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2025

28th Annual Japan - U.S. Symposium on Building the Financial System of the 21st Century



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How Far Will Financial Deregulation Go?

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Regulatory Balance

- Is banking overregulated?
  - Capital, liquidity, and leverage requirements reduce banks' ability to contribute growth capital
  - Fears of risk migration to non-bank financial institutions
- Are there areas where more regulation needed?
  - AI (robo advising, research, trading, credit rating)
  - Crypto and tokenization
  - Stablecoins
  - Private markets
  - Prediction market event contracts and other new products
- Liberalization ≠ deregulation
  - Regulations can reduce uncertainty, maybe support innovation
  - "Safer is better"?

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Purposes of Financial Regulation

- Ultimate goals
  - Economic growth
  - Financial stability
  - Competitiveness
  - Innovation
- Key principles
  - Systemic risk reduction
  - Investor protection
  - Market integrity
- Trends in major markets
  - U.S.: regulatory pendulum => volatility, uncertainty
    - Regulatory change via enforcement and lawsuits
  - Japan: slow, steady, supported by political consensus
    - But is it flexible enough?
  - EU: slow, incremental, multilayered, duplicative, bureaucratic

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Digital Asset Regulation

- Balancing systemic stability and innovation
  - What are the actual risks?
  - AML/KYC
  - Reversibility and potential for cybercrime
- Native digital assets (crypto)
  - Japan was an early mover in regulation
    - Now moving from segregation model to regulate crypto as securities
  - U.S. pursuing commodity model of regulation
- Tokenization
  - Principle of same risk, same regulation should apply
  - Need to define ownership rights
- Stablecoin
  - Issuer regulation
  - Potential effects of systemic stability, global role of USD

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Regulation of Private Credit

- Rise of private markets
  - Private markets have shown higher returns than public markets
  - Private credit is funding loans that banks can no longer offer
- Expanding access to more investors
  - U.S.: new opportunities for retail investors, 401(k)
  - Japan: still wary of expanding access
  - Who should have access to private markets and how should retail investors be protected?
- Regulatory concerns
  - Visibility and transparency
  - Difficulty of pricing
  - Contagion
    - Does long-term capital structure prevent contagion?
    - How widespread is bank exposure to private markets?
    - Is First Brands a cautionary tale or reassuring?

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International Cooperation

- Regulatory differences increasing outside of trad-fi
  - Concerns over fragmentation, race to the bottom
- Is cooperation possible?
  - Lack of institutions and consensus, unlike G20 in financial crisis
  - Domestic political obstacles – nationalism, suspicion of technocrats
- Will we need a crisis to motivate regulatory cooperation?
  - When crisis comes, only reliable innovative instruments may survive
- Or is regulatory competition a good thing in new markets?

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Continuing Concerns

- What keeps investors and regulators up at night?
  - Regulatory uncertainty and volatility
  - Invisible risks in less regulated markets – crypto, tokens, stablecoins, private credit
  - Capital flight

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Implication of Tariffs on International Finance and Trade

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Trump Administration Tariff Policy

- Multiple aims
  - Reduce trade deficit
  - Level playing field
  - Revitalize U.S. manufacturing
  - Collect tariff revenue to help fund tax cuts
  - Address income inequality
  - Other objectives: security, immigration, drugs, affronts
- Are these aims compatible with each other?
  - Current account is obverse of capital account/net savings
    - Reducing net dissaving requires reducing consumption or fiscal deficit
  - Who pays for tariffs?
    - CEA says foreign exporters but evidence points more to domestic consumers and importers
  - Inflationary impact of tariffs hurts lower income families most
- Is the tariff policy succeeding politically?
  - U.S. successful in reaching unbalanced agreements, especially with allies
  - But China has shown it can also weaponize trade

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How Are Tariffs Changing Global Trade?

- Uncertainty and volatility
  - Unpredictability, seeming arbitrariness of tariffs
    - “Signaling of political hostility” in some cases
    - Uncertainty exacerbated by uncertainty over Supreme Court decision on IEEPA
  - Effects on investment into U.S. and globally
    - Has investment in U.S. manufacturing risen as a result?
- Supply chain shifts
  - Friendshoring and reshoring to improve economic security as goal
  - Are Japanese companies shifting production?
    - Some evidence of locating strategic industries to U.S.
  - If secondary sanctions imposed, would further complicate Japanese companies’ difficult choices
- China exports
  - Exports to U.S. are down while overall exports are up
  - How will Japan, Europe, SE Asia respond to flood of Chinese exports?

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Financial Impacts of U.S. Trade Policies

- Rise of tariffs and financial sanctions
  - Fragmentation & redirection of trade may lead to financial fragmentation too
  - Will global trading and financial system reflect a new Cold War?
  - But no direct effects on services
- Effects on credibility of U.S. as global leader
  - May be in question among allies and other countries
  - Loss of credibility would be exacerbated by loss of Fed independence
- Impact on USD
  - Weaker USD (except against yen) may help narrow trade deficit
  - Foreign demand for Treasuries remains robust
  - Could global role of USD be in jeopardy?
- U.S.-Japan investment agreement
  - How will it actually work?
  - Is it legally enforceable? Will there be private sector buy-in?
  - Japan has accepted as the price of lowering tariffs, but uncertainty about effects

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New Global Trading Order

- Changing principles for international trade system
  - Higher tariffs as the new normal
  - Expansion of economic security justification for trade protection
  - More focus on industrial policy, supply chains, friendshoring
  - Efforts to achieve “clean supply chain” for critical products
- Possible futures of trading system
  - Can global rules-based system be reestablished
    - Would likely include increased discretion for protection and industrial policy
  - America-passing: linking up EU, CPTPP, Mercosur, RCEP
  - New Cold War based on U.S.-led vs. China-led blocs
  - Worst case scenario: return to the 1930s

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UPCOMING EVENTS

2026

Europe – U.S. Symposium

Cambridge, MA

April 13-15

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Whitney Vasey
wvasey@pifsinternational.org | 857-242-6072
www.pifsinternational.org