



Enhancing Data Connectivity in the Financial Services Sector *November 2020*

The United States and Japan have long agreed that the movement of data across borders is crucial for economic growth. Our two governments have established bilateral initiatives and multilateral mechanisms that underscore this shared vision, and the result has been a robust data ecosystem that enables everything from global cloud services to content streamed on global platforms.¹ The United States and Japan are world leaders in this space. Together, we have made great strides in these endeavors. However, much work remains in certain sectors. Enhancing data connectivity in financial services is chief among them.

The financial services firms of the U.S.-Japan Business Council view data connectivity as a means to connect to their customers, manage risks, and ultimately provide critical services to individuals, businesses, and governments around the world. We strongly believe that data connectivity translates directly to economic growth, supports financial stability, and facilitates financial regulators' access to financial-risk related data that is needed to ensure macroeconomic stability and soundness. Despite strong evidence to support these assertions, financial services firms often find themselves confronted with regulatory efforts that impede data connectivity, risking financial stability and market integrity.²

We recognize that data connectivity is a complex and multi-dimensional issue for regulators. Strengthening coordination among financial services regulators in the United States, Japan, and elsewhere is in our view the best means of developing shared best practices and harmonizing regulatory approaches.

We believe that the following recommendations will help strengthen these efforts, and ultimately improve the data connectivity ecosystem to the benefit of consumers, businesses, and governments around the world. These recommendations are not exhaustive, and the U.S.-Japan Business Council is always willing to provide further detail on the recommendations outlined in this document. In addition, the U.S.-Japan Business Council is housed within the U.S. Chamber of Commerce, the diverse membership of which includes the world's most innovative technology and financial

¹ Cf. U.S. Chamber of Commerce, "Globally Connected, Locally Delivered" (2017); McKinsey Global Institute, "Digital Globalization: The New Era of Global Flows" (2016).

² Financial Stability Board, "Report on Market Fragmentation" (2019).

services firms. The U.S.-Japan Business Council and the U.S. Chamber would welcome a comprehensive dialogue on these important issues.

- **Recognize the importance of financial services data connectivity.** Data is at the core of financial services,³ making it possible for industry to better serve customers and increase efficiency. Financial services companies use data for predictive modeling, predictive analytics, claims processing, fraud detection, pricing, and risk selection.

Earlier this year, the U.S. Treasury Department and the Monetary Authority of Singapore issued a joint statement indicating the importance of data connectivity for the financial services sector and pledged to promote the implementation of policies and rules in their bilateral and multilateral relationships to advance this goal.⁴ We encourage Japan’s Ministry of Finance to issue a similar pledge, whether bilaterally with the United States or multilaterally, for example as part of the G7.

- **Support open data architecture:** As jurisdictions across the globe enact data localization requirements, the financial services industry—particularly leading U.S. financial services providers whose multinational presence is an existential function—has been negatively impacted. Firms are required to house data within the borders of these jurisdictions, adhere to restrictions on data flows, and establish in-country data centers. These restrictions often have the effect of reducing data security, add layers of cost for equipment and maintenance, increase the complexity of global information technology systems, negatively impact resilience and risk management operations and expose data to a greater risk of cyber attack.⁵ It is essential that industry and government work together to understand and adapt to the opportunities and challenges created by the digital economy and to ensure the safe and secure flow of data across borders. The United States and Japan together are uniquely positioned to lead this effort. The *U.S.-Japan Digital Trade Agreement* commits both governments to cross-border data flows for financial services providers. We encourage both governments to advance similar, high-standard disciplines at the World Trade Organization’s *Joint Statement Initiative* and in other bilateral and multilateral agreements. U.S. and Japanese regulators, however, have additional work to do to oppose data localization measures and complement high-standard trade commitments.⁶

³ Cf. World Economic Forum, “Connecting Digital Economies: Policy Recommendations for Cross-Border Payments” (2020); World Economic Forum, “Exploring International Data Flow Governance” (2019).

⁴ U.S. Treasury, “United States-Singapore Joint Statement on Financial Services Data Connectivity” (2020).

⁵ Cf. ASIFMA, “Implications of Data Privacy for Financial Technology in Asia” (2018).

⁶ Office of the U.S. Trade Representative, “U.S.-Japan Digital Trade Agreement Text” (2019).

- **Promote greater bilateral and multilateral engagement on data connectivity.** We see a real need for the United States and Japan to work with financial authorities around the world to understand that the importance of data connectivity goes well beyond trade commitments. We encourage the two governments to prioritize broader, more holistic advocacy on the importance of data connectivity through enhancing bilateral engagement with like-minded countries and pressing multilateral forums to take on data connectivity issues. We have been encouraged by the work of the Financial Stability Board, APEC, and the Asia-Pacific Financial Forum in this area. Additionally, we hope that the United States and Japan continue to exercise their leadership in multilateral forums, like the G7, to advance data governance priorities.⁷
- **Strengthen U.S.-Japan collaboration in capacity-building for third countries around privacy and cybersecurity.** Just as the inherent internationalization of financial services requires firms to move data across borders, it also demonstrates the need for financial authorities to reassess existing regulatory and supervisory approaches. For example, firms that operate across jurisdictions must be able to manage financial risks consistently and comprehensively across borders. The same logic extends to how these firms manage cyber risks. Firms find an increasing need to holistically view data processing around the world and to optimize their use of technological infrastructure—whether that is related to the location of data centers, utilization of third-party hardware and software solutions, or reliance on third parties to provide cybersecurity services. It is a complex ecosystem, and the U.S.-Japan Business Council is committed to helping the United States and Japan educate regulators and financial authorities on the important role data connectivity plays within in it.
- **Strive for greater cooperation and consistency in general data regulations.** We encourage the United States and Japan to promote cooperation to ensure a more uniform approach to the regulation of data processing in both countries. To that end, we encourage the two governments to closely collaborate with the financial services industry, their customers, and other relevant stakeholders when developing any new regulations aimed at enhancing, or limiting, data connectivity. Likewise, we encourage collaborative reviews of existing laws, policies, and regulations to take place alongside these same stakeholders. We believe that any reforms should be taken using a holistic and systemic approach that considers the normal business activities financial services firms must undertake to meet the

⁷ We note the important advances of the 2019 G20 Osaka Leaders Declaration and the 2019 Trade & Digital Economy Ministerial Statements on “Data Free Flow with Trust.”

demands of their customers, their reporting obligations, and their need to share relevant information with global financial authorities.