

Building a More Robust Financial System:  
Where Are We after the Global Financial Crisis and  
Where Do We Go from Here?

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# International Financial Regulations

## Basel III

### Strengthening the quality and quantity of capital (numerator)

- ✓ Quantity: introducing the Common Equity Tier 1 capital and raising the minimum requirement
- ✓ Quality: adopting a stricter definition of bank capital

### Improving risk coverage (denominator)

- ✓ Interest rate risk in the banking book
- ✓ Credit risk
- ✓ Operational risk

$$\text{Capital ratio} = \frac{\text{Bank capital}}{\text{Risk-weighted assets}}$$

Regulations on large exposure

Supplementary tools:  
three new regulatory measures

### Liquidity measures

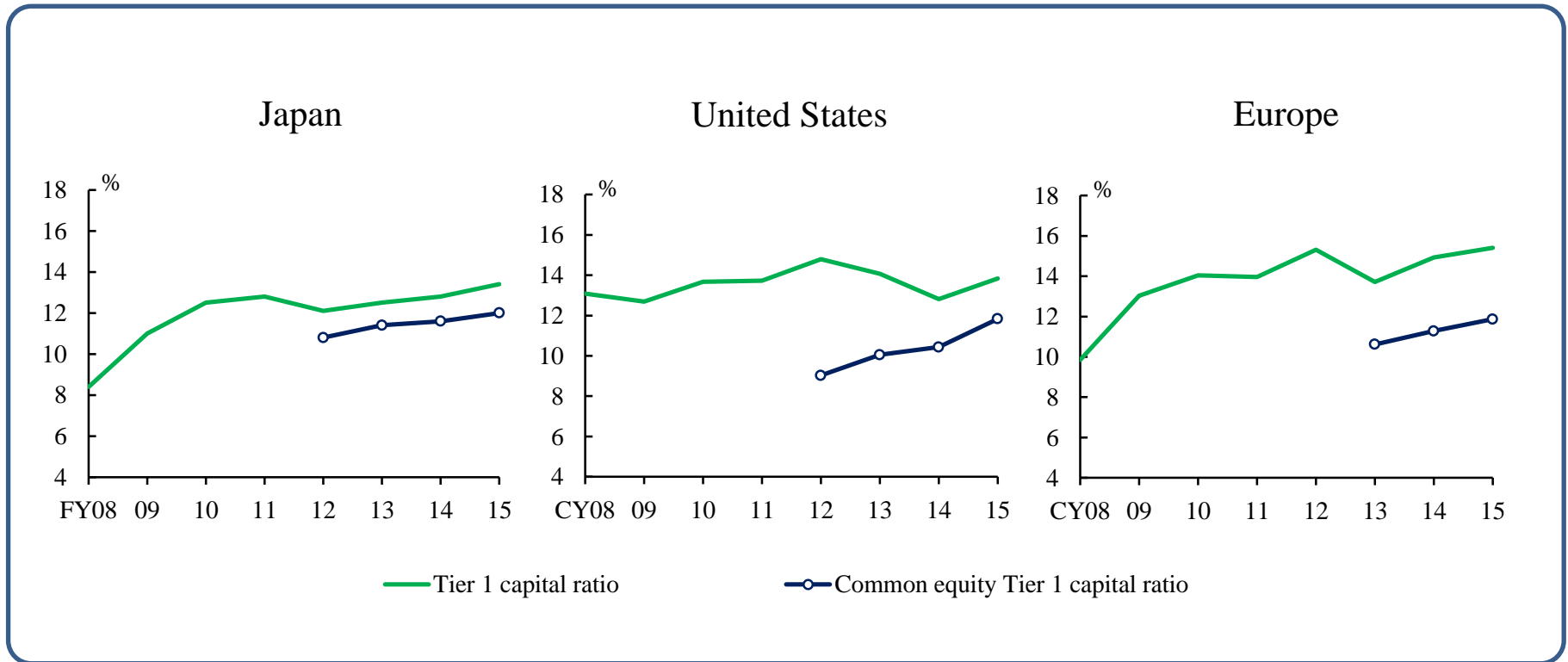
- ✓ Liquidity coverage ratio (promoting the short-term resiliency under stressed scenario)
- ✓ Net stable funding ratio (securing stable funding structure for long-term investments)

Leverage ratio requirement

## Dealing with the "too-big-to-fail" problem

- Additional capital charge for G-SIBs (G-SIB surcharge)
- Effective bank resolution framework for G-SIBs
  - Development of legal framework
  - Establishment of recovery and resolution plans (RRPs)
  - Introduction of total loss-absorbing capacity (TLAC)

# Capital Adequacy of Financial Institutions in Major Countries



Notes: 1. Figures for Japan are weighted averages of internationally active banks.

2. Figures for the United States are simple averages of five U.S. banks (Bank of America Merrill Lynch, Citi, Goldman Sachs, J.P. Morgan, and Morgan Stanley).

3. Figures for Europe are simple averages of six European banks (Barclays, BNP Paribas, Credit Suisse, Deutsche Bank, HSBC, and UBS).

Sources: Bank of Japan; Bloomberg.

# Macroprudential Policy

## Macroprudential policy tools

- ✓ Countercyclical capital buffer (CCyB)
- ✓ Loan-to-value (LTV) regulation, etc.

## Institutional frameworks for the implementation of macroprudential policy

- ✓ Establishment of interagency committees in jurisdictions with multiple regulatory and supervisory authorities, etc.
- ✓ Creation of the "Council for Cooperation on Financial Stability" in Japan

# A New Horizon for the "Lender of Last Resort" Function

## The traditional "Lender of Last Resort" function

- ✓ Responding to the risk of the deteriorating health of one financial institution tainting other financial institutions through inferences made by depositors, etc.

## "Market Maker of Last Resort" function

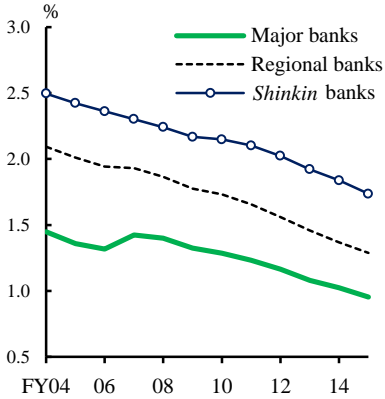
- ✓ Responding to the contraction of market activities resulting from concerns over counterparty risk among market participants

## "Global Lender of Last Resort" function

- ✓ Responding to foreign currency liquidity shortages faced by globally active financial institutions

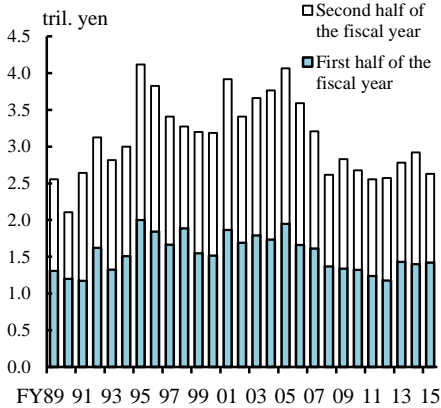
# Core Profitability of Japanese Financial Institutions

Lending margins

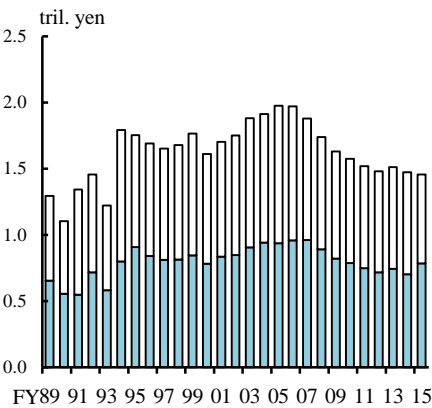


Operating profits from core business

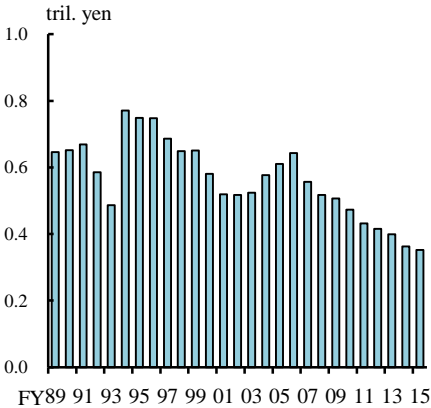
Major banks



Regional banks



Shinkin banks



Source: Bank of Japan.