

April 16, 2010

Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlement

Dear Madams/Sirs,

We are pleased to submit our comments on the Consultative Documents issued by Basel Committee on Banking Supervision (the Basel II Proposals) to express our concerns on their possible impacts on ECA-backed Financing. And we will also have opportunities to raise this issue on meetings of the OECD and the Berne Union.

The role of ECA (Export Credit Agency)

ECAs are government-backed credit agencies that cover losses suffered by commercial banks or other financial institutions as a result of providing loans to foreign governments or enterprises. Losses may be incurred when the bank is unable to receive repayment of the loan due to (i) war, revolution, prohibition of foreign currency exchange, suspension of remittance or force majeure such as natural disaster or (ii) bankruptcy or default of a debtor.

Many countries operate export credit system of this kind. In Japan, Nippon Export and Investment Insurance (NEXI), a semi-government organization affiliated to Ministry of Economy, Trade and Industry, undertakes the operation.

The influence of The Basel II Proposals on ECA-backed financing

The Proposals announced at the end of last year include new regulations for banks, which are in charge of providing export credits.

The Proposals introduce new regulations in order to develop a more resilient banking sector with the aim of realizing long-term sustainable economic growth. The idea should be respected, but when these proposals are actually in effect, it will have

significant influence on the banks that offer ECA-backed loans, and eventually it may adversely affect promotion of international trade.

Our biggest concern is the introduction of Leverage Ratio and Liquidity Ratio.

First, introduction of Leverage Ratio as a supplementary measure to the capital adequacy ratio calculated with risk-weighted balance of assets. Roughly speaking, Leverage Ratio is calculated by dividing qualified capital by total assets, using the amount on the balance sheet without modification.

Second, introduction of Liquidity Ratio. Instead of using credit risk weight, Liquidity Ratio uses factors that focus on liquidity of assets and stability of funding in order to assess the capacity to repay, by liquidizing assets, the funds procured that may run off in the case of future financial crisis.

The effect of introducing Leverage Ratio

Under the current Basel II framework, 0% or very low risk weight is applied to ECA-covered loans. (Standardized approach)

However, with introduction of Leverage Ratio, the applied risk weight will be 100% as in the case of other assets. This might discourage the banks' incentive to conduct ECA-backed financing.

The effect of introducing Net Stable Funding Ratio

Of Liquidity Ratios, Net Stable Funding Ratio gauges the stability of funding over a one year horizon, with emphasis on maturity ladder mismatch analysis of assets and liabilities. Net Stable Funding Ratio verifies whether assets that could not be monetized within one year period are met by stable funding that would not run off in the same period of time.

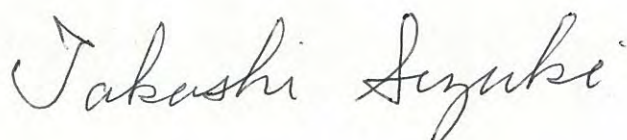
In ECA-backed financing in general, banks procure USD or EUR funds in Inter-Bank market (Libor base) every 6 months and offer long term loans of about 10 years. In

short, the funds procured in short-term money market are transferred into fixed long-term assets. Therefore ECA-backed financing has a negative effect on Net Stable Funding Ratio.

Furthermore, banks outside US dollar and EURO zone are unable to absorb retail deposits in these currencies. Therefore, when these banks conduct ECA-backed financing they would be in disadvantage compared to banks in US dollar and EURO zone, even when loan conditions are the same.

We would highly appreciate it if your esteemed Bank and Committee could kindly consider our deep concerns from the viewpoint of our very mission to promote trade and investment activities by internationally active enterprises and banks throughout the world.

Sincerely yours,



Takashi SUZUKI
Chairman and CEO
Nippon Export and Investment Insurance (NEXI)



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Basic scheme of ECA-backed financing

