

August 1, 2012

**Comments on the Basel Committee on Banking Supervision's Consultative Document:  
A framework for dealing with domestic systemically important banks**

Japanese Bankers Association

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the consultative document: A framework for dealing with domestic systemically important banks released on June 29, 2012 by the Basel Committee on Banking Supervision (BCBS).

We generally support the proposed approach to apply a principles-based approach to allow for an appropriate degree of national discretion in the assessment and application of policy tools in order to accommodate structural characteristics of individual jurisdictions, as well as to implement a peer review process in order to ensure the level playing field of the regulatory framework for domestic systemically important banks (D-SIBs). However, we would also expect the following points to be considered:

**[General Comments]**

1. Consideration of resolvability and Basel Pillar 2 (Supervisory Review Process)

Some jurisdictions have already in place a framework to enable sufficiently orderly resolution. We also assume that efficient and effective financial supervision in such jurisdictions may make it possible to address "Too-Big-To-Fail" issues. Therefore, when national authorities identify D-SIBs, the authorities should take into account assessment of the jurisdictions' financial systems from the macroprudential perspective. At the same time, even if a surcharge would be introduced into the D-SIBs regulatory framework, it should be noted that excessive surcharges should be avoided by considering the feasibility of the resolvability, the effectiveness of financial supervision and so forth in each jurisdiction.

## 2. Policy tools other than the higher loss absorbency (HLA) requirement

When national authorities impose policy tools other than HLA on D-SIBs, we would expect the BCBS to make careful consideration by taking into account stakeholders' opinions, so as to avoid extraterritorial application and significant differences in policy tools across jurisdictions as well as to prevent application of excessive regulation.

## 3. Peer review process to ensure a level playing field

When the BCBS implement a peer review process, adequate attention should be paid as to whether an obviously excessive number of financial institutions are identified as D-SIBs or not in one jurisdiction compared to other jurisdictions, and the frequency of regular assessments of systemic importance of the banks, in addition to the cross-jurisdictional consistency of the D-SIBs framework so as not to cause excessive burden to be placed on D-SIBs candidates in a particular jurisdiction.

### **[Specific Comments]**

#### Principle 10:

We may accept the view that a framework for global systematically important banks (G-SIBs) and that for D-SIBs shall be compatible. However, if an excessively higher loss absorbency requirement is imposed on D-SIBs in line with the requirement that “Home authorities should impose the higher of either the D-SIB or G-SIB HLA requirements in the case where the banking group has been identified as a D-SIB in the home jurisdiction as well as a G-SIB”, the D-SIB requirements could supersede the G-SIB requirements in such jurisdictions. Given that the D-SIB framework under which wider national discretion is allowed than the G-SIB framework, the D-SIB framework should require sufficient explanation by the authorities for the cases where the D-SIB requirements are stricter than the G-SIB requirements.

#### Principle 11:

In cases where D-SIBs are identified in multiple jurisdictions, a uniform framework, for example incorporating a restriction on extraterritorial application into the principles, should be developed so that smooth coordination among the authorities should be warranted in order to avoid extraterritorial application and significant differences in the regulations as well as to prevent application of excessive regulation.