

Dear Madam and Sir:

It is great pleasure to send you my comment to you. My comment is as follows.

I agree that banks should reserve capital against various risks. But there are thousand of hundreds of risks in banking business. When banks try to identify every risk and try to manage it, banks will find it is much troublesome and costly works. So I propose that they do not identify risks but reserve decline of corporate value. I explain my proposal as follows. They identify various risks and classify them into three classes as follows.

A. Quantifiable factors, such as fire damage of computers and offices, fraud of employees.

B. Not quantifiable factors, such as down of bland image or reputation.

C. Factors which is stopped quantifying, such as breach of criminal laws or anti-trust acts.

All the risks of three classes are managed, but just class A risks are required for banks to reserve capital. Class B risks will be add to class A after quantifying methods are developed. Class A risks are defined as downside potential from the expected profit or cost. The causes of the downside include all factors, such as, failures of computer system, fraud of employees. When it is expected that the profit will be a hundred million dollars and the possibility dawn to ten million or less is three percents, the risk for reserving capital is ninety-million dollars at three percents level. Banks will have to reserve ninety-million dollars. Then they identify important factors of class A risks and try to reduce or prevent factors.

Sincerely yours,

Kazuhiro Goto

Lecture, Graduate School, Meiji Gakuin University

Lecture, Faculty of Economics, Seikei University

#306 Kamiasao 2-29-15,  
Asao-ku, Kawasaki, JAPAN  
215-0021

TEL.:81-9-44-951-9648

E-mail: [gotokaz@aol.com](mailto:gotokaz@aol.com)