Ref: CHC/21/H23

August 26, 2011

Comments on the Basel Committee's Consultative Document *Global systemically important banks*: *Assessment methodology and the additional loss absorbency requirement*

Japanese Bankers Association

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the Consultative Document, *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement*, released July 19, 2011, by the Basel Committee on Banking Supervision.

We hope that our comments below will assist the Basel Committee in its efforts to finalize rules going forward.

【General Points】

- ✧ The JBA strongly supports setting multiple indicator-based measurements and bucketing approaches and implementing these in stages.
  The introduction of uniform surcharges with no regard to differences in individual banks' risk profiles and other factors should be avoided.
- ✧ The JBA believes the risks caused by global systematically important banks (G-SIBs) can be alleviated not only by capital surcharges, but also by locally established frameworks such as deposit insurance or other bankruptcy resolution legal systems and lending limits. In accordance with the levels of various regulations and systems and characteristics of business models in different countries, qualitative assessments by local authorities should be seriously respected.

【Specific Points】

1. *Measurement Approach, Bucketing Approach [Paragraph 14-55, 68-72]*

- ✧ In order for banks to establish their own plans and business strategies, G-SIBs' measurement approaches must be structured in such a manner that G-SIBs could sufficiently predict their own bucket and therefore consider measures for it.
  We seek expeditious notice to relevant G-SIBs of the denominator data and cut-off and bucket threshold scores used in the indicator-based measurement approach soon after determination, even prior to January 2014.
- ✧ Further, for the same purposes, unpredictable major revisions to measurement approaches should be avoided.

Even when measurement approaches are reviewed, consideration must be paid to setting allowance periods for the start of regulation, based upon sufficient communication between authorities and financial institutions, in light of the considerable impact on financial institutions' management strategies and capital policies. (Paragraph 69-70)

- ✧ Further, in order to increase the incentives to reduce importance to financial systems, the JBA believes that a transparent and fair process is necessary when cut-off and bucketing threshold scores are reviewed so that they are not arbitrarily lowered. (Paragraph 69-70)

- ✧ In order not to overlook global systemically important financial institutions by underestimating factors other than size, non-size indicator measurements (substitutability, global activities, interconnectivity, and complexity) should be reflected in selecting sample banks to be used as denominators for calculating scores for systemic importance. (Paragraph 53)
- ✧ Also, in order to ensure the predictability of financial institutions in the sample, global selection criteria should be disclosed. (Paragraph 53)

- ✧ Since level 3 assets are intended to be held to maturity and are not hastily sold during times of market disorder and the impact on the markets and individual banks are limited, such assets should not be included in complexity indicators. (Paragraph 48)
- ✧ Also, sovereign bonds included in available-for-sale assets are mostly funded by excess cash without increasing complexity. Quantitative indicators that measure complexity, even when available-for-sale securities is applied, must be determined based on their characteristics. (Paragraph 50-51)

- ✧ The indicator-based measurement approach is used to select G-SIBs and determine bucketing, but the impact from exchange rate fluctuations should be alleviated.
  For example, for cases in which size is determined in USD terms, even though the size in JPY terms is maintained when the JPY appreciates, the size in USD terms could be considered to have grown for Japanese financial institutions.
  Changes in bucketing due to such events are undesirable, and the JBA believes that methods that ease the impact of exchange rate fluctuations, such as taking into account the rate of change in terms of home country currency, should be considered.

2. <u>*Supervisory Judgment (relationship with country-by-country basis regulations) [Paragraph 56]*</u>

- ✧ When the sampling and classification approaches for individual countries' regulations differ significantly from international agreement, internationally active

banks are forced to have their operations extremely conservative in order to meet both sets of regulations.

Under the G-SIBs regulations, even when countries establish their own regulations, the sampling and classification approaches, as well as frameworks for review, should be consistent with the international agreement. Further, the implementation schedule (both timing and transitional arrangement) should be in accordance with the detailed rules in the agreement.

✧ The recovery and resolution plan (RRP) framework should be determined in conjunction with authorities in the home country. When the RRP meets the requirements of home country authorities but are inadequate for other host countries, this fact itself should not trigger additional capital surcharge.

3. *Allowance periods to meet new additional capital surcharge levels when allocated to higher bucket [Paragraph 93]*

✧ In order to raise common equity Tier 1 by 0.5% to meet higher bucket regulation levels, an appropriate amount of capital surplus must be raised in such a short amount of time as twelve months according to the Consultative Document. The JBA believes that a more flexible timeframe, such as an adequate period or transitional arrangement over two years, is necessary considering general profit levels.

✧ As in the Basel III definition of capital (Paragraphs 80, 84), the JBA believes that flexible responses, such as certain interim measures at the discretion of authorities in individual countries, are necessary when the size of financial institution expands and it shifts to a higher bucket in the context of providing financial assistance to resolve or to reorganise a distressed institution.

4. *Disclosure [Paragraph 68-72]*

✧ The JBA believes that the disclosure of G-SIBs and individual bank buckets, especially the scope of its disclosure to markets, should be addressed carefully in light of the impact on markets.

✧ The JBA seeks timely notification of G-SIBs by authorities when those banks have been determined as G-SIBs.

✧ The JBA believes that information regarding G-SIB surcharges are extremely important not only for the financial institutions involved, but also for investors who may be impacted by restrictions of external distributions of earnings. Therefore, active disclosure by the FSB and Basel Committee in response to investors' needs would be desirable.

However, in such cases, disclosure should be limited to the names of banks in the bucket, and the release of denominator data, cut-off threshold scores and bucket threshold scores used in the indicator approaches should not be publicly disclosed so

that individual banks' scores and/or ordering in each bucket cannot be speculated.

- ✧ Because investor's interests are focused on buckets to which individual financial institutions belong (to what extent additional loss absorption capacity requirements apply), all disclosure items do not need to be uniform, and supplementary information such as data used as the basis for each indicator should be left to individual banks' management determinations.

5. *Data Collection [Paragraph 68-72]*

- ✧ The JBA believes it is necessary that data used in future data collection and in actual indicator calculation should be practically addressed following sufficient opportunities for communications between authorities and financial institutions considering actual conditions of financial institution.

6. *Going-concern Contingent Capital [Paragraph 80-89]*

- ✧ The JBA understands going concern contingency capital is an option for fulfilling G-SIB capital surcharges and both the pros and cons are being set under certain conditions and the review is still under way.

  On the other hand, specific terms, including contingent capital trigger levels to meet the Additional Tier 1 capital criteria, not yet have been determined, forcing new Tier 1 capital unavailable for banks facing redemption of current Tier 1 capital.

  Specific conditions to fulfill the Additional Tier 1 capital criteria should be disclosed in the Consultative Document and the uncertainty dispelled by the end of this year.