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2024

27th Annual Japan - U.S. Symposium on Building the Financial System of the 21st Century



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The Impact of the U.S. and Japanese Elections on International Finance

Trump 2.0 - Fiscal Policy

- Tax policy
  - Extension of Trump 1.0 cuts
  - Possible further corporate tax cuts?
  - Tariffs as revenue

- Expenditures
  - Fiscal rigidity – debt payments, Social Security & Medicare
  - Possible increases in defense?
  - Where will cuts occur?
    - DOGE and efficiency gains?
    - Spending caps in medical?
    - Is there enough fat to cut?

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Trump 2.0 – Trade and Tariffs

- Trade deficits as driver of Trump trade policy
  - But policies unlikely to reduce deficits
  - Will Japan be a target?
- Tariff purposes
  - Revenue vs. bargaining chip vs. tactic for reindustrialization
- Magnitude and direction
  - 10% across the board?
  - Higher on China (across the board or targeted)
  - Carve-outs as favors and bargaining chips
- Trade and investment controls
  - National security and new patterns of trade

Trump 2.0 - Regulation

- Financial regulation
  - From overregulation to pro-business regulation
    - SEC rulemakings under challenge
  - Skepticism of international cooperation and global standards
  - Crypto
    - Crypto as market infrastructure; transformation of settlement, cross-border payments
    - How widespread will tokenization be?
    - Need federal level regulation
    - Potential risks – financial stability, cybersecurity
- Twilight of the administrative state
  - Key areas of change
    - Energy and environmental standards
    - Immigration
    - Energy transition
  - Could have substantial cumulative effects
- DOGE
  - Regulation – will be limited by APA
  - Head count – must go through Congress
  - Reducing role of government in economy
  - Possible consolidation of financial regulators?

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Japan Lower House Election

- Minority government
  - Challenging to move policies through
  - Could see fiscal easing to facilitate dealmaking
  - Instability approaching summer Upper House elections
  - Will this affect ability to respond to crises?

- U.S.-Japan relations
  - Rise of China hawks in U.S. makes Japan alliance more central
  - Will Ishiba and Trump have chemistry?
  - Will Ishiba be credible partner in dealmaking?

- Exchange rate politics
  - Weak yen may increase economic and tariff pressure on Japan

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Global Effects and Geopolitics

- Uncertainty, unpredictability, instability
  - Policy swings from administration to administration
  - Geopolitical conflict – Mideast, Ukraine, Taiwan(?), proliferation(?)
  - Supply chains
- Global economic order
  - Trade and investment patterns
  - Cross-border payments systems
  - Role of dollar
- International cooperation
  - Global standards
  - Trade policy – shift to bilateral, reciprocal, sanctions

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Major Issues in Banking and Capital Market Regulation: Basel III Endgame and the Implementation of ESG Rules

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Basel III End Game

- Variable implementation
  - Already implemented in Japan
  - U.S. likely to implement, but with modifications
  - EU and UK – later and with modifications
  - Is this really a global standard?

- Is Basel III the right way to regulate banks?
  - Capital is a costly way to improve solvency
  - Capital, liquidity buffers, and resolution plans don't necessarily work in crises
    - Lender of last resort as key to addressing crisis
    - Importance of collateral planning, Fed valuation of collateral
    - Dangers of moral hazard

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Does Basel III Promote Financial Stability?

- Non-GSIB banks and the regulatory perimeter
  - SVB as example of under threshold
  - Disincentive to M&A and consolidation in U.S.
  - Japanese regional banks investing in international and PE products
- Risk migration and the regulatory perimeter
  - Rise of PE and PC
  - Crypto allows for rapid movements of liquidity
- Do PE and PC raise risk of contagion?
  - Interconnections with traditional financial system – banks and insurers
  - Should banks carry the compliance burdens for their PE and PC clients?
  - Conflicts of interests possible – e.g., PE-owned insurers investing in PE products
- Is Basel III the Maginot Line of financial regulation?

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ESG and Regulation

- ESG is widely accepted in Japan
  - Clearly codified
  - Good corporate compliance on disclosure
  - Penalties for false disclosures, guidance in other cases
  - Questions about ESG funds

- ESG financial standards in U.S.
  - SEC regulation in litigation
  - Unrealistic cost-benefit calculations in SEC rulemaking
    - But costs of not getting climate right may be much higher
  - Trump administration approach
    - Likely to leave disclosure and investment decisions to markets
    - May remove ESG options from government retirement funds

- What should be the approach?
  - Will climate change and environmental protection effectively promoted by financial regulation
  - Has ESG become primarily a marketing scheme?
    - If so, is greenwashing a form of marketing fraud?
  - Materiality is already required
  - Enforcement vs. private action

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Blockchain and Financial Regulation

- Does crypto create financial stability risks?
  - As payment (stablecoin) – need regulation on backing, disclosure, cybersecurity, AML, etc.
  - As asset – depends how it intersects with traditional finance
  - Rise of tokenization – speed of transactions may affect financial, currency stability
- Blockchain as financial technology beyond crypto
  - Smart contracts and instant settlement
  - Supply chain management
- Trump administration likely to be crypto and blockchain friendly
  - But how will it address concerns about role of dollar, terrorist finance, etc.?

UPCOMING EVENTS

2025

Europe – U.S. Symposium

Madrid, Spain

June 3-5

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