Bank of Japan

April 30, 2013

Mr. Daniel K. Tarullo
Governor
Board of Governors of the Federal Reserve System

Re: Comments on the proposed rule on Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations

Dear Mr. Tarullo,

The Bank of Japan appreciates the opportunity to comment on "Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies" (hereafter "the Proposed Rule"). This letter is to request the Board to carefully consider major concerns of the Bank of Japan about the Proposed Rule: (1) inconsistency between the Proposed Rule and the efforts made at international forums to enhance the stability of the global financial system and (2) the one-fits-all approach of the liquidity requirements in the Proposed rule.

1. Respect for consistency with international efforts

We realize that the Proposed Rule is the fruit of the Board's deliberation on measures to ensure the U.S. financial stability. However, considering that the Proposed Rule will be applied to global financial institutions, it should not hamper the effectiveness of the ongoing international collaborative efforts including the Basel III and initiatives to address Global Systemically Important Financial Institutions.

From this viewpoint, we request that the Proposed Rule not impose any additional regulatory requirements or other related procedures on U.S. establishments, especially U.S. branch and agency networks of Foreign Banking Organizations (hereafter "FBOs") that already satisfy their home country standards, as long as their home countries have prudential frameworks including regulations, supervision, and monitoring consistent with the international consensus.

In addition, as for the early remediation requirements in the Proposed Rule, we believe that early remediation triggers such as capital trigger should respect the Basel III or home country standards in line with it. Furthermore, it would be appropriate to utilize the existing platform for home and host authorities' communication before the remediation action.

2. More flexible framework for liquidity requirements

As for financial conditions and global liquidity risk regarding Japanese financial institutions, you may be well aware that we, the Bank of Japan, have conducted detailed monitoring and on-site examination on their headquarters and overseas establishments. Based on our accumulated expertise of the above arrangements that functioned well even at the time of the global financial crisis, we are concerned about liquidity requirements in the Proposed Rule as follows.

- Requiring FBOs' U.S. establishments, especially their U.S. branch and agency networks, to hold liquidity buffers without relying on the support even from their headquarters would impair the effectiveness of FBOs' liquidity management on a global basis. That could also cause fragmentation of FBOs' overall risk management and the more complicated liquidity risk profiles of U.S. and non-U.S. establishments associated with changes in internal funding and investment portfolios.
- Furthermore, requiring U.S. establishments to maintain liquidity buffers constantly within the United States could also weaken FBOs' independent abilities to respond to the liquidity shortage of the U.S. dollar, as a global reserve currency, in their non-U.S. establishments. This could make even temporal and local stress situations more serious.

Considering these side effects of the proposed liquidity requirements, we think that it would be appropriate not to apply the requirements to U.S. establishments of FBOs whose home countries' authorities and central banks, including the Bank of Japan, are scrupulous in liquidity monitoring on a global basis. We believe that the Board should apply liquidity requirements flexibly, not in a one-fits-all manner, to U.S. establishments of FBOs, especially U.S. branch and agency networks taking into account the practices of the regulation, supervision, and liquidity monitoring conducted by the each home authority and the each central bank as well as the funding operation and risk profile of the each FBO in the U.S. financial system.

We would like to kindly request that the Board take into consideration the above and amend the Proposed rule in accordance with our requests. Should you have any questions concerning above, please do not hesitate to contact us.

Yours sincerely,

H. Tanaka

Hiroki Tanaka
Executive Director
Bank of Japan