

Dear Sir and Madame:

I would like to make a comment on the consultative paper on the new Basel capital accord published in April this year.

My comment is about the discrepancy of definitions of certain terms between the standardized and IRB approaches of credit risk.

In paragraph 48, “past due loans” are defined as “past due more than 90 days” and receive unfavorable regulatory treatment under standardized approach. On the other hand, “default” is defined in paragraph 414 and 415 for IRB approach, which includes not only loans that are 90 days past due but also loans whose obligors are “unlikely to pay”. This difference in definitions may cause banks to choose standardized approach because by doing so they can circumvent “unlikely to pay” test. I would recommend paragraph 48 be changed and same definition of default be used in both standardized and IRB approaches.

Similarly, in paragraph 45, residential mortgage is defined as “lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented”. Such residential mortgage receives preferential treatment under standardized approach. However, in paragraph 199, it says “residential mortgages loans are eligible for retail treatment regardless of exposure size so long as the credit is extended to an individual that is an owner-occupier of the property” for IRB approach. By comparing these two, we find the differing treatment for mortgages that are rented. This difference may cause regulatory arbitrage and may distort the mortgage market. I would recommend that paragraph 45 or paragraph 199 be changed so that the definitions are unified.

I strongly recommend that the definitions of terms of standardized and IRB approaches be unified so as not to cause unnecessary confusion.

Regards,

Ota Hiroyuki

Fuda 4-15-1-202

Chofu-City, Tokyo 182-0024

Japan

