. Market developments: Bank lending (2)

■ **Recent drop in loan demand is consistent with lackluster recovery in domestic economy.**

(Demand for bank lending)



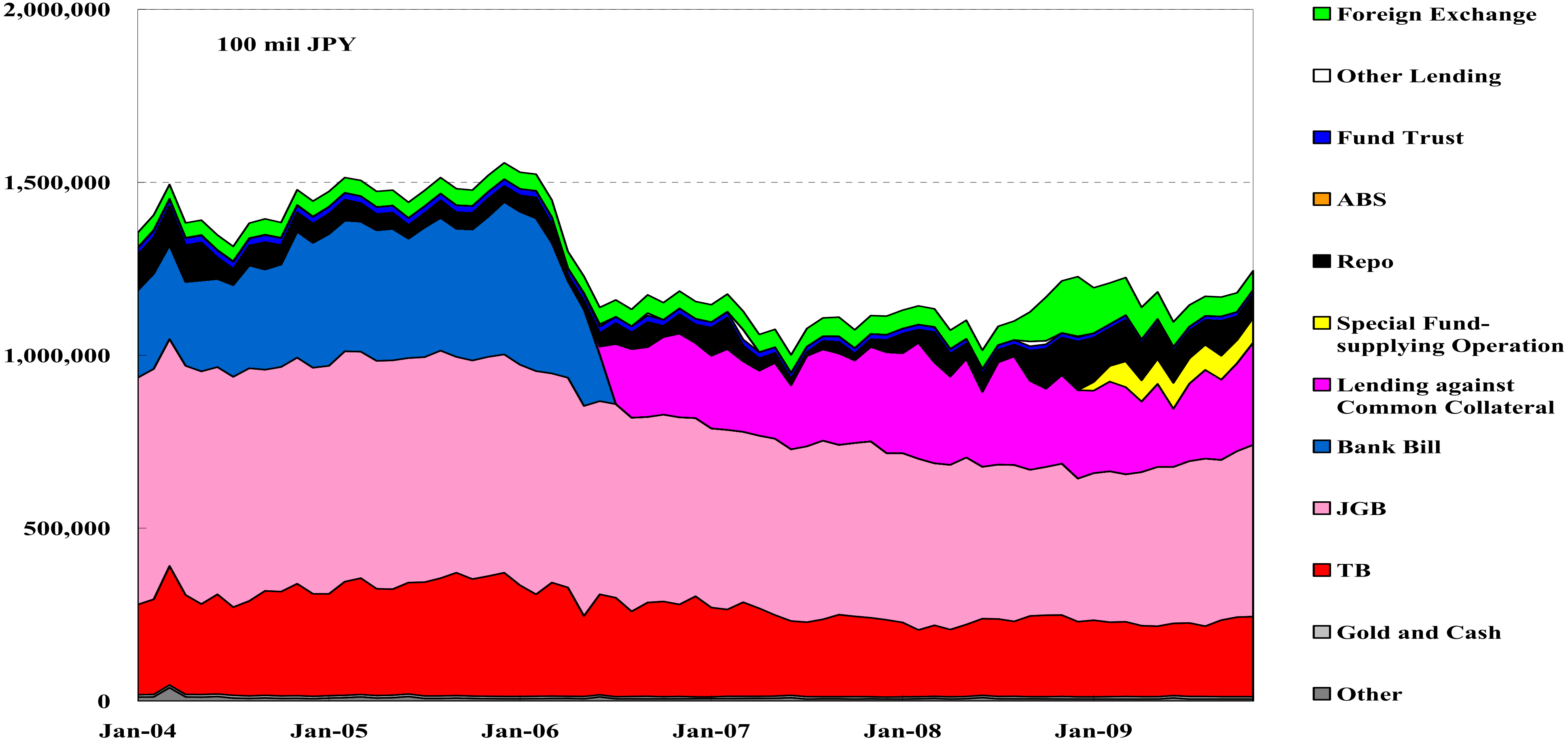
(Demand for bank lending)



2. BOJ monetary policy

■ Overview of BOJ policy measures (1)

ー There are signs of an expansion of the Bank's balance sheet due to new measures.



2. Monetary policy by the BOJ

■ Overview of BOJ policy measures (2)

Measures	Effective dates	Transactions	Counterparties	Rate	Assets for collateral/purchase	Duration	Amount
Special funds-supplying operations to facilitate corporate financing	January 2009～March 2010	Extending credits to eligible counterparties secured by designated set of corporate debt	Eligible counterparties for lending operations against pooled collateral*	Average of policy rates for duration of lending	Corporate bonds, corporate short-tem bills, foreign corporate short-term bills with guarantees, bills, CP and loan debentures (all rated BBB or higher)	Not longer than 3M	No predetermined limit
REIT debt becomes eligible collateral	January 2009 ～	・Accepting designated debt of REIT as collateral ・Purchasing REIT CP as eligible asset for CP repurchase operations	―――	―――	Bonds, bills, CP and REIT debentures (all rated AA or higher)	Not longer than 1Y (except for REIT debentures: not longer than 10Y)	No predetermined limit
Outright purchase of CP and ABCP	January 2009～December 2009	Purchasing CP and ABCP from eligible counterparties	Eligible counterparties for CP repurchase operations and lending operations against pooled collateral*	Competitive bids（with lower boundary)	CP and ABCP（eligible for CP repurchase operations with a-1 ratings; not including new issuance)	Not longer than 3M to maturity	3 trillion yen
Outright purchase of corporate bonds	March 2009 ～ December 2009	Purchasing corporate bonds from eligible counterparties	Selected from banks, security houses, securities finance companies and money market brokers	Competitive bids（with lower boundary)	Corporate bonds（eligible collateral for lending against pooled collateral, with A ratings)	Not longer than 1Y to maturity	1 trillion yen

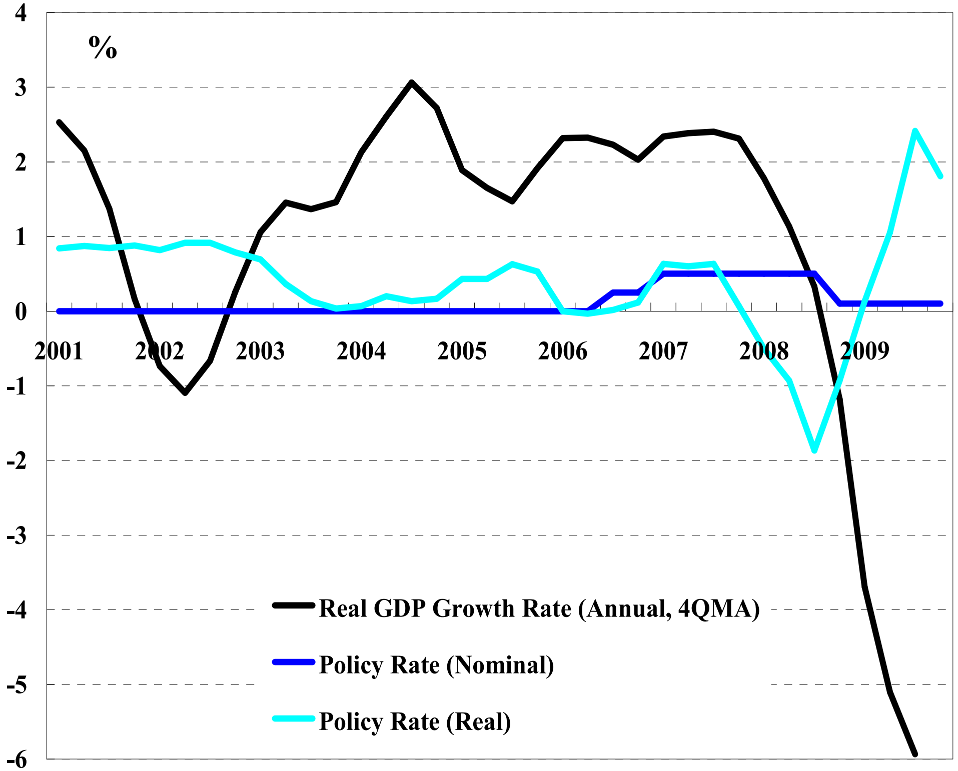
2. BOJ monetary policy

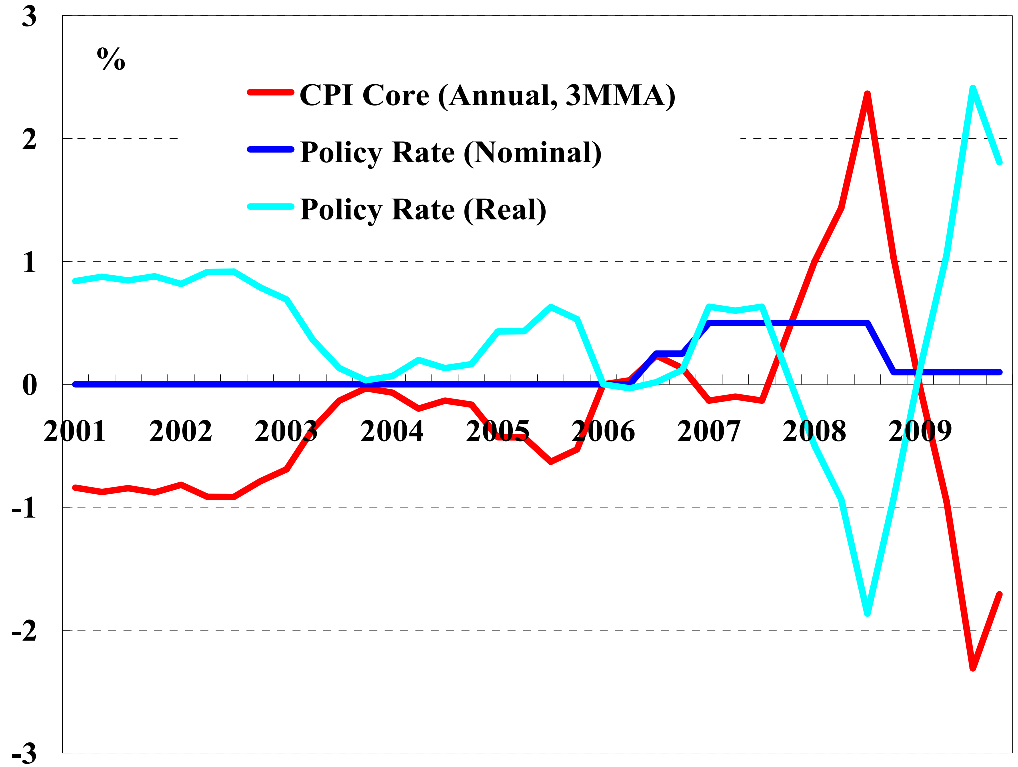
■ Overview of BOJ policy measures (3)
ーJGB purchases were expanded last winter

1. Amount purchased	•21.6 trillion yen (annually)
2. Types of bonds to be purchased	•Fixed-rate bonds (with original maturities of 2, 4, 5, 6, 10, 20 and 30 years) •Floating-rate bonds •Inflation-indexed bonds
3. Ceiling on annual purchases	•Fixed-rate bonds: with remaining maturity of less than 1 year: 7.44 trillion yen with remaining maturity of more than 1 year and less than 10 years: 12.0 trillion yen with remaining maturity of more than 10 years and less than 30 years: 1.2 trillion yen •Floating-rate bonds: 0.72 trillion yen •Inflation-indexed bonds: 0.24 trillion yen
4. Frequency of purchase	•Basically 4 times per month (two categories of bonds purchased per auction)
5. Auction method	•Conventional method (fixed-rate bonds: interest rates; floating-rate bonds and indexed bonds: prices)
6. Ceiling on aggregate outstanding amounts	•Outstanding amount of bank notes
7. Management of auctions	•Announcement of amounts purchased in respective categories at each auction

3. Monetary policy as economic stimulus

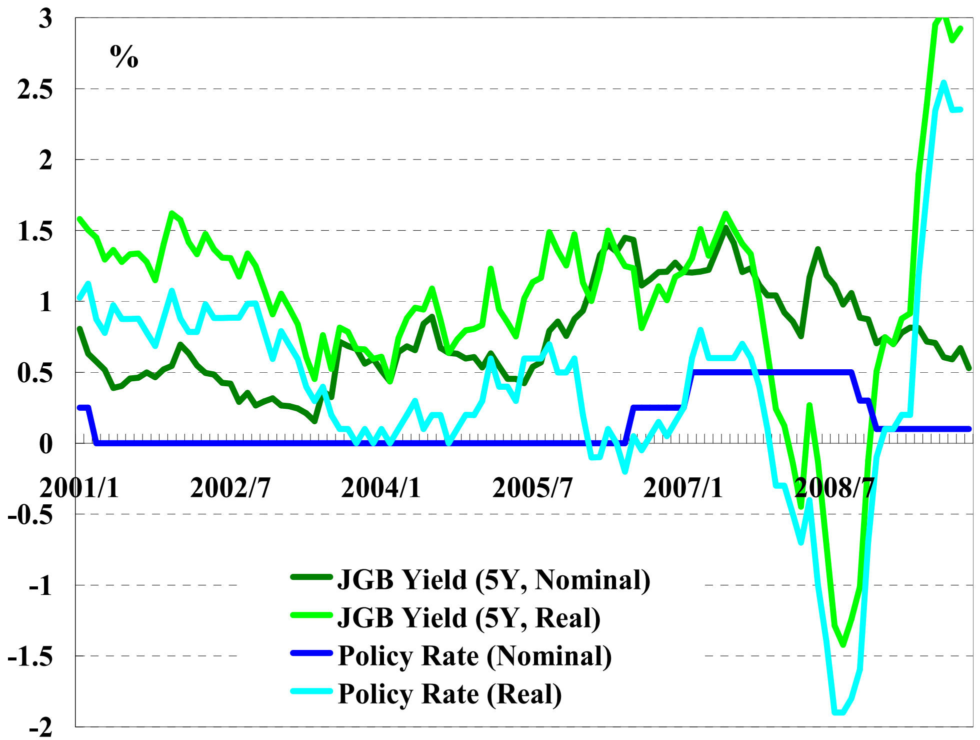
■ **Sharp drop in GDP growth and general prices has effectively tightened financial conditions despite ultra-low nominal rates.**

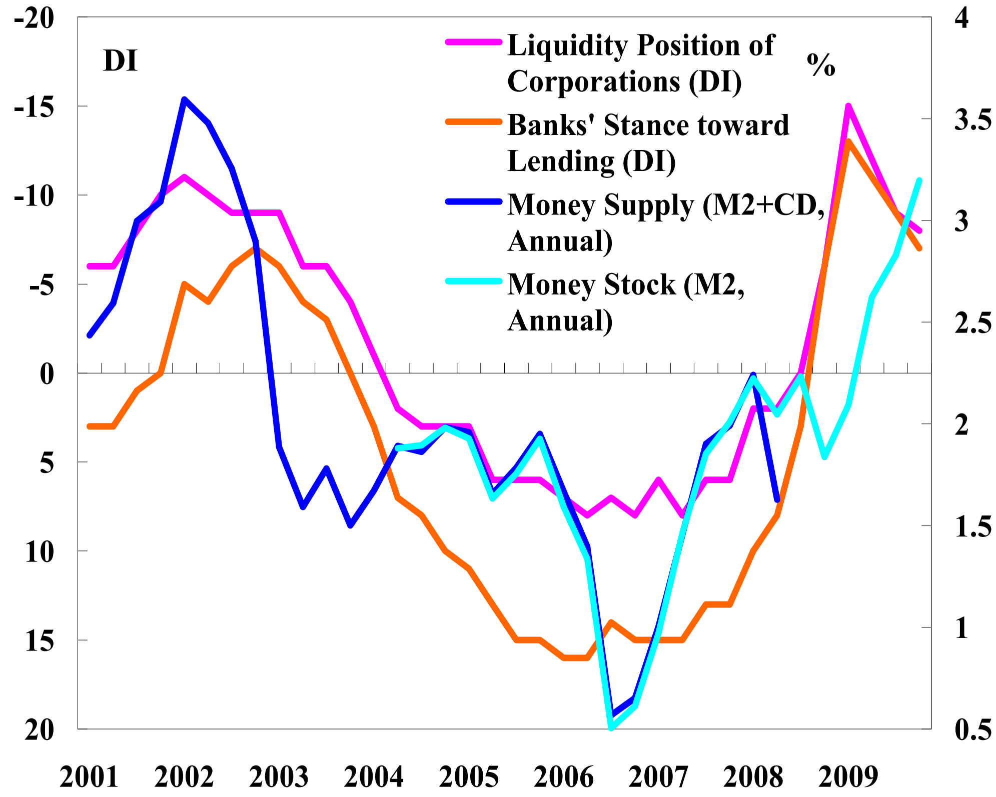




3. Monetary policy as economic stimulus

■ **Market conditions have also tightened in terms of real long-term rates and liquidity conditions.**





3. Monetary policy as economic stimulus

■ New funds-supplying operation: Fixed-rate lending against pooled collateral

Name	Duration	Feature	Counterparty	Rate	Collateral	Term	Amounts
New funds-supplying operation	Launched when preparations are completed (termination date not specified)	Lending against pooled collateral (same as normal operations)	(Not specified)	Policy rate	Pooled collateral (JGBs, corporate bonds, CP, loan debentures, etc.)	3M	Approx. 10 trillion yen
Special funds-supplying operations to facilitate corporate financing (SFO)	January 2009 to March 2010	Extending credits against designated list of corporate debt as collateral	Eligible counterparties for lending operations against pooled collateral	Average of policy rates for duration of lending	Corporate bonds, corporate short-term bills, foreign corporate short-term bills with guarantees, bills, CP and loan debentures (all rated BBB or higher)	Not longer than 3M	No predetermined limit

Statement	Governor's press conference
・"The Bank has judged that, in supporting the economic recovery from the financial side, it is most effective at present to further spread the strong effects of monetary easing and encourage a further decline in longer-term interest rates in the money market through provision of ample longer-term funds at an extremely low interest rate."	•This measure could be regarded as QE in a broader sense because it will help mitigate the risk of liquidity constraints keeping banks from functioning properly. •Growing understanding of the BOJ's intent to maintain ultra-low interest rate policy will gradually have effect on foreign exchange markets.

3. Monetary policy as economic stimulus

■ Behind the new measure

(1) The BOJ appears to be paying close attention to worsening sentiment

- Although it did not revise its semi-annual outlook in October, the BOJ appears to be concerned about deteriorating sentiment in the corporate sector driven by rapid JPY appreciation and the fall in stock prices.

(2) The BOJ intended to relieve burdens on corporations and to slow the yen's appreciation

- Reducing term rates and providing liquidity could bolster corporate profits
- Confirmation of de-facto time commitment could relieve upward pressure on JPY rates

■ Issues deserving further discussion

(1) Coordination with government

- The special meeting of the Policy Board appeared to be triggered by the announcement of a meeting with the prime minister.
- Management of JGB purchases will remain a pivotal issue.

(2) Explanation of transmission

- Somewhat confusing messages about the qualitative and quantitative aspects.
- Domestic and overseas players seem to have a different understanding of this issue.

(3) Policy option strategy

- In hindsight, the SFO could have been retained as a back-stop.

(Attachment) Financial Markets Panel (FMP)

Financial Markets Panel

Survey major recent developments in financial markets

+

Discuss desirable policy measures for financial markets from innovative and neutral perspective

‖

Communicate results of discussions to global audience to stimulate public debate

- Regular meetings of designated panel members, including both academics (economics and finance) and practitioners
- Focus on topics relating to financial markets
- Coverage of broad range of policy measures relating to financial markets
  ー including monetary policy, financial regulation, and best practices

(Attachment) Financial Markets Panel (FMP)

Academics
(theoretical study of policy)
(empirical analysis of policy)

Practitioners
(identification of policy needs)
(evaluation of policy)

Missing link

Policy makers
(Policy planning)
(Policy implementation)

- **Overcome constraints of relevant information and lack of analytical tools**
- **Propose feasible measures with solid theoretical foundation**

(Three-step approach)

1. **Review background and intent of recent policy actions**
2. **Examine effect and cost of policy actions**
3. **Propose practical policy with theoretical foundation**

(Attachment) Financial Markets Panel (FMP)

Name	Current Title/Area of Research or Business
Shin-ichi Fukuda	Professor, Department of Economics, University of Tokyo Monetary Economics, Macro Economics, International Finance
Ryuzo Miyao*	Professor, Institute of Economy and Management, Kobe University Economic Policy
Noriyuki Yanagawa	Associate Professor, Department of Economics, University of Tokyo Contract Theory, Corporate Finance
Toshiaki Watanabe	Professor, Economic Institute, Hitotsubashi University Finance, Econometrics
Naoko Nemoto	Managing Director, Financial Institutions Ratings, Standard and Poor's Financial Institutions, Financial Regulations
Izuru Kato	Chief Economist, Totan Research Money Markets, Monetary Policy
Hajime Takata	Chief Strategist, Department of Financial Market Research, Mizuho Securities JGB Market, Monetary Policy
Tetsuya Inoue (Organizer)	Chief Researcher, Department of Financial Market Studies, Nomura Research Institute International Finance, Monetary Policy

*** Professor Miyao has left the panel after being nominated to serve on the Policy Board of the BOJ.**

Thank you very much.

A summary of discussion (in English) at FMP meetings is available at:
http://www.nri.co.jp/english/opinion/index.html

Tetsuya Inoue
Chief Researcher
Department of Financial Market Studies
Nomura Research Institute