

"Study Group on the Creation of Next-Generation Financial Infrastructure"  
hosted by SBI Financial and Economic Research Institute

## **Publication of "Guidelines for considering the creation of next-generation financial infrastructure"**

### **Issues**

As the digitalization of society progresses, major changes are occurring in the providers and means of providing financial services. Innovations in information technology, such as financial APIs, blockchain technology and big data, have brought about the emergence of new payment and remittance methods, digital financial assets such as crypto assets, and decentralized financial services (DeFi), and the content of financial services is also changing. Furthermore, the source of added value is shifting to data, and the sophistication of information production functions has become a management issue for financial institutions.

Under these circumstances, the current framework in which financial services are provided through intermediaries such as banks, securities companies and insurance companies, as well as the two-tiered payment system provided by central banks and private banks, are also being affected. Amid the movement to seek payment methods related to security tokens and new schemes for cross-border financial settlement, Central Banks are exploring the possibility of issuing digital currencies (CBDCs).

It is difficult to say that the current financial infrastructure (laws and regulations, IT systems, accounting rules, governance, risk management, international cooperation, etc.), which has been operated stably up until now, has been able to adequately adapt to the rapid changes in the environment caused by the emergence of digital financial assets. As a result, we have come to be aware of the limitations of reactive changes within the existing framework. For example, the current framework for permissionless DeFi, which circulates without a financial intermediary, is maintained through financial institutions that mediate traditional financial assets such as fiat currencies and deposits. New financial services require new financial infrastructure, and the first step is to envision its future.

### **Background to establishment and Members of the Study Group**

The SBI Financial and Economic Research Institute launched the "Study Group to Consider the Creation of Next-Generation Financial Infrastructure" at the end of last year with the aim of provoking social debate by clarifying the systemic incompatibility that has arisen with the spread of digital finance and the relative deterioration of financial services that has arisen due to the failure to fully utilize the potential of digital technology, and then examining the ideal form for future financial infrastructure and compiling these as recommendations. Our Study Group welcomes six experts active in the fields of payments, financial legislation and IT systems as well as the banking, securities and cryptocurrency business, and has been holding repeated discussions based on the above-mentioned awareness of the issues.

In addition, the Financial Services Agency and the Bank of Japan (Institute for Monetary and Economic Studies) participate as observers and are not responsible for the guidelines compiled this time.

(Tentative Translation)

### **Progress of the discussions to date**

The Study Group has taken up the theme of "Restructuring the Institutional Framework for Digital Finance Including Crypto Assets," and has held discussions since its first meeting on December 25, 2023 to its seventh meeting on July 2, 2024, to fundamentally review the current framework regulating financial intermediaries and seek a new framework primarily targeting digital financial assets. First of all, based on the recognition that it is important to provide guidelines for all economic entities that make up the financial system, including domestic and international financial service users and authorities, when considering the creation of next-generation financial infrastructure, the Study Group has compiled the perspectives and points of consideration expressed through interviews and exchanges of opinions from members of the Study Group into the "Guidelines" as attached.

The Study Group showed the importance of setting the following goal: "To build a next-generation financial infrastructure that can adapt to the turning point of the financial system, such as collaboration and integration of financial and non-financial businesses, sophistication of information production functions, response to new social demands due to cross-bordering, and exploration of new monetary systems including CBDC, we will redesign the financial system including the broad financial industry structure, such as financial services and the financial infrastructure that supports them, and the respective providers, and aim to create a financial system and financial center that is chosen by users both in Japan and overseas." It was recognized that in order to achieve this goal, it is important to shift from the traditional economic entity-based thinking to a financial function-based thinking, and to deeply understand the interdependence between layers of various financial services that are deployed on the foundation of financial infrastructure in a hierarchical structure in order for them to function organically. In addition, in order to solve the problems inherent in the existing system, it is necessary to introduce a new mechanism that is completely different from the existing one, and in doing so, it was recognized that measures to run the two financial infrastructures in parallel are effective, although they may be inefficient. Based on this recognition, we divided the guidelines for considering the creation of new financial infrastructure into three categories and presented the current challenges and concerns.

(A) Perspectives necessary for creating new financial infrastructure (10 items)

(B) Points to keep in mind when considering the creation of new financial infrastructure (3 items)

(C) Key points on how to proceed when creating new financial infrastructure (6 items)

(D) Current issues and concerns (6 items)

Lastly, these Guidelines give some points to keep in mind, such as the need to not only think about problem-solving, but also to adopt normative thinking, that is, an approach that involves imagining a desirable state or future and working backwards to consider the process of getting there, and the importance of creating laws and regulations that emphasize flexibility in order to respond to the ever-changing environment.

### **For the future process**

In early 2025, we will compile recommendations on the future of next-generation financial infrastructure in light of these guidelines.