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Comments regarding Consultative Documents "Strengthening the resilience of the banking sector" and "International framework for liquidity risk measurement, standards, and monitoring" by the Basel Committee on Banking Supervision ("BCBS")

We are a financial institution whose current major source of funds is small-sum deposits from individuals. Our current major investments are securities, which are mainly Japanese government bonds ("JGBs"). We hope that our comments below will assist BCBS in its further work on these matters, in light of the magnitude of the impact of these consultative documents.

Strengthening Banking Sector Resilience

This consultative document describes its objective as "to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source; thus, reducing the risk of spillover from the financial sector to the real economy", and states that "it is critical that all countries raise the resilience of their banking sectors to both internal and external shocks". In response to the above, the document proposes a series of fundamental reforms to the international regulatory framework.

Among other things, the document proposes the implementation of a leverage ratio for the purpose of "constrain[ing] the build-up of leverage in the banking sector" because excessive leverage "accompanied by a gradual erosion of the level and quality of the capital base" was "one of the main reasons the economic and financial crisis became so severe". However, cash and cash-like instruments such as government bonds, which are deemed to be equivalent to cash in terms of credit risk and liquidity risk, are irrelevant to leverage, which is deemed to be the reason for the economic and financial crisis. Rather, the possibility can not be denied that the leverage ratio would provide incentive to inordinately pursue capital efficiency and encourage risk-taking, including a shift of capital from risk-free assets into riskier assets, and thus the resilience of the overall financial system could be eroded.

Also, in order to note the interaction of the leverage ratio and liquidity framework requirements, it is necessary to sufficiently ensure consistency in the treatment of risk-free assets such as government bonds in the leverage ratio and "high quality liquid assets" in the liquidity regulation. Assuming that risk-free assets such as government bonds will be categorized into "high quality liquid assets" in the

liquidity regulation, financial institutions will be required to hold a certain amount of such risk-free assets. Holding risk-free assets for the purpose of maintaining sufficient liquidity should not complicate compliance with leverage regulation.

Therefore, cash and cash-like instruments such as government bonds should be excluded from the calculation of the leverage ratio. We would appreciate it very much if BCBS would carefully reconsider this issue.

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