

March 11, 2016

Comment on the Second Consultative Document: *Revisions to the Standardised Approach for credit risk*, issued by the Basel Committee on Banking Supervision

Japanese Bankers Association

We, the Japanese Bankers Association (“JBA”), would like to express our gratitude for this opportunity to comment on the second consultative document: *Revisions to the Standardised Approach for credit risk*, issued by the Basel Committee on Banking Supervision (“BCBS”).

We respectfully expect that the following comments will contribute to your further discussion.

<<Executive Summary>>

General comments

- To our understanding, the revisions to the standardised approach (“SA”) for credit risk do not intend to increase overall capital charges but aim to enhance risk sensitivity and comparability between the SA and the internal ratings-based (“IRB”) approach. However, the second consultative document (“2nd CD”) includes several exposure classes for which capital charges will obviously increase relative to the current SA. Therefore, overall capital charges across many banks, including regional financial institutions, are expected to increase. Taking into account, among other things, the Quantitative Impact Study (“QIS”) data, prudent and appropriate calibrations should be carried out so as to ensure that the level of capital charges under the SA remains unchanged before and after the revisions.
- Many of the banks using the SA are rooted in a region of their own countries. It is necessary to give due consideration to effects on such financial institutions and financial systems that may be caused by the revisions.

Specific comments

- Exposures to banks and corporates: We propose that the granularity of buckets should be increased for the risk weight (“RW”) table and that RWs should be reconsidered with a view to increasing risk sensitivity and mitigating cliff effects.
- Equity: With the aim of increasing risk sensitivity, introduction of RWs that reflects issuer’s creditworthiness is proposed. Another proposal is to provide a transition period of at least five years to allow time for regulatory compliance, such as disposal of equities,

by banks.

- Residential real estate exposures (Mortgage loans): The proposed RWs are overly conservative and thus should be reviewed so as not to undermine the function of funding to individual persons. Further, the proposed use of the loan-to-value (“LTV”) ratio as the sole driver for determining RWs should be reviewed because it does not accurately represent borrower’s ability to service the mortgage since borrower’s creditworthiness is not sufficiently factored in and also because it may incentivise banks to focus excessively on the value of the collateral.
- Off-balance sheet exposures: The following are proposed for commitments, etc.

[Proposal 1]

- Classify commitments, etc. according to the table below, based on the product characteristics. The categories should be defined using the following three criteria:
 - (i) whether unconditionally cancellable under a contract;
 - (ii) whether fees and commissions are received by the bank, and
 - (iii) whether approval of the bank needs to be obtained whenever the credit line is drawn down.

[Proposal 2]

- Unconditionally cancellable commitments (“UCCs”) for retails and corporates should not be differentiated and be applied the same treatment (*). The credit conversion factors (“CCFs”) for corporates should at least be reduced to the same level (10% - 20%) as those for retail.

(*) Since both retail and corporate UCCs are unconditionally cancellable under the contract and the bank will not receive any fees and commissions from customers, the bank may, at its discretion, reduce, cease or cancel the commitment in the event that the creditworthiness of a customer has deteriorated. This is also applied in practice.

- The CCFs applied to UCCs should be set at an appropriate level, including a further reduction, taking into account factors such as the result of QIS and actual transactions.

Category	Criteria			Proposed CCF	(Reference) Applicable product in Japan
	Unconditionally cancellable under the contract	Receipt of fees /commissions	approval of the bank needs to be obtained		
General commitments	No	Yes	Unnecessary	50%	Commitment line
UCCs	Yes	No	Unnecessary	[Proposal 2]	General overdraft
Non-commitments	Yes	No	Necessary	0%	Special overdraft

<<General comments>>

(1) Calibration

The BCBS should ensure appropriate calibrations so that the level of capital charges remains unchanged before and after the revisions to the SA for credit risk.

As specified in the consultative document, the revisions to the SA for credit risk are intended to enhance risk sensitivity and comparability between the SA and the IRB approach and are not intended to increase overall capital charges. In the 2nd CD, however, there are several exposure classes, such as those to banks, equity/subordinated debt, specialised lending and off-balance sheet items, for which capital charges will obviously increase relative to the current SA. While there are only limited exposure classes for which capital charges are reduced, such as exposures to small and medium entities (“SMEs”; RW 100%→85%). Therefore, capital charges for many banks, including regional financial institutions, are likely to increase.

In this view, the BCBS should pay attention to maintain the same level of capital charges under the revised SA and also carry out prudent and appropriate calibrations through the QIS or another public consultation so that overall capital charges will not increase as a result of revisions to the IRB, the capital floor and other relevant aspects.

(2) Capital floor

Capital floors are unnecessary. Objectives of capital floors, such as preventing underestimation of IRB-based risk-weighted assets (“RWAs”) and mitigating model risk, are addressed by ongoing review of the IRB for credit risk which is currently being discussed. Further, the role of capital floors as a backstop may overlap with that of a leverage ratio. In addition, capital floors based on the less risk-sensitive SA applied to internal model based measures may not accurately represent risks held by banks, which is a problem in terms of risk sensitivity. It should also be noted that a decline in the capital adequacy ratio due to a sudden elevation of the capital charge level may prompt financial institutions to reduce assets or may undermine the financial intermediary function.

Given the above, if capital floors are to be introduced, they should be set at a level that would be applied to banks that intentionally reduce the IRB-based RWAs, instead of at the level that may result in widespread and common breach by general banks using the IRB. If capital floors are set at the level that always exceeds the IRB-based RWAs, the meaning for banks to continue the use of the IRB in which resources and costs have been invested will be undermined and banks’ accumulated efforts to date for enhancing risk assessment will come to nothing. This may disincentivise banks to enhance risk management and may lead to retrograding of risk management practices.

(3) Consideration in light of characteristics of financial institutions and sectors

Many of the banks using the SA are rooted in a region in their own country. Further, some sectors have in place a financial transaction mechanism (corporate banking network) for purposes of facilitating financing among members, such as mutual cooperation among members. The BCBS should give due regard to effects on these financial institutions, effects on financial systems in each region/country and actual supervisory practices.

(4) Implementation timing and transitional provisions

To calculate RWAs based on the revised SA, banks will need to collect new measures and data for some asset classes, requiring sufficient time for preparation (at least 3 years or more until implementation after the standard is finalised), including computer system development and process designing/developments for collection of new measures and data. Further, from the perspective of optimising computer system development and human resources, it is requested that the proposed revised SA will be implemented at the same time with the ongoing IRB review.

If the revised SA will give rise to a sharp increase in RWAs, exemptions (transitional provisions) for existing exposures will be needed to avoid such a situation.

(5) Others

① Consistency with the IRB framework

While consistency with the IRB framework is maintained in terms of, among other things, the definition of defaulted exposures and exposure classes, there remains a significant gap in some RW levels. If the level of RWAs varies considerably due merely to differences in the approach taken, stakeholders will have a difficulty in comparing banks using the IRB and those using the SA. In this view, the BCBS should improve consistency with the IRB framework, including RW levels. Also, the RW level of the SA should be considered using the current IRB which is more elaborated approach.

② Consistency with other frameworks

For a required stable funding (“RSF”), which is a denominator of the Net Stable Funding Ratio (“NSFR”), assignment of the RSF factor for mortgage loans and some types of loans depends on whether they qualify for a 35% or lower RW under the current SA. The proposed revised SA will increase the number of loan transactions that receive a RW exceeding 35% and thus a higher RSF factor will be assigned, which may unintentionally aggravate the NSFR. In particular, Japanese banks have a considerable amount of outstanding mortgage loans and may reduce NSFR by several percent in response to a change in the RSF factor. In this view, consideration should be given to relationships between other frameworks by, for example, re-assessing the 35% threshold under the NSFR framework based on the revised SA and then re-establishing a new threshold. If the NSFR aggravates as a result of the revisions to the SA,

it would be difficult to improve the NSFR in a short period due to its nature. To address this, the BCBS is requested to take certain measures, such as providing sufficient time for implementation.

Also, consideration should be given to the relationship with the BCBS public consultation document of the framework *Capital Treatment for 'Simple, Transparent and Comparable' Securitisations* which requires the SA-based RW of the underlying assets to fall below a certain level in order to satisfy requirements for reducing capital requirements. Pursuant to the new capital rule to be implemented in 2018, securitisation products, such as RMBS, will be subject to the look-through treatment under the SA if a look through to the underlying assets is not possible under the IRB and there is no qualified external rating available. Therefore, increasing the RW of the underlying mortgage loans may lead to a reduction in the size of the securitization market. Given this, a careful consideration will be needed.

In addition, while the factor applied to off-balance sheet exposures which is included in the denominator of a leverage ratio is in principle the same level as under the SA, the leverage ratio may unintentionally aggravate as a result of an increase in CCFs of off-balance sheet exposures under the proposed revised SA. Therefore, a careful calibration will be required in this respect.

<<Specific comments>>

1 . Exposures to banks and corporates

(1) RW table

① General

The RW table for externally-rated exposures proposed in the 2nd CD is comprised of only five RW buckets, giving rise to a problem of a high cliff effect. Further, for example, the same RW of 50% is applied to both the bank exposure rated A and bank exposure rated BBB and the same RW of 100% is applied to both the corporate exposure rated BBB and corporate exposure rated BB. Such treatment is insufficient in terms of risk sensitivity and adequacy for capturing risks. It is understandable that the proposed RW is set at a conservative level to a certain extent relative to the RW under the IRB. However, the proposed RWs, particularly for long-term exposures rated A, BBB and BB and short-terms exposures rated AA and above, are considered as overly conservative.

To address this issue, we propose to increase the granularity of the buckets in the RW tables. In addition, given that the same rating range represents the same level of credit risk, the same RW should be applied to the same rating range of exposures to banks and corporates. If a RW assigned will be different between bank exposures and corporate exposures within the same rating range, the BCBS is requested to clarify the rationale for such an approach.

② Long-term exposures

Table 1: Proposed RW table (Long-term exposures)

	AAA	AA	A	BBB	BB	B	CCC and below
Alternative proposal for both bank and corporate exposures	20%		30%	50%	100%	125%	150%
Proposed by 2 nd CD: Bank exposures	20%		50%		100%		150%
Proposed by 2 nd CD: Corporate exposures	20%		50%	100%		150%	

(Reference)

Apply Moody's PD ¹ to the function of RW for corporate exposures (LGD45%, M2.5 years)	14.4%	14.4%	23.6%	41.8%	95.4%	136.6%	208.2%
Apply S&P's PD ² to the function of RW for corporate exposures (LGD45%, M2.5 years)	14.4%	14.4%	21.9%	47.3%	91.6%	145.9%	245.2%
IRB historical data of 6 member banks ³	Average	15.3%	17.2%	21.6%	37.1%	72.1%	116.7%
	Median	15.1%	16.1%	20.5%	32.1%	56.7%	93.4%

A-rated exposures

The RW assigned to A-rated bank exposures should be reduced from 50% to 30%⁴. Even in the case of G-SIBs, only Nordea, etc. is externally rated AA or above,⁵ and many banks are rated A or below. But given the credit standing of A-rated banks, a RW of 50% is overly high and thus should be decreased to 30%.

With respect to corporate exposures, it would be reasonable to apply a 30% RW to A-rated exposures also on the basis that the RW for A-rated corporate exposures derived by applying S&P and Moody's historical default data over the past 30+ years (long-term average

¹ Source: Annual Default Study: Corporate Default and Recovery Rates, 1920-2014
Exhibit 34: Average Cumulative Issuer-Weighted Global Default Rates by Letter Rating, 1983-2014

² Source: 2013 Annual Global Corporate Default Study And Rating Transitions,
Table 4: Descriptive Statistics On One-Year Global Default Rates

³ RWs are calculated based on estimated PD, estimated LGD and actual maturity (1-5 years) of each bank.

⁴ In the case of the member bank A and the member bank B, bank exposures rated A are the largest component of overall bank exposures, accounting for approximately 40-69%; the average RW (i.e. the real RW that reflects expected loss) under the advanced IRB ("AIRB") or the foundation IRB ("FIRB") is approximately 26-36%; and the average RW under the SA is approximately 51-59%.

⁵ See Reference 1 in page 25.

of PD) to the function of RW for corporate exposures is 21.9-23.6% (LGD of 45%; maturity of 2.5 years; the real RW that reflects expected loss).

BBB-rated exposures

The 2nd CD proposes a RW of 50% and 100% for bank exposures and corporate exposures, respectively, even though they are both rated BBB, which represents the same level of credit risk. Therefore, the proposed treatment results in a different risk amount between the two. Further, the RW assigned to BBB-rated exposures is the same as the RW applied to A-rated bank exposures and BB-rated corporate exposures. To increase risk sensitivity, BBB-rated exposures should be assigned a RW that is between the RWs applied to A-rated and BB-rated exposures. In addition to this, a RW of 100% would be overly high for investment grade corporates. Therefore, a RW of 50% is proposed.

Further, it is considered as reasonable to apply a 50% RW to BBB-rated exposures also on the basis that the RW for BBB-rated exposures derived by applying S&P and Moody's historical default data over the past 30+ years (long-term average of PD) to the function of RW for corporate exposures is 41.8-47.3% (LGD of 45%; maturity of 2.5 years; the real RW that reflects expected loss).

B-rated exposures

A RW of 125% should be assigned to B-rated exposures. Although the 2nd CD proposes a 150% RW for B-rated corporate exposures, consistent with the current SA, such a RW is deemed to be overly high given that a RW applied to defaulted corporations is 150%. Further, it would not be reasonable if a significantly higher RW is applied to B-rated exposures relative to unrated exposures. In this view, a 125% RW should be applied.

③ Short-term exposures

Table 2: Proposed RW table (Short-term exposures)

	AAA	AA	A	BBB	BB	B	CCC and below
Alternative proposal for both bank and corporate exposures	10%	12.5%	15%	20%	50%		150%
Proposed by 2 nd CD: Bank exposures	20%				50%		150%

The proposed RWs for short-term exposures, particularly for highly-rated exposures (i.e. A and above), are overly conservative relative to the RWs under the IRB. Therefore, it would be appropriate to apply a lower RW than the RWs proposed in the 2nd CD. Specifically, the above RW table is recommended. In the case of the member bank B, the actual RWs under the FIRB assigned to bank exposures with a remaining maturity of three months or less which are not subject to the one-year maturity floor under the IRB are 6% and 10% for AA-rated exposures and A-rated exposures, respectively. This also demonstrates the reasonableness to apply a 10-15% RWs to exposures rated in the range of AAA to A.

④ Unrated corporate exposures

Banks incorporated in jurisdictions that do not allow the use of external ratings for regulatory purposes is permitted to apply a 75% RW to investment grade corporates. This treatment should be allowed also for banks incorporated in jurisdictions that allow the use of external ratings for regulatory purposes. In doing so, the RW for investment grade corporates should be reduced from 75% to 50% as discussed above in section 1.(1)②. Applying the investment grade determination to unrated corporate exposures will further enhance risk sensitivity. This is also consistent with the treatment applied to unrated bank exposures.

With respect to the investment grade determination, in addition to the approach described in paragraph 173, unrated exposures of banks using the IRB should also be treated as investment grade if an external rating mapped to the internal rating of such exposures meets the investment grade definition (i.e. BBB or better).

(2) Due diligence and external ratings

We support the 2nd CD's proposed approach to allow banks to use external ratings in a way that does not mechanistically rely on external ratings while at the same time subject them to due diligence requirements whereby banks are required to undertake reasonable and appropriate procedures. Under the condition that simplicity is maintained, the revisions to the SA requires capturing risks adequately, ensuring comparability and reducing mechanistic reliance on external ratings. The proposed SA in the 2nd CD that uses external ratings is well balanced in this respect, and thus is considered to be reasonable.

Nevertheless, when implementing due diligence requirements, due diligence should be deemed only as a minimum requirement for banks using external ratings and should not require conservative calibrations of RWs for the following reasons. Firstly, since there are gaps in information held by financial institutions depending on business relationships, results of the due diligence assessment on the same borrower differ by banks, which may undermine comparability between banks. Secondly, as financial institutions are given discretion in conservatively calibrating RWs, it is our concern that the depth of and attitude towards due diligence may vary by financial institutions. Given that results of the due diligence analysis are reflected in only one way (i.e. to increase RW), comparability may decrease due to morale

hazard of some banks.

Further, please confirm that the BCBS does not require banks using the IRB to perform more due diligence than what is currently performed by individual banks.

It is also requested that the BCBS will allow banks to enter into a contract with any of, instead of all of, the eligible credit rating agencies in order to determine RWs in reference to external ratings. To use external ratings, banks need to enter into a license agreement with credit rating agencies. While the amount of associated costs should differ depending on the number of rating agencies and users, if a license agreement with all rating agencies is required, banks will incur a considerable amount of costs in order to put in place necessary infrastructures, including system development.

2. Exposures to banks

(1) External ratings that exclude government support (Bank exposures)

Compared to banks granted with a long-term credit rating that incorporates government support, there are currently a limited number of banks which are granted a rating that excludes government support. Therefore, the use of a rating that excludes government support is difficult in practice, including the QIS, and would not enable appropriate RW calibrations.

If the use of external ratings that exclude government support will be required, RWs should be calibrated after credit rating agencies publish sufficient data of such ratings. Also, disclosure policies and procedures for credit rating agencies should be established, for example, by adding the publication of such information into requirements for designated rating agencies. Even if bank ratings without government support need to be used, unless credit rating agencies have in place a framework that enables publication of such information, banks will need to carry out manual check or assessment, incurring a considerable amount of human resource cost for internal controls, and also will need to spend considerable time to establish necessary processes and procedures, including database development. Further, given that external ratings without government support are generally lower than long-term credit ratings, the BCBS should make a careful consideration in establishing the RW level when introducing government ratings without government support.

(2) Definition of short-term exposures

Although the 2ndCD defines short-term exposures as having an original maturity of “three months or less”, it would be reasonable to define them as having an original maturity of “one year or less”. Consistency should be ensured with an increasing expectation to use stable long-term funding tools as the TLAC framework imposes over 1 year residual maturity requirement to qualify as TLAC, as well as with the liquidity requirements (NSFR) which require RSF over a one-year period. Additionally, the preferential treatment should be available for not only interbank markets (e.g. call money transactions) but also for money

markets (e.g. repo transactions) so as to ensure market liquidity and stability.

3. Exposures to securities firms and other financial institutions

(1) Exposures to securities firms, etc.

Provided that securities firms and other financial institutions are subject to a level of supervision equivalent to those applied to banks on a consolidated basis, it should be permitted to treat such exposures to group entities as exposures to banks. Securities firms and other financial institutions are subject to a level of supervision equivalent to those applied to banks on a consolidated basis, while on a stand-alone basis, are not subject to such a level of supervision or do not publicly disclose their regulatory compliance in some cases. Therefore, it is our concern that the 2nd CD may give rise to a situation where exposures to the holding company are treated as bank exposures whereas exposures to securities firms and other financial institutions within the group are treated as exposures to corporates.

4. Exposures to corporates

(1) Exposures to corporates

① Short-term exposures

Consistent with bank exposures, it is requested that the treatment of preferential RW available for short-term bank exposures be applicable to corporate exposures as well. This is because that non-bank financial institutions and corporates have needs for short-term funding (finance related to short-term trade such as export advance, factoring of bills and receivables, and guarantee) and that managing the duration of exposures held is an important element of each bank's portfolio management. Further, the implementation of our proposed treatment is considered to be reasonable in terms of ensuring alignment with actual credit management activities carried out by banks using the IRB and other banks.

② SMEs

We support the proposal to establish a category of exposures to SMEs and assign a lower RW for such exposures. This treatment is considered as appropriate given that a higher proportion of exposures to SMEs are secured by various collateral than other corporate exposures. Based on the data of the member bank C, the average coverage ratio of corporate exposures other than SMEs is approximately 20% while the average coverage ratio of exposures to SMEs is approximately 40% and 70% for the "corporates" exposures class and the "individuals" exposure class, respectively.

However, according to paragraph 47, a 100% RW will be applied to exposures to "individuals" which are classified as "corporates" under the current SA because the aggregated exposure exceeds the threshold of €1 million. To align with this proposal, a RW of

85% should be applied so long as the SME requirement (the reported sales for the consolidated group of which the firm is a part is less than €50 million) is satisfied.

For example, where exposures to an SME and its representative individual person(s) which are substantially deemed as the same borrower are €0.9 million and €0.2 million, respectively, the aggregated exposure exceeds the €1 million threshold and thus they are both classified as “corporates”. In this case, if paragraph 47 is applied, the exposure of €0.9 million is only deemed as exposures to SMEs (85% RW), while a 100% RW assigned to “corporates” will be applied to the representative individual person(s), resulting in application of different RWs.

(2) Specialised lending exposures

① RWs for unrated project finance exposures

With respect to RWs for unrated project finance exposures, the 2nd CD proposes 150% and 100% in the pre-operational phase and in the operational phase, respectively. However, the proposed RWs should be reduced taking into account structural robustness and credit enhancement⁶.

The proposed RW is considered to be overly conservative on the basis that: (i) external ratings are not often granted (and rather banks manage exposures by their internal ratings) because the project finance market in the pre-operational phase is the interbank market; and (ii) project finance exposures are basically secured by collaterals. In fact, as a result of assessment performed on project finance portfolios using the IRB, most of the exposures even in the pre-operational phase were granted a rating that is equivalent to an external rating of BB or higher while exposures in the operational phase were rated at the level equivalent to a range of external ratings A - BBB range or higher. Given this, project finance exposures should be risk-weighted at 100% in the pre-operational phase and at 30-50% in the operational phase in light of the level of RW assigned to externally-rated corporate exposures.

In many project finance cases, credit enhancement intended to mitigate operational and business risks of the project itself is incorporated in the structure. Further, according to the S&P's report, the level of PD and LGD of project finance for power and public facilities is obviously lower than the average of overall project finance. This is considered to be attributable to the fact that these categories include many projects incorporating a scheme to cover principal and interest by fixed fees paid by an off-taker and a lot of PFI projects where private firms undertake public services and the public sector pays consideration. In this view, it would be reasonable to apply a lower RW to at least project finance relating to power and

⁶ Examples of cases where risk weighting should be based on structural robustness and credit enhancement include the following:

- A case where an EPC contractor guarantees completion in the pre-operational phase; and
- A case where principal and interest thereon are covered by fixed fee paid by an off-taker.

public sector.

② Pre-operational phase and operational phase of project finance

With respect to unrated project finance exposures, the definition to differentiate between pre-operational phase and operational phase should be made clearer.

The 2nd CD defines the operational phase as “the phase in which the entity that was specifically created to finance the project has (i) a positive net cash flow that is sufficient to cover any remaining contractual obligation, and (ii) declining long term debt”. However, this definition needs to be more detailed and clarified given that there are projects where a net cash flow (“CF”) may become negative even in the operational phase; for example, a project that covers high CF volatility by certain reserves (debt service reserve account) and a project that temporarily permits debt rescheduling.

While the 2nd CD proposes to apply a different RW to project finance exposures before and after operation, variability in RW application between banks may occur because it involves judgment to determine “sufficient CF” and project finance cannot be treated as “operational phase” unless there is any performance of operations. In this view, determination of “pre-operational phase” and “operational phase” should be based on a certificate issued by a technical advisor validating that the project is ready for operation or any other evidence equivalent thereto received by a lender. Further, any facilities once classified as “operational phase” should not be reclassified as “pre-operational phase”.

Since there are projects that generate CF before the issuance of a certificate and projects in which CF cannot unexpectedly be generated even after the issuance of a certificate, determination of “operational phase” is expected to be difficult in practice and thus such determination may vary between banks. Further, if the credit quality deteriorates after project finance is classified as “operational phase”, it might be deemed as “pre-operational phase” on the basis that its net CF is negative. However, in such a case, it should be assessed whether that project finance exposure is defaulted in accordance with the delinquent status and should not be reclassified as “pre-operational phase”. If this approach cannot be taken, it is assumed that the classification may change several times during a short period, which is considered to be unreasonable.

③ Specialised lending exposures guaranteed or insured by third parties

The 2nd CD should specify that where specialised lending exposures are guaranteed or insured by an eligible third party, the RW assigned to the provider of such a guarantee/insurance should be applicable, regardless of whether external ratings are assigned. In some cases, for example, object finance exposures are guaranteed by an organization with credit quality equivalent to that of government (e.g. ECA). Applying a flat RW even to such exposures, if unrated, would be overly conservative.

5. Subordinated debt, equity and other capital instruments

(1) Equity holdings

① RW

In light of differences in LGD under the FIRB (senior 45%, subordinated 75%, equity 90%), a 250% RW assigned to equity holdings is overly conservative relative to a 100% RW for unrated corporate exposures and a 150% RW for subordinated debt. It is not appropriate to apply a 250% RW which is equivalent to the RW for equities issued by financial institutions excluded from consolidation under Basel III even though equity exposures are primarily comprised of those to corporates.

Further, it is unreasonable to apply the flat RW to all equity exposures. To ensure risk sensitivity, equities held for long-term holding purposes should be risk weighted according to issuer's creditworthiness based on due diligence. Specifically, we propose that equity exposures should be assigned a RW which is twice the RW applied to externally-rated senior debt exposures given that, under the current FIRB framework, LGDs applied to exposures to senior debt and equity, etc. are 45% and 90%, respectively, and exposures to equity, etc. is applied twice the RW of senior debt exposures.

Where it is difficult to use external ratings for exposures to equity, etc. in order to reduce reliance on external ratings, we propose that twice the RW of senior debt exposures to unrated borrowers (200%) should be applied. The RW assigned to senior debt exposures to unrated borrowers is 100% which is an average RW of exposures to borrowers classified as "Normal Borrowers". Equity is subordinated to senior debt in terms of recoverability and the degree of their recoverability is indicated by LGD under the FIRB (45% and 90%). Taking this into account, applying a RW which is twice the RW of average non-subordinated debt exposures, specifically 200% ($=90\% \div 45\%$), is proposed.

Shareholding by banks is intended for, for example, business alliance, maintaining and strengthening business relationships and stable equity holdings, and constitutes part of long-term transactions with customers. As permitted under paragraph 352 of Basel II, a RW reflecting credit risk, instead of price risk, should be applied to long-term equity investments given that their risk differs from risk inherent in short-term equity investments that are expected to generate capital gain. Equities held for a long term with no anticipation of capital gain have only a limited risk of realising loss arising from short-term market fluctuations like government bonds and industrial bonds held in the banking book. Applying a RW reflecting credit risk to such long-term equity holdings will ensure consistency with the treatment not to reflect price risk in RWs for government bonds or corporate bonds and the treatment of IRB under paragraph 352 of Basel II. Note that, in doing so, ratings after due diligence procedures should be used to prevent mechanistic reliance on external ratings.

② Transitional provisions

The BCBS should provide banks and their customers with a transition period of at least

five years to allow sufficient time for compliance with the revisions. Since equity exposures are risk weighted at 100% under the current SA, capital charges for equity exposures will considerably increase under the revised SA. Banks will need to reconsider whether to retain their equity holdings, taking into account the degree of an increase in capital charges for such equity exposures. Even in the case where it is concluded that disposal of equities is reasonable, it will take a considerable amount of time to do so when the purpose of such equity holding is to maintain a long-term relationship with a customer since negotiation needs to be made to obtain the customer's consent. Customers will also need time for preparation in order to review their capital policy (e.g. to attract alternative shareholders), since they will lose stable shareholders. In addition, if sales are executed in a short period, such an activity may have an adverse impact on the market stability.

6. Retail portfolio

(1) Retail portfolio

We are in support maintaining the current SA in relation to retail portfolio. In times of financial crisis, the retail portfolio did not suffer any significant loss and thus will not need to be reviewed.

7. Real estate exposure class

(1) RWs for residential real estate exposures (mortgage loans)

General exposures secured by residential real estate (mortgage loans) receive excessively conservative RWs. Given however that the 2nd CD does not intend to increase capital charges, RWs should be reduced and improved, in particular for mortgage loans, in order to avoid undermining the banks' financing function for individual persons.

For exposures that are fully secured by collateral (i.e. exposures with a loan-to-value (LTV) ratio of 100% or less), as a result of analysing the current RW versus the RW proposed in the 2nd CD, in Japan, the RW proposed in the 2nd CD ($38\% = (25+30+35+45+55)/5$) is higher than the current RW (35%) on a simple average basis; whereas, on an weighted average basis, the RW proposed in the 2nd CD would be higher because the loan balance with a higher LTV ratio accounts for a large portion of the entire loan balance. Consequently, a prudent analysis needs to be carried out through the QIS and other exercises. Additionally, under the proposed treatment in the 2nd CD, the bucket with an LTV ratio of over 100% is expected to receive the risk weight of 75%. This also results in a significant increase of RW relative to the current RW of 35%. We propose a 50% RW to the bucket with an LTV ratio of over 100%. This is because, since mortgage loans are secured by collateral, its recovery risk is considered to be lower than retail exposures meeting certain conditions and assigned a RW of 75%. Further, mortgage loans with a lower LTV ratio indicate that borrowers have invested a

significant amount of their own funds and borrowers with a lower LTV ratio generally have higher credit quality (the ability to service the mortgage) and hence have a sufficient cash flows for repayment. Consequently, such high credit quality should be reflected.

Table 3: Proposed RW table for residential real estate exposures (mortgage loans)

	40% $\leq$	40%<LTV $\leq$ 60%	60%<LTV $\leq$ 80%	80%<LTV $\leq$ 90%	90%<LTV $\leq$ 100%	100%<LTV
Alternative	15%	25%	35%	40%	45%	50%
Proposed by 2 nd CD	25%	30%	35%	45%	55%	Borrowers' RW

In addition to the above proposal, a discretion should be permitted to national authorities to calibrate RWs taking into account situations unique to their jurisdiction. For jurisdictions with a higher liquidity in the used residential property market, the LTV ratio has a high predictability of loan recoverability. On the other hand, in jurisdictions such as Japan where (i) individuals have a higher preference for a new house and have a strong tendency to stay living in the same place, (ii) the used residential property market has not been developed yet and its market liquidity is low, and (iii) mortgage loans are a recourse-type, the borrower's ability to service debt, in addition to the value of the collateral (i.e. the level of LTV), is a crucial measure in determining the recoverability of loans for the purpose of credit risk assessment. Since the loan examination that more focuses on the borrowers' credit quality than the LTV ratio is carried out, only limited amount of loans are extended to sub-prime borrowers and hence default risk is considerably low.

The average PD based on the actual data of 26 Japanese banks which use the IRB for mortgage loans was below 1%. In the case of the member bank B, the average PD was below 1.2% even for the bucket with an LTV ratio exceeding 100%. Additionally, the rating criteria of S&P and Moody's for RMBS in Japan also focus on the borrowers' ability to service debt (such as DSC and DTI). The loan criteria of the Japan Housing Finance Agency which is the largest government-affiliated institution providing mortgage loans also focus on annual income and the debt servicing coverage ("DSC").

As discussed above, the level of the LTV ratio differs across jurisdictions since the focused points of credit determination vary by jurisdictions. Therefore, basing RWs solely on the level of LTV ratio does not fully consider the PDs of borrowers, and not necessarily reflect the borrowers' ability to service debt accurately.

Given this, a regulatory framework should be designed in a manner to enable national supervisors to reflect characteristics of the mortgage loan market in their home jurisdiction. The RW table driven only by the LTV ratio, if introduced, would have a considerable impact on the financial institution's policy on origination and examination of mortgage loans. For

example, before originating a mortgage loan, a financial institution would heavily focus on the value of the property rather than the credit quality of a borrower in order to reduce the RW. As such, a framework should be designed prudently in order to avoid a situation where such a change would result in undermining banks' smooth supply of mortgage loans to individual persons.

(2) Loans where the source of repayment is materially dependent on cash flows

The scope of requirement "the prospects for repayment and recovery on the exposure materially depend on the cash flows generated by the property securing the loan rather than on the underlying capacity of the borrower to repay the debt from other sources" should be limited to loans with residual value risk. Recourse loans which can recover from a third party's repayment capacity should be treated as general exposures. Since the definition of "materially dependent on cash flows" is unclear, ultimately, it may be difficult to differentiate between loans with recourse to recover from a third party's repayment capacity and non-recourse loans which cannot recover from a third party's repayment capacity in times of credit deterioration. This may result in variability in the measurement of RWA, as well as giving rise to a difficulty for individual banks to design and implement their own process.

The scope of LTV-based RWs should be limited to non-recourse loans. For loans with recourse to recover from a third party's payment capacity, the LTV-based RWs and borrowers' RWs shall be compared and a lower RW should be used (See (3) below).

(3) RWs for real estate where repayment is materially dependent on rent/sale of the property

With a view to ensuring consistency of RWs across exposures, RWs of exposures where the source of repayment is dependent on cash flows generated by the real estate should be revisited. For real estate exposures (both residential and commercial real estate exposures) where the source of repayment is materially dependent on rent/sale of the property, those exposures with an LTV ratio exceeding 80% are assigned RWs (residential and commercial exposures are assigned 120% and 130%, respectively) higher than the RWs of unrated exposures (corporate and retail exposures are assigned 100% and 75-100%, respectively). Our concern is that, if the value of a property to be received as collateral is determined to be low at execution of a loan, arbitrage not to obtain real estate collateral may occur in order to reduce a RW.

To eliminate such a concern, it is requested to consider introducing a treatment such as comparing the LTV-based RW and borrower-based RW and assign a lower RW. A uniform valuation using the value of a collateral would result in deviation from actual value given that, in most cases, borrowers of exposures secured by a property and where the source of repayment is dependent on cash flows generated by such a property have high credit quality, and such exposures may have other repayment sources.

The RW of 150% assigned when exposures do not meet the requirements for applying

the LTV-based preferential RW table is at the same level as defaulted exposures. However, this is an overly conservative level since risks associated with exposures that do not meet the requirements for preferential treatment of non-defaulted exposures and those associated with defaulted exposures are apparently different. If a real estate collateral is obtained, the RW of such exposures, even if the requirements for preferential treatment are not met, should receive the same level of RW as exposures other than exposures secured by real estate. Our proposed treatments include the assignment of borrowers' RWs or raise the level of RWs defined in the preferential RW table by one notch downgrade.

(4) RWs for commercial real estate exposures

Paragraph 59 of the 2nd CD sets out that, for commercial real estate exposures, the RW will be the higher of 100% or the RW of the counterparty. However, the RW of such exposures should be the RW of the counterparty. Because the proposed treatment in the 2nd CD will result in a lower RW being assigned to unsecured exposures, even though risk of loss of secured exposures is lower if a collateral is obtained.

(5) Land acquisition, development and construction exposures

Exposures that receive RW 150% should be limited to properties meeting the conditions set out in paragraph 56⁷. Otherwise, the RW of such exposures that do not meet the conditions should be the RW of the counterparty. Because the proposed treatment in the 2nd CD will result in a lower RW being assigned to unsecured exposures, even though risk of loss of secured exposures is smaller if a collateral is obtained.

(6) Criteria for reflecting the valuation of the value of the property which is a denominator of LTV ratio

The 2nd CD proposes that the LTV which is the basis for applying the RW table should be calculated constantly using the value of the property at origination, and should be revised downward only when national supervisor request banks to do so. However, since, under practice of real estate collateral valuation, treatment may vary across jurisdictions and banks, details of treatment should be determined by a national discretion. Additionally, a prudent consideration is required, because attention needs to be paid that banks may need to undertake certain computer system development in order to constantly capture and maintain the valuation amount at origination as proposed in the 2nd CD.

In general practice of collateral revaluation, the real estate collateral is periodically marked to market for corporate exposures, while the collateral value is not marked to market periodically for retail exposures (in particular, mortgage loans). Given that practice of

⁷ When the prospects for repayment and recovery on the exposure materially depend on the cash flows generated by the property securing the loan rather than on the underlying capacity of the borrower to repay the debt from other sources

periodic marked-to-market of real estate collateral securing corporate exposures is established, regardless of movements in the valuation amount, there is a concern that this approach requiring maintenance of valuation amount at origination and marked-to-market only when “supervisors require banks to revise the value downwards” is not consistent with current practice, and rather increase complexity. The treatment used in practice for real estate collateral valuation is expected to vary by individual banks. Further, the valuation amount of the real estate collateral is used for internal management purposes (such as self-assessment and amortisation/provisioning) as well as regulatory purposes. It is therefore crucial to ensure consistency with banks’ practice and avoid imposing an excessive burden in terms of treatment of valuation and revaluation (marked to market) of the real estate collateral.

(7) Treatment of a single loan exposure collateralised by properties at both the pre-operational and operational phases

It is requested to clarify the RW table to be applied to a single loan exposure collateralised by properties at both the pre-operational and operational phases. In practice, such an exposure may occur, but the treatment is not articulated in the 2nd CD.

8. Currency mismatch

(1) Corporate exposures with currency mismatch

A 50% RW add-on to corporate exposures with currency mismatch is unnecessary. This risk is supposed to be already incorporated in credit ratings, and hence add-on capital charges should not be imposed. Further, although one of the objectives of the SA review is to improve comparability between the SA and the IRB, the proposed approach may rather decrease comparability and increase complexity given that the IRB framework does not address this discussion and the definition of hedging that prevents currency mismatch is unclear.

As the business scope of corporates is broad, it is difficult in practice to identify currency mismatches, including whether hedged or unhedged, based on, for example, financial statements presenting the amounts translated in the currency used for financial reporting purposes (for example, in some cases, it is difficult to identify currency mismatches in derivatives transactions). Further, for natural hedges, practical burdens will be immense from the perspective of information collection because to identify the status of natural hedges, information beyond what is disclosed in financial statements will be required (interview with customers) and additional computer system development will be needed to store such information. (From the perspective of deterioration of borrowers’ creditworthiness, a bank would need information regarding not only hedging ratio of its loans to a borrower but also overall currency mismatches of such a borrower. This will also give rise to practical burdens.)

From the perspective of an impact of currency mismatch on borrowers’ creditworthiness, it is not appropriate to uniformly apply a 50% RW add-on merely because of a low hedging

ratio of loans. Even in the case of unhedged exposures, the impact of currency mismatch on borrowers' creditworthiness could be de-minimis if companies have low leverage in the first place. Further, it is common for internationally-active corporates to enter into FX hedge in connection with loan repayments, indicating a low level of relevance to credit risk. Moreover, uniform application of a RW add-on may lead to reduction of loans to specific industries (e.g. foreign shipping industry) which frequently give rise to currency mismatch.

Even if it is determined to introduce a RW add-on to the corporate portfolio with currency mismatch, a 50% RW add-on is considered to be overly conservative. Also, it is our concern that it will reverse the risk level. For example, exposures to SMEs with currency mismatch will receive a RW of 135% ($=85\%+50\%$) assigned to applicable exposures, exceeding a 100% RW applied to exposures to unrated large corporates with no currency mismatch. In addition, exposures to unrated large corporates with currency mismatch will be risk weighted at 150% ($=100\%+50\%$) which is the same level as the RW for defaulted exposures and thus is deemed as too high.

9. Off-balance sheet exposures

(1) Classification and definition of commitments

① Three-category classification of commitment related transactions

We propose to clarify the definition of commitments, etc. Since there is no globally standardised definitions for the commitment categories, definitions used seem to vary by jurisdictions and financial institutions. In particular, the definition of products that are included in the category of unconditionally cancellable commitments (UCCs) is not clear. This may give rise to a difference in the scope of products to be treated as a UCC by jurisdictions and participating financial institutions.

Therefore, for the purpose of recognising commitment related transactions, it is considered reasonable to classify commitments to the three categories (i) general commitments, (ii) UCCs and (iii) non-commitments, based on the three criteria specified in the table 4, which are (i) whether unconditionally cancellable under the contract, (ii) whether fees and commissions are received by the bank, and (iii) whether approval of the bank needs to be obtained whenever the credit line is drawn down).

Table 4: Categories of commitment related transactions

Category	Criteria			Proposed CCF ⁸	(Reference) Applicable product in Japan
	Unconditionally cancellable under the contract	Receipt of fees /commissions	Approval of the bank needs to be obtained		
General commitments	No	Yes	Unnecessary	50%	Commitment line
UCCs	Yes	No	Unnecessary	See 9. (2) ②	General overdraft
Non-commitments	Yes	No	Necessary	0%	Special overdraft

Firstly, the credit line with a contract with a customer should be categorised as commitments. Establishment of a credit line with no contract with a customer and which are managed within the bank is apparently a non-commitment.

Credit lines that are unconditionally cancellable by the bank under the contract and where fees and commissions are received from customers are classified as general commitments. Even if a contract allows to cancel the commitment but the bank receives fees and commissions, the banks' ability to cancel such commitments may be constrained. Whereas, if a bank does not receive fees and commissions, the banks' ability to cancel such commitments is not constrained, and hence no reputation risk which 2nd CD is concerned about would not arise.

Secondly, for credit lines which are unconditionally cancellable under the contract and where fees and commissions are not received, those that require approval from the bank whenever using the line should be deemed as a non-commitment and those that do not require such approval should be deemed as an unconditionally cancellable commitment. If approval from a bank is necessary whenever drawing down the credit line, the bank has a right to reserve the loan execution, and hence such a credit line is not deemed to be committed. On the other hand, for the credit line that can be feely drawn down without obtaining approval from the bank, the bank is considered to be committed until it cancels the line.

In Japan, products that provide such a credit line with no characteristics of commitments are commonly and widely used.

We therefore propose to classify commitments based on the definitions discussed above and assign CCFs to respective categories.

② Corporate UCCs

The 2nd CD proposes not to establish additional sub-categories for “unconditionally cancellable commitments” other than retail commitments. We do not agree to this proposal for

⁸ It is requested to apply preferential treatment to short-term debt taking into account the degree of its risks.

the following reason: Since UCCs for corporates have a different nature from legal perspectives and receive different treatment in credit extension practice, UCCs should be treated differently from general commitments.

The 2nd CD states that “supervisors note that consumer protection laws, risk management capabilities, reputational risk or other factors appear to constrain banks’ ability to cancel such commitments in practice. Many of the commitments assigned to this category may only be cancelled subject to certain contractual conditions (therefore, they are not really unconditionally cancellable).” However, in Japan, there are UCCs that are cancellable in practice, and many UCCs are actually being cancelled, as discussed later in 9. (2) ②. If, in a certain jurisdiction, there is a product for which a local authority determines to be “non-cancellable” taking into account actual practice, such a product should be deemed as a “general commitment” in such a jurisdiction.

Further, we propose to apply the same treatment to both retail and corporate UCCs. Originally, these two should be differentiated and a lower CCF should be assigned to corporate UCCs, given that corporate UCCs are subject to more refined credit management practices than retail UCCs in terms of the contact frequency and monitoring of financial positions of customers, and hence the risk of customers drawing down the credit line in times of default is low. However, since both UCCs also share common product characteristics (e.g. a customer may freely draw down cash within a prescribed limit), we propose to assign the same category to both corporate and retail UCCs in order to avoid complication of the framework from increasing the granularity of the UCC categories.

(2) Level of CCF

① CCF for general commitments

A 50% CCF should be applied to general commitments. The new SA proposes to uniformly apply the CCFs in the range between 50% and 75%. Under the current SA, the CCF for commitments of up to 1 year is 20%, and hence capital charges for such commitments will certainly increase. Such a drastic increase in capital charges would result in a reduction in the provision of commitments by banks, thereby undermining customers’ convenience. Accordingly, we propose to set the CCF at the lower limit of the proposed range, or 50%, in order to minimise an increase in capital charges.

To ensure consistency between the IRB and SA, CCFs of commitments under the FIRB should also be reviewed to align with the revised SA.

② CCF for unconditionally cancellable commitments (UCCs)

UCCs should receive CCFs which are lower than general commitments, by reflecting the risk mitigation effect arising from being “unconditionally cancellable”. Specifically, following are proposed:

- Corporate UCCs and retail UCCs should not be differentiated and be applied the same treatment. The CCFs for corporates should at least be reduced to the same level (10% - 20%) as retail UCCs.
- The CCFs applied to UCCs should be set at an appropriate level, including a further reduction, taking into account the result of QIS and actual transactions.

<Reason for assigning lower CCFs to UCCs than general commitments>

Lower CCFs should be applied to UCCs than general commitments reflecting the risk mitigation effect arising from being “unconditionally cancellable”.

Under a general commitment contract, the bank receives fees and commissions as a consideration and in turn legally commits to extend loans without constraint over the life of the contract. Therefore, unless a significant condition is applicable, such as an occurrence of a default event, the bank is not allowed to reject the extension of credit, cancellation of commitment line or other similar acts.

On the other hand, corporate UCCs are primarily used for funding for settlement purposes, which allow for the temporary negative balance of current account (=the draw down of credit line) for customers’ cash position management purposes. The bank does not receive any fees and commissions from customers, thus may, at its discretion, reduce, cease or cancel a credit line without any constraint in the event that the creditworthiness of a customer has deteriorated. In practice, if there is a sign of a deterioration of a customer’s creditworthiness, such as an occurrence of insignificant delinquency, the bank will consider setting a limit on the use of the line, reduction or cancellation of a credit line or collection of additional collateral, and execute such a measure. If a customer continuously use a credit line, the process the bank will take is to change the category of such a credit line to a general loan, such as loans on deeds. The same process is followed for retail UCCs. Given such practice, applying a different treatment for retail and corporate UCCs would not be justified. Rather, risks associated with corporate transactions are mitigated relative to retail transactions since the status of individual corporate customers are tracked in details and credit deterioration can be detected at an early stage.

<Historical data on cancellation of corporate UCCs>

The JBA member bank A (commercial bank) had canceled approximately 230 corporate UCCs over the past one year. This represented approximately 4.4% of the total transactions, of which 70% or more were for normal borrowers. This example indicates that banks cancel commitments extended to corporates at their discretion, and hence such commitments should not be treated in the same manner as commitments that are not unconditionally cancellable. For the JBA member bank D (commercial bank), the number of UCCs for domestic corporates cancelled was about 220 (which represented approximately 2.8% of the total transactions and 90% or more of which were for normal borrowers), and the number of credit

lines which have been reduced was approximately 100 (which represented approximately 1.3% of the total), in the past six months.

<Historical CCF data for corporate UCCs >

For the member bank D, the credit amount related to investment grade-customers (BBB rating or higher), default customers and other customers (including non-rating customers) represented approximately 74%, 0.02%, and 26% of UCCs, respectively. The own estimate of CCF related to UCCs was about 3% on average. The drawdown rate in times of stress (i.e. in times of Lehman Shock) was about 1%, at the highest.

Based on the data of the member bank E, the additional drawdown rate of general overdrafts (in JPY) for corporate customers in times of stress (i.e. in times of Lehman Shock) was less than 10%.

According to the analysis based on data of the Regional Banks Association of Japan, the drawdown rate of the outstanding credit line by defaulted corporates which have UCCs and general commitments is approximately 20% even in times of economic recession.

<Concern that an increase in CCFs for corporate UCCs may adversely affect customers and economy>

Taking into account the adverse impact the occurrence of incremental costs, such as an increase in settlement risk, has on economy, an increase in capital charges for corporate UCCs should be minimised where practicable. The offering of such a product by banks may be curtailed significantly because the proposed new SA would considerably increase capital charges since the CCF is set at 0% under the current SA. However, this product is used by both large-sized entities and SMEs as a tool to support their cash position management, and forms part of business infrastructure. In view of this, a reduction in the offering of such a product may not only undermine the convenience of customers but also incur additional cost for securing extra funds and increase settlement risk associated with payment, thereby causing a negative impact on economy. Considering the occurrence of such costs, an increase in the level of capital charges for this product should be limited.

If the conservative CCFs in the range between 50% and 75% proposed in the 2nd CD are introduced, we are concern that such CCFs may have a negative impact on the credit function provided by banks, and ultimately create an adverse impact on real economy, given that the revised SA will be used for calculating the capital floor by banks using the IRB and the leverage ratio.

Reference 1

Credit ratings assigned to long-term debt of G-SIBs and corresponding RW⁹ (as of February 26, 2016)

	S&P	Moody's	Fitch	RW (Current/2 nd CD)	RW (Proposed)
HSBC	A	A1	AA-	50%	30%
JP Morgan Chase	A-	A3	A+	50%	30%
Barclays	BBB	Baa3	A	50%	50%
BNP Paribas	A+	A1	A+	50%	30%
Citigroup	BBB+	Baa1	A	50%	50%
Deutsche Bank	BBB+	Baa1	A-	50%	50%
Bank of America	BBB+	Baa1	A	50%	50%
Credit Suisse	A	A2	A	50%	30%
Goldman Sachs	BBB+	A3	A	50%	30%
Mitsubishi UFJ FG	A	A1	A	50%	30%
Morgan Stanley	BBB+	A3	A	50%	30%
Agricultural Bank of China	A	A1	A	50%	30%
Bank of China	A	A1	A	50%	30%
Bank of New York Mellon	A	A1	AA-	50%	30%
China Construction Bank	A	A1	A	50%	30%
Groupe BPCE	A	A2	A	50%	30%
Groupe Crédit Agricole	A	A2	A	50%	30%
ICBC China	A	A1	—	50%	30%
ING Bank	A-	Baa1	A	50%	30%
Mizuho FG	A-	—	A-	50%	30%
Nordea	AA-	Aa3	AA-	20%	20%
Royal Bank of Scotland	BBB-	Ba1	BBB+	50%	50%
Santander	A-	A3	A-	50%	30%
Société Générale	A	A2	A	50%	30%
Standard Chartered	A-	Aa3	A+	50%	30%
State Street	A	A2	AA-	50%	30%
Sumitomo Mitsui FG	A-	—	A	50%	30%
UBS	BBB+	—	A	50%	50%
Unicredit Group	BBB-	Baa1	BBB+	50%	50%
Wells Fargo	A	A2	AA-	50%	30%

⁹ RWs that correspond to the second highest credit rating of long-term debt assigned by S&P or Moody's or Fitch are described. If there are only two rating, lower credit rating is applied.

Source: Each of the company's website.