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# Overview of key social infrastructure: Interaction for financial services market developments

Prof. Shigehito Inukai

Waseda University, Faculty of Law

ADB consultant

# ITEMS for Consideration

- I. What is the financial service market infrastructure?
- II. Five points, which need to be constructed in accordance with the components of financial service market
- III. Importance of social capital - Importance of trust
- IV. Importance of market system and infrastructure as social capital
- V. Importance of market infrastructure construction and role of service providers
- VI. Basic five market principles

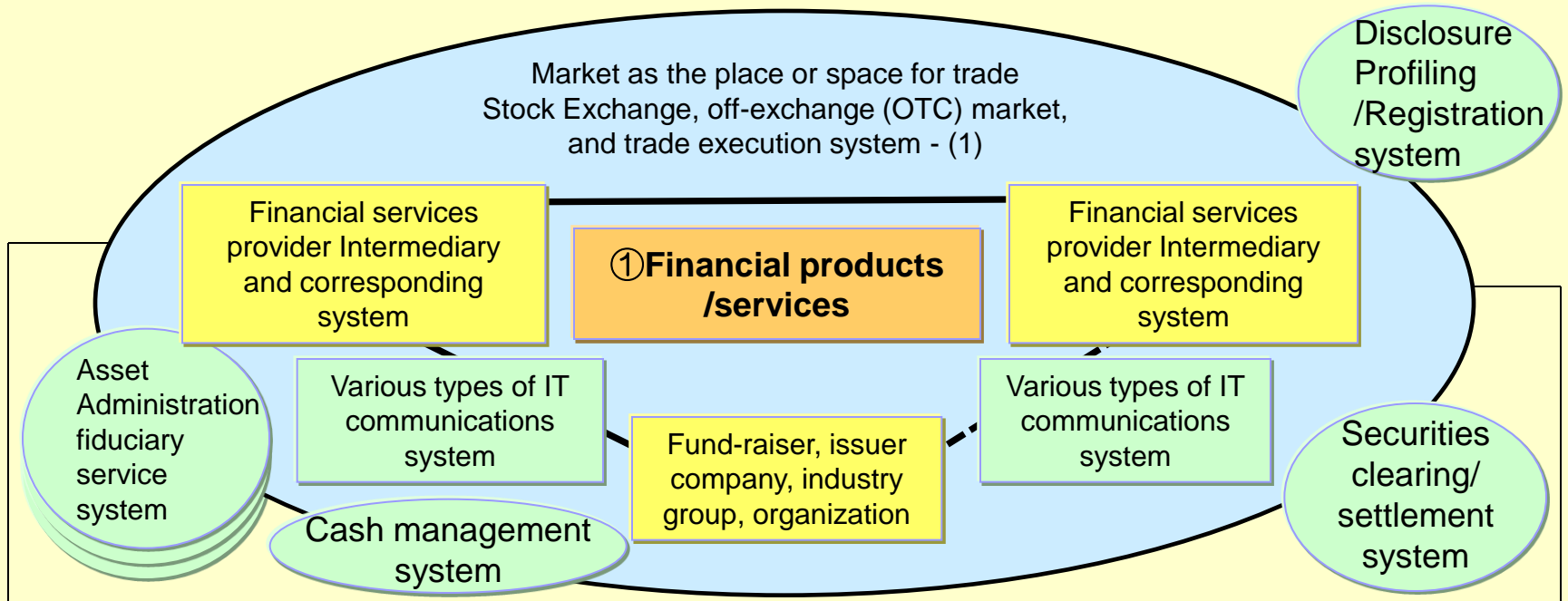


# I. What is the financial service market infrastructure?

- (1) **Place/space** for financial service market transaction:
- (2) **Public infrastructure such as rules and regulations on financial service market:**
- (3) **Various system infrastructure of financial service market (electronic platform):**

### ③ Market system infrastructure (social capital)

Electronic platform, which integrates a series of operational process of securities investment into the “e-commerce” – (3)



### ② Public institutional infrastructure such as market related laws and regulations (social capital) - (2)

Financial service market laws, regulations and company laws and regulations and related soft law

Safety net

Regulatory agency

Conflict resolution agency  
(Financial ADR system)

④ Taxation system

⑤ Financial expert and educational system

# Component of financial services market

# (1) Place/space for financial service market transaction

- The “financial service market” exists as the place where financial products are traded.  
In this recommendation, the term “financial service market” is not only used as the place where market transactions such as that of stock exchange market take place, but also used in a broad scope including the trading market among financial service providers where relative trading practices take place.  
For instance, OTC (Over the counter) market.
- \*The English term “Exchange” is considered more as the space where trading of broader perspective takes place than as a place in Japanese or Asian sense. It includes not only exchange market trading but also OTC and cyber space market trade.  
(in terms of trade executing system, the term also includes the connotation of system infrastructure described below)

## (2) Public infrastructure such as rules and regulations on financial service market

- In addition to the above, the components of financial service market should include the public infrastructure equipped with highly transparent rules and regulations and law enforcement capabilities, which reveal the following important characteristics:
  - ✓ Various laws governing the financial service market (including the financial products trade law, company act/public company law, etc.), soft laws (code/regulation) such as self-imposed regulation and market practices, which includes disclosure and accounting systems.
  - ✓ “Regulatory agencies” (financial regulatory agency, financial authorities, foreign exchange authorities) which ensure the fair financial service market, committed to protecting users and investors, and fulfill their accountability.
  - ✓ Solves conflicts between financial service providers and users “dispute resolution organization (Financial ADR: Alternative Dispute Resolution)”,
  - ✓ Works as a “safety net” to protect users upon the failure of financial service providers, and
  - ✓ Taxation system on financial services.
- It is critical to cover all these factors mentioned above **cross-sectorally** and **comprehensively**, in order to make effective the public system.

### (3) Various system infrastructure of financial service market

- The various market system infrastructures include:
  1. Profiling/Registration system to disclose information on financial products (function of stock exchange, etc.)
  2. Highly sophisticated trade execution system (stock exchange, stock exchange providing systems, PTS (personal trading system), etc.)
  3. Securities clearing/settlement system (CCP: Central Counter Party, CSD: Centralized Securities Depository) / Book-entry Securities registration system.
  4. Asset administration trust service system (custody system / custodian)
  5. Cash (Treasury) management system, Risk management system, system of checks and balances of companies and financial institutions
  6. IT communication and securities / funds transfer system which link financial service providers with users, the central bank with financial institutions, link financial institutions, or financial institutions with companies.

## II. Five points, which need to be constructed in accordance with the components of financial service market (See P.4)

- ① The market should offer a variety of financial products and services which meet the needs of market users including investors and issuers;
- ② Financial service market where public institutional infrastructure such as **market regulation, self-imposed regulation, market practices, regulatory agency, and applicable functions for conflict solutions (financial ADR)**, is organized comprehensively and in a cross-sectoral manner;
- ③ The market infrastructure of each system (a series of electronic platform) is effectively organized as a whole under the integrated ground design;
- ④ The financial service market where the tax system is simple and efficient;
- ⑤ The financial service market where there is a certain population of highly professional human resources such as intermediary financial services providers and market participants.



# III. Importance of social capital

## - Importance of trust

- The **trust by public** in financial service providers that they can genuinely exercise their expertise as fiduciary, i.e., the “trust in financial institutions and securities issuers” and the “trust in financial service market and its market participant based on the trust in financial institutions” are the important foundation of “**social capital**”.
- Without them, a sound and stable life-plan cannot be materialized, for individuals and households, who are both fundamental capital provider to the market and consumers of financial services, nor can the growth of financial service market be expected.

# IV. Importance of market system and infrastructure as social capital

- In the financial service market, a various type of market failure and synthetic errors tend to occur (see note below).
- As the market is one of many systems, which make up a part of the society, market cannot perform its genuine function, if the system and infrastructure supporting market are inadequate.
- In addition, the scheme of financial service market should be considered in the future not just from the narrow viewpoint of domestic market domain, but also from the broader perspective of inter-regional competitions and globalization.  
If the market and its infrastructure are to be constructed only by maintaining traditional order, the regional financial service market could end up declining.  
Markets change in dynamic ways. The image of financial service market would be so much different from that in the late 20<sup>th</sup> century.
- What is important is **“to extract market vitality properly while making adjustment to significantly changing environment, and consider and implement serviceable market system and infrastructure from the viewpoint of regional users”**, rather than through tightening of regulations.

Note: The terms “synthetic error” is an economics term, which refers to the situation when the individuals behave rationally, a negative outcome may be brought about if many takes the same action collectively.

# V. Importance of market infrastructure construction and role of service providers

- The infrastructure of financial service market is actually provided by the public organization such as central bank or semi-public sector of Stock Exchange, or private sector such as trust banks or custodians, which focus on asset administration as commercial service. Or Central Securities Depository (CSD) may provides financial market infrastructure, to improve the function of overall market.
- The problem of closed and uncertain nature of domestic financial service market and delay in the construction of domestic financial service market infrastructure (delay in efficiency and sophistication of market) is not just a problem of a certain financial institution nor is it a problem unique to the country of the region.
- These market characteristics affect the position and shape of its economy in the highly globalized world.

# VI. Basic five market principles

- It is considered vitally important to present problems and ideal measures and policies to market players in an easily understandable way and define clearly the **“basic concept and principles” as a basis (anchor) of the process to construct the market system.**
- It is essential to define and discuss along the **principles of “good market.”**
- The example of the principles is that
  - the market should achieve the strong trust of general individual investors whose position is extremely weaker than the issuers and service providers, and
  - the market should not be severely regulated but is well balanced.
  - Moreover, the principles should support the efficient and multi-layered market in a consistent manner, etc.,
  - from the viewpoint of medium and long-term market development and progress.

# Basic market principle (1)

Uncertain and cumbersome rules which take time and money to make necessary changes should be **eliminated** as much as possible, while taking into consideration market characteristics in the region and in Asia.

A various types of market infrastructures should be **developed**, which allow different market players within the region can act freely without anxiety under the clear principles.

# Basic market principle (2)

The markets should reveal a **high integrity** (essential, cohesive and high-principled nature of market) in themselves to quickly respond to the needs of market players.

For that, it is important to ensure standardization, integration, linkage, and flexibility (adoptability to changes) of market rules and infrastructure.

# Basic market principle (3)

- (1) Formal regulation system,
- (2) regulatory agencies, conflict resolution agency (ADR), and safety net, which are highly accountable, and
- (3) transparent self-regulatory system and informal rules and norms (soft laws)

exist effectively,

- to deal with the occurrence of dispute and to facilitate appropriate, fair and quick response and impose penalty against those who violated the rules and service providers which were engaged in inappropriate deed.

# Basic market principle (4)

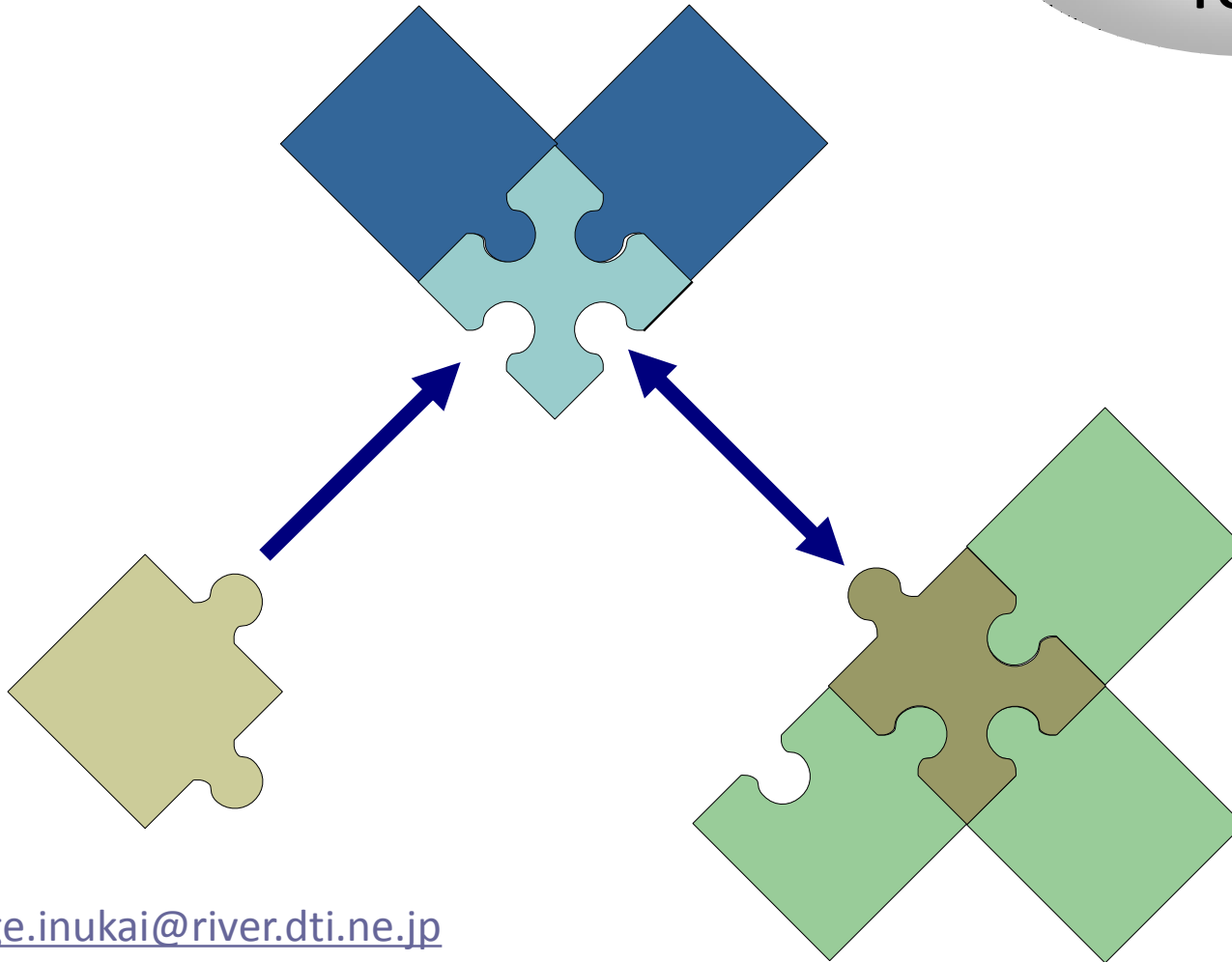
The system, which promotes the self-directive evolution of market and execution of essential market functions, and alleviates the anxiety and distrust against competitive society through **professional market education and training**, and improvement of fair social infrastructure for conflict resolution and relief of victims, should exist.



# Basic market principle (5)

The framework should be introduced, where actual **market players** including the practitioners within the region **cooperate and negotiate closely and monitor themselves** to develop and manage markets so that each can improve the market quality proactively.

Thank  
You!



[shige.inukai@river.dti.ne.jp](mailto:shige.inukai@river.dti.ne.jp)

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