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Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland
baselcommittee@bis.org.

16th April, 2010

Re: **"Strengthening the resilience of the banking sector" (BCBS 164) and "International framework for liquidity risk measurement, standards and monitoring" (BCBS 165)**

Dear Sirs and Madams,

Nomura Holdings, Inc. is pleased to have an opportunity to make some constructive comments on the Basel Committee on Banking Supervision's consultative documents, "Strengthening the resilience of the banking sector" and "International framework for liquidity risk measurement, standards and monitoring". Firstly, we would like to express our sincere appreciation for all the efforts the Basel Committee has made to achieve a more appropriate and robust regulatory framework despite the recent predicaments of the global financial market. We would also like to express our strong support for a proper and transparent process to convince financial market participants and consumers of the necessity of such a revised framework.

We agree that global capital and liquidity regulations need to be strengthened in order to promote a more resilient banking sector, and that the key areas the Basel Committee on Banking Supervision raised in the consultative documents are appropriate to achieve such a goal.

According to the proposed schedule, the plan is to finalize the revisions by the end of this year. However, taking into account the possible wider impacts of the regulations as a whole on financial and capital markets as well as the real economy, it is too risky to finalize any new regulations in such a short time frame. There is a high likelihood that sufficient data cannot be obtained by impact assessment at this stage, since the proposed rules now contain considerable ambiguity.

Regarding these wider impacts, various possibilities should be considered as opposed to simply assessing impacts to quantitative regulatory standards, e.g., the capital adequacy ratio. The final rules should be determined without rush based on deliberate and repeated wider impact studies and consultative processes.

Many other banks and institutions may submit letters and comments on issues that affect commercial banking activities and real economy. Therefore we would like to focus on potential issues and concerns with the proposed revisions of the Basel regulations particularly from financial and capital markets perspective.

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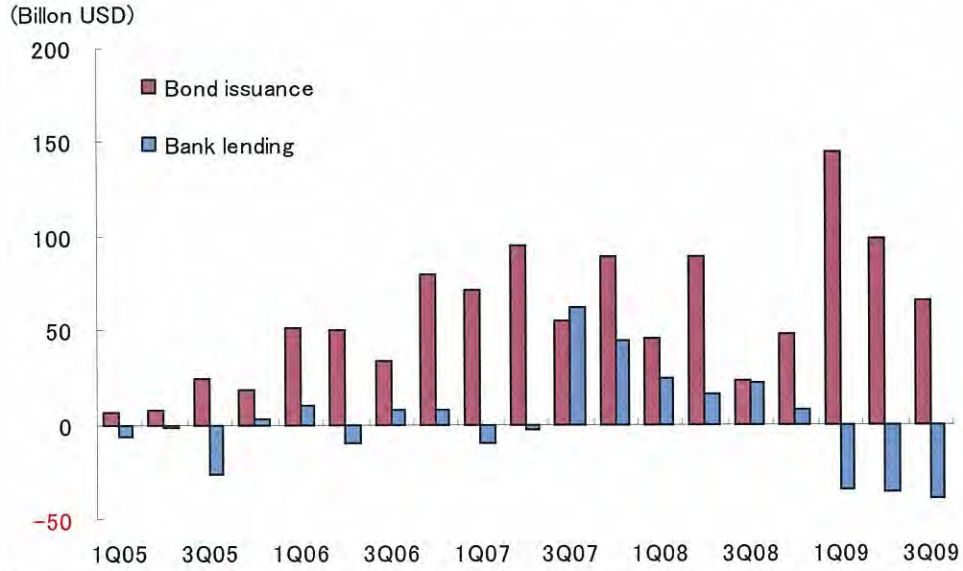
The whole experience in the last 18 to 24 months speaks for the importance of maintaining secondary market liquidity across a wide range of financial products, especially during periods of distress. Accordingly the new regulatory framework should be designed not to discourage the activities of secondary market liquidity providers who serve both institutional and general investors. We should make efforts to find ways to minimize unintended impacts of the proposed revisions on the health of the secondary markets for the widest range of capital market products including equity shares, convertible bonds, corporate bonds and securitized products in addition to government bonds. The existence of healthy liquid secondary markets is a pre-requisite for healthy primary market activities.

In order to show the importance of capital markets vs. bank lending, especially during stress periods, we would like to emphasize the following facts:

The year 2009 saw the rehabilitation of primary market activities for corporate bonds. The graphs below demonstrate how significantly the primary market for corporate bonds contributed to the funding of private sector enterprises, whereas the net contribution of commercial banks was limited.

Figure 1: Corporate Bond Issuance and Bank Lending in the U.S.



Note) Net fund raising via bank lending and bond issuance by non farm, non financial corporate business
Source) Federal Reserve Board

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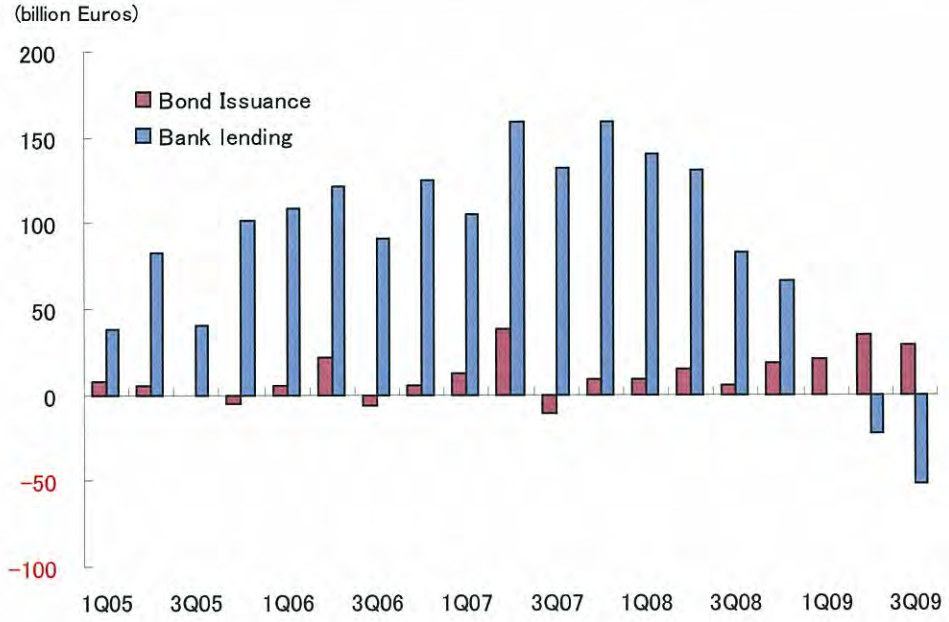
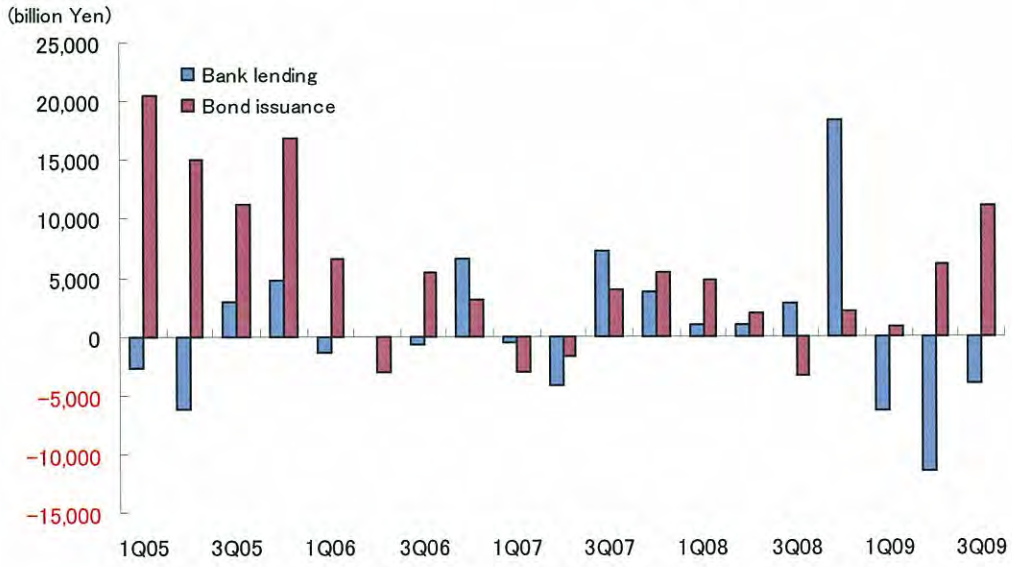
Figure 2: Corporate Bond Issuance and Bank lending in the Euro Area



Note: Net fund raising via bank lending and bond issuance
Source: European Central Bank

Figure 3: Corporate Bond Issuance and Bank Lending in Japan



Note) Net fund raising via bank lending and bond issuance
Source) Bank of Japan, Japan Securities Dealers Association

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The primary market for corporate bonds depends heavily upon the liquidity of the secondary markets because investors need them. The new regulatory framework should be built so as to preserve a business environment suitable for the survival of secondary market liquidity provision.

Nonetheless, the proposed framework contains some rules which discourage market makers from trading financial instruments. Our most serious concern with respect to proposed regulations that unnecessarily penalize market transactions is the creation of a vicious circle where the decrease of market liquidity may cause further decreases of market liquidity.

Though it may be true that development and expansion of financial and capital markets made it easier for uneven distribution or accumulation of risk to occur, the increase of market liquidity itself has never been the cause of financial crisis. In fact, the increase of market liquidity without any over-concentration or accumulation of risks should be vigorously pursued. It copes with vast range of risks such as market risk, counterparty risk and liquidity risk most effectively, strengthening the resilience of the whole banking sector as a result.

Additionally, the current reforms suggest that the rules should include not only developed-country financial institutions, but also those in emerging economies. The capital markets of such economies are mainly in developmental stages, so we believe that applying a blanket regulation that also covers these countries will hamper proper growth of their markets.

The current revisions contain various regulations which could hamper healthy development of financial and capital markets if imposed. For countries with developed markets for securities and financing transactions (such as repo or securities lending) and derivative transactions, sound development of these markets should be encouraged primarily via increased sophistication of financial institutions' risk management systems. If the proposed regulations are imposed, banks operating in such countries will not be able to use hedging instruments for liquidity and price volatility risk.

It is unreasonable to apply the same regulations to both highly-developed markets that caused serious troubles during the recent turmoil and to markets in very early stages of development. This may well result only in widening the existing gap between the developed countries and emerging countries with respect to the level of development of financial and capital markets.

Raising the quality, consistency and transparency of the capital base

- **Items for deduction**

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Many of the items proposed for deduction under the revisions are actually assets with sufficient liquidity / price discovery. For example, M&A transactions can trigger estimation of goodwill and deferred tax asset valuations from time to time. Requiring deduction of this type of asset would be too strict. In addition, if software assets become deductible items, banks may be dis-incentivized to invest in IT infrastructure that is essential for maintaining and upgrading risk management capabilities.

- **Ensuring level playing field**

Treatment of items for deduction is substantially affected by accounting standards and tax systems in each country. In particular, treatment of deferred tax assets is a problem in such countries as Japan, where tax authorities do not recognize various reserves as tax losses. Therefore, deferred tax assets may be easily built up in Japan as compared to other countries.

Example: For derivative transactions, it is common practice to set aside a credit reserve depending on counterparties' creditworthiness, or a market reserve that considers potential costs for position unwinding. Auditors routinely approve such reserves. However tax authorities may not recognize all such reserves as losses. As a result, the non-loss deducted amount of such reserves will be recorded as a deferred tax asset.

A further example is the case of bonus reserves, which are not recognized as expenses until cash payout. If a firm records a loss under financial accounting treatment *after* bonus payment amounts are fixed at year-end, a short-term deferred tax asset will be recorded since the bonus amount is not an in-year expense under tax treatment. If the deferred tax asset is additionally deducted after reducing capital by recognizing a loss or expense under financial accounting treatment, this would be a clear double deduction.

The Basel Committee requested that we "consider the differences in tax systems between countries to ensure fair competition." We believe that due consideration should be given to the above situations.

- **Capital deductions related to financial institutions' capital raising (both their own capital and client transactions)**

In response to future regulatory changes, needs for capital raising will increase among financial institutions. At the same time, underwriters for such new issuance are also financial institutions. Accordingly, we have some concerns that the proposed rules will discourage financial institutions to be involved with underwriting activities for bank shares. To avoid a slowdown or shutdown of the primary capital markets, exemption of underwritten positions from capital deduction should be considered.

In addition, we assume that the primary purpose of the proposed regulations is to eliminate double-counting of capital and prevent follow-on effects like credit

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impairment among financial institutions in times of crisis. If this is indeed the primary purpose of the regulations, it is not reasonable to disallow risk reduction through short positions as a general rule.

Permitting risk reduction only for short positions with no counterparty risk is extremely conservative. Capital charges resulting from such a policy will negatively impact market making, which directly serves investors' trading needs by providing critical liquidity to the market. Thus we have some concerns that the number of market-makers and liquidity providers may decline. This could seriously affect banks' ability to raise capital.

The setting up of stringent caps or upper limits for financial institutions' capital raising on gross trading book inventory levels will result in the restriction of market liquidity. This is a case where "the cure is worse than the disease". Imposing this restriction simply to eliminate adverse effects of double-counting and potential chain reactions in credit markets in times of crisis is overly severe.

The most important mechanism to improve resilience of the banking sector while avoiding central government capital injections is to encourage private investment in risk capital. Improving the attractiveness of financial institutions from an investors perspective is a vital measure.

However, the proposed rule will only discourage investors from injecting further capital. If this continues, rather than realizing the aims of the policy, the possible outcome could actually be negative.

The following Graph shows the amount of capital raised by financial institutions and capital injections by governments world-wide since 2007 3Q. Financial institutions raised huge amounts of capital to recover financial stability in the wake of large losses, however, quite a few governments were also forced to enhance banks' capital bases with taxpayers' money. Such capital injected by governments should be replaced by private investment in the future, and if additional high-quality capital is needed due to new regulations to strengthen the financial system, a tremendous amount of common equity will have to be raised in the market.

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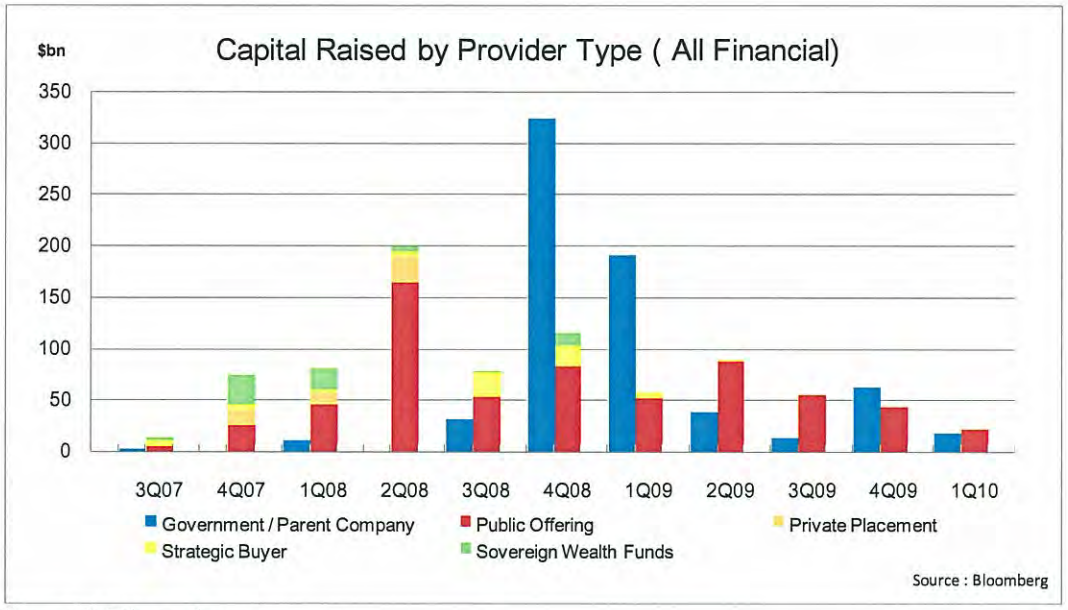
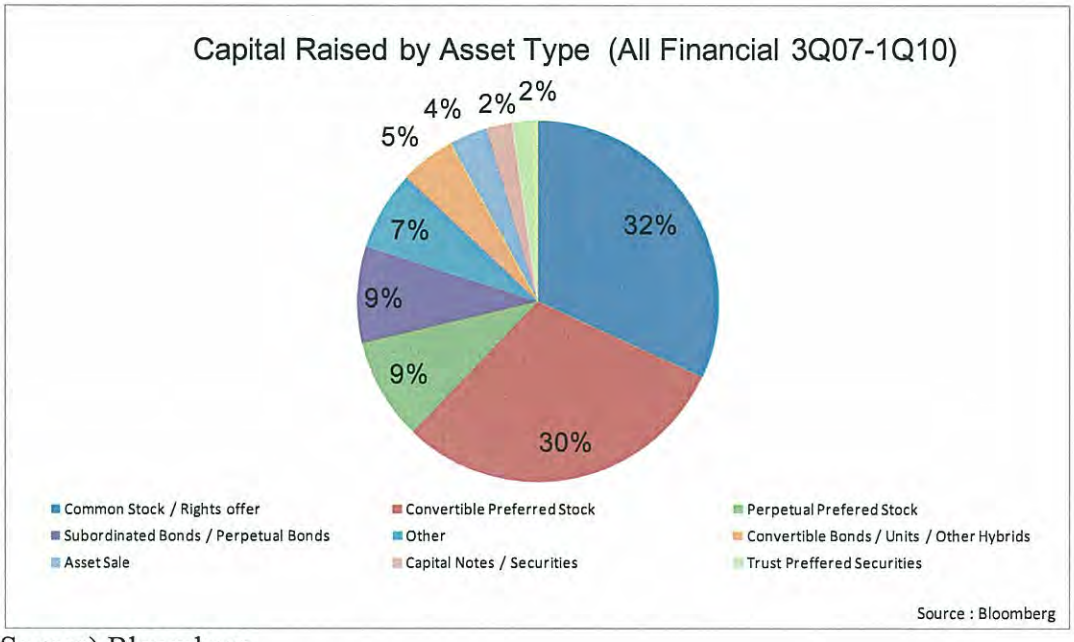
Figure 4: Capital raised by financial institutions world-wide



Source) Bloomberg

Furthermore, the graph below shows that capital raised by common stock so far accounts for less than one-third of total capital raised. This means that, in order to replace relatively low-quality capital, still more common share issuance is expected.

Figure 4: Capital raised by asset type



Source) Bloomberg

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With respect to the degree of market liquidity provided by market making activity through broker/dealers' trading book activites, Amber Anand, Dan Weaver and Carsten Tanggaard conducted a study ("Paying for Market Quality " 2005.8 Aarhus School of Business working paper) to compare before and after effects of market making by broker/dealers in about fifty (50) shares traded on the Stockholm Stock Exchange.

As shown in the table below, we can confirm that ask/bid spreads became tighter, trading volumes increased, market impacts decreased and the volatility of daily trading returns decreased. In this way, market making by broker/dealers contributed to increases in market liquidity. Compared with broking services for trade execution on listed shares, the added value is very high. This is particularly true in times of crisis, because incentives for institutional investors and other investors decline due to price volatility surges. Without market making by broker/dealers, more significant spread widening and price declines would be likely, and these effects would worsen crises.

If the proposal makes broker/dealers unable to conduct market making for banks' capital raising instruments, market liquidity for those instruments substantially declines. Moreover, this effect would become especially material in times of crisis. Regulations for avoiding a crisis may instead lead to a more serious crisis.

Measure	Pre	Post	Absolute Change
Quoted spread (%)	4.47%	2.06%	-2.41
Quoted spread (SEK)	1.67	0.78	-0.89
Effective spread (%)	1.37%	0.88%	-0.49
Depth at the best price (shares)	13,545	20,396	6,851
Depth away from the inside (shares)	57,736	80,306	22,569
Kyle's Lambda	0.56	0.22	-0.34
Intra-day Return volatility (%)	7.88	5.76	-2.13
Daily Number of Trades	9.18	14.82	5.64
Daily Trading Volume (shares)	48,153	135,894	85,869
Daily Trading Volume (SEK)	314,575	1,220,607	906,032

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In addition, according to the Journal of Financial Markets 5 (2002) 31–56 "Illiquidity and stock returns: cross-section and time-series effects" Yakov Amihud Stern School of Business, New York University, with respect to shares with low market liquidity, market expectations of return increase to compensate for the lack of liquidity. Eventually, capital costs will increase for stock issuers.

We have calculated the liquidity index used in the paper above for Japanese shares in each quintile group based on thirty (30) years of historical data. With respect to the expected incremental return to compensate for illiquidity, our calculation shows an annual rate difference of 3.7% between the average of the top and bottom quintiles. For financial institutions that have to seek further capital enhancement, capital cost increases are a critical issue to survival.

Therefore we would like to strongly request lifting the deduction treatment of banks' capital raising instruments when held in trading books. If there is a concern that some banks may abuse their trading book so that their long term investment in other banks' or their own capital raising instruments cannot be detected, an "aging test", as mentioned below, will be effective.

- **Tier 2 capital**

In our opinion, it is unnecessary to prohibit step-up clauses or call options exercisable within five years on Tier 2 capital instruments. Regarding Gone Concern Capital, financial institutions should be incentivized to raise sufficient amount of subordinated debt to support depositors and general creditors, strengthening and stabilizing the financial system as a whole. However, the proposed restrictions are likely to limit the investor universe and discourage financial institutions. Regulatory approval on issuances should replace such restrictions as long as the conditions of approval are widely known to investors.

Risk coverage

Under the proposed rule, Credit Valuation Adjustment (CVA) risk cannot be properly managed. Divergence from actual risk is particularly large if firms use the current exposure method, since the add-on as a potential exposure is accumulated without regard for market risk direction. The fact that the exposure itself is excessive causes material effects on the bond-equivalent approach which measures market risk based on the assumption of one year liquidity horizon. This is quite long in measuring market risk. Consequently, it produces significant deviations from the actual CVA risk volume to be measured.

Further, the bond-equivalent capital charge calculation is designed to include general market risk such as interest rate risk. This tends to be a large amount since the longest maturity within each netting set of transactions will be applied. However this is a clear double-counting of risk, because the EAD calculation in the cases of both the current

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exposure method and the internal model method considers interest rate risk of the relevant transactions.

If interest rate is to be incorporated into the bond-equivalent approach, risk mitigating transactions such as government bond futures contracts must decrease the capital charges for the relevant position. As this is unacceptable, the bond-equivalent approach should be re-examined.

Also, permitting risk reduction only on single name CDS (protection buying) is not in accordance with standard index-based hedging practices.

Leverage ratio

・Supplemental Basel II-based risk measures

Applying numerical criteria on the simple leverage ratio without distinguishing between asset classes with different risk profiles may create a regulatory loophole. In particular, if a lower minimum leverage ratio is established on the basis of QIS results, a loophole could easily be created.

If high-quality liquidity assets are not excluded, there will be negative incentives to hold government bonds. This may cause problems in their distribution, while rising fiscal deficits will continue to require increased government bond issuance levels. Such regulations would be unduly risky.

Due to the search for simplicity, it is predictable that pro-forma balance sheets will be used. Different accounting rules in each country may cause material effects on balance sheet size (total assets /net assets) used as a basis for ratio calculation. These differences may impair fair competition.

・Treatment of protection selling

Including only the notional amounts of short CDS positions in leverage ratio calculations based on their superficial resemblance to guarantee contracts is totally unpractical for market makers of CDS since they are apt to accumulate both long and short CDS positions in the course of providing market liquidity. Such imbalanced treatment of protection sales and purchase will easily distort supply and demand in the CDS market, eventually deteriorating market liquidity.

CDS can be an effective tool for hedging CVA risk as utilized under the current proposal, but we could lose hedging flexibility if market liquidity dries up. In order to prevent unnecessary risk accumulation by abuse of the CDS market or other derivatives markets, we believe that the most effective measures will be establishing appropriate consolidation rules and strengthening disclosure of financial transactions including derivatives.

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Procyclicality

As detailed regulations have not been proposed, further discussion is needed to address the pro-cyclicality issue. However the concept of capital buffers, i.e., requiring banks which do not accumulate sufficient capital to withhold dividends, may cause unintended discrimination among investors in bank shares, since such dividend-retained shares are clearly less attractive to investors. The introduction of capital buffer should not be punitive for certain stakeholders but the balance amongst all stakeholders should be carefully considered.

Liquidity

・Overall framework

The overall approach would be too prescriptive and excessively focused on purely quantitative requirements with little consideration of qualitative aspects such as controls or the overall risk management framework in place within organizations. We would suggest regulators favour a more 'internal risk management'-based approach where firms are required to assess, monitor and control their risks under guidelines from regulators.

Regulators would retain the role of challenging as needed but would leave to organizations the definition of appropriate balance sheet segments and run-offs. A 'Pillar 2'-like approach would therefore be preferable as it would allow banks to manage risks on the basis of their understanding and knowledge instead of managing against a standardized regulatory framework. Such an approach would be more consistent with existing regulatory frameworks and guidelines on liquidity risk, for example the CEBS papers on Stress Testing and Liquidity Buffer as well as other established recommendations on good risk management practices.

・Transfer of liquidity risk

If the proposed liquidity regulation urges financial institutions toward long-term fund raising, a crowding-out effect on corporate sector may become a serious concern in a way that corporations forcedly shift from long-term funding to short-term funding.

Additional concern arises if implementation of liquidity regulation affects the secondary securities markets. Securities sales, a more conservative assumption must be used to avoid liquidity risk. This sort of negative spiral must be avoided at all costs.

It should be noted that, if regulation is designed based on an inflexible idea such as the impossibility of funding through the market at critical moments, i.e., repo, securities lending and outright sale, such funding will tend to be used less in general by market participants and thus become unreliable over time as well as truly unusable in crisis situations. Needless to say, causes of the crisis such as uneven distribution

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and accumulation of risk have to be strictly regulated, but market liquidity must not be impaired.

Though over-concentration or accumulation of risk might have been promoted by the existence of an active market, the increase of market liquidity itself will not cause a crisis. What we should seek is increased market liquidity without uneven distribution or accumulation of risk. This will be the most effective way to deal with various risks including market risk and counterparty risk in addition to liquidity risk.

・Crowding out effect

For broader markets, we would see a potential distortion of competition where regulatory requirements would favour sovereign entities over private entities in fundraising, with minor consideration of free market competitiveness and creditworthiness principles.

・Arguments for assumptions

(1) Liquidity coverage ratio

Buffer and liquid assets

It is our opinion that the definition of liquid assets is too narrow and should be reviewed on the basis of Central Bank eligibility to include a wider range of assets. The proposed restricted definition of highly-liquid assets would result in considerably increased costs of funding for banks due to the unacceptability of their paper as liquid assets. This is likely to negatively impact banks' ability to term out and improve their maturity profiles. Furthermore, the proposed definition would create concentration risk in low-remunerating asset classes.

For the above reasons, regulators might consider addressing a wider definition of liquid assets such as trading equities that might not be eligible for the buffer but can still produce liquidity. Gold and trading equities including major indexes are treated as illiquid (i.e., no inflow generation under stress). Regulators might consider reviewing based on empirical evidence that would prove the existence of liquidity/ funding value in those instruments. We would also suggest regulators recognize some liquidity value for commodities, MBS and credit claims.

In addition, long liquid-asset positions hedged with short liquid-asset positions or long-asset positions hedged with derivatives should not be considered encumbered as long as repo markets are reasonably expected to be available to monetize the long positions or liquid markets exist to exit each leg of the trade, either individually or through a single price for both sides.

Malfunction of repo market and credit market with securities collateral

In the recent crisis, although a large number of financial institutions ended up with insufficient liquidity due to declines in securities prices and widening haircuts as a result of declining creditworthiness among market participants, there was no evidence

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of malfunction in the repo markets or credit markets with high quality a liquid securities collateral. No liquidity provider apart from some in tri-party agreement left the repo market even though the absolute amount of funding that could be raised decreased.

Therefore, for calculation of liquidity coverage ratios, assuming that funding cannot be sourced in the repo market during stress periods is not consistent with past experience.

The reason why some banks became stuck in the repo and securities lending markets was excessive leverage of such banks rather than market malfunction. Imposing regulations based on the misunderstanding that the repo and securities lending market does not work well during crises may only cause shrinkages of the repo and securities lending markets and market making activities by broker/dealers and decrease of attractiveness of such securities for institutional investors. The possible effects or outcomes thereof will be extremely serious as mentioned above.

The following graph shows objectively the trade volume (outstanding balance) of Japanese stock lending based on data reported to the Japan Securities Dealers Association. Although the balance decreases, given the market-wide price declines during the periods, we cannot say securities lending actually shrank. If adjusted for TOPIX declines based on the timing of Lehman Brothers' collapse, 12 September, 2008, the trade volume remains almost even.

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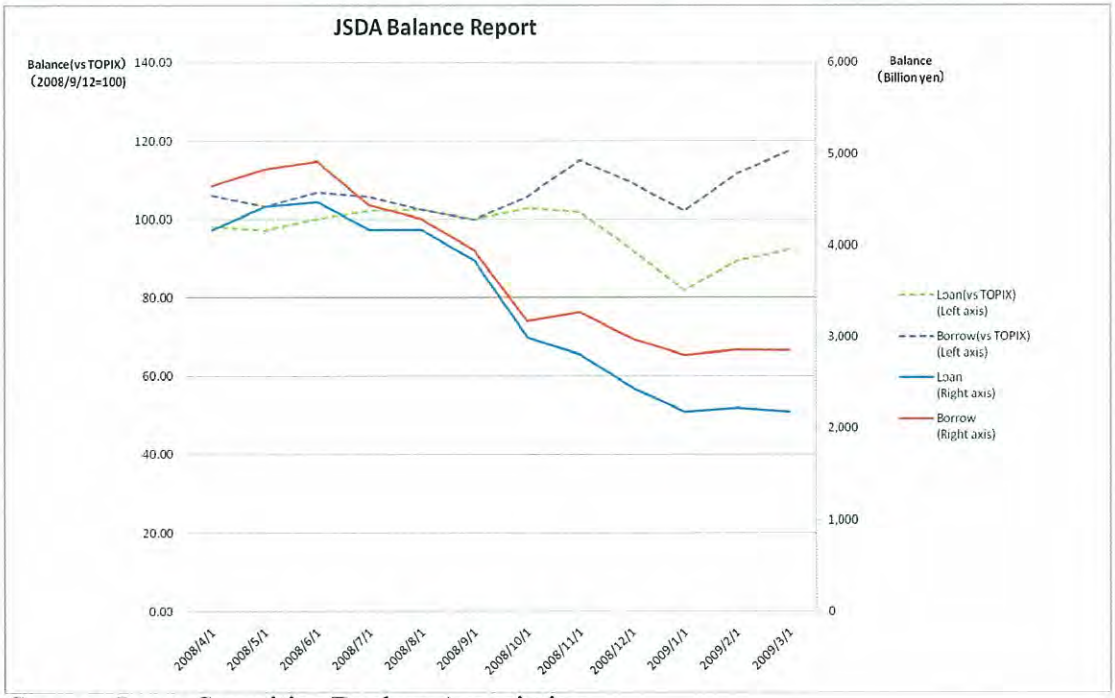
Figure 4: Outstanding Balance of Stock Lending Market in Japan



Source: Japan Securities Dealers Association

If the purpose of implementing the rule is to prevent aggregation of excess leverage through the repo markets, a better solution would be to limit leverage ratios. As discussed above, we still believe that, rather than implementing leverage limits, the best solution is to refine risk measures, apply modified consolidation rules, and strengthen disclosure of certain transactions including derivatives.

In this way, financial institutions using the repo markets without intending to use leverage would not be inconvenienced, although it is true that the repo and securities lending market is extremely useful for the financial institutions seeking for enhancing leverage,
It should be also remembered that the repo market serves both fund-raising of financial institutions and fund-managing by institutional investors.

(2)Net stable funding ratio
Conceptual approaches
NSFR (1 year) can not be treated under assumptions as severe as those for LCR (1 month). Regulators should consider differentiating criteria for differing eligibility value, marketability and haircuts, given that the duration of the worst stresses would be unlikely to exceed several months.

Secured Borrowing

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With a mandated minimum NSFR of 100%, an Available Stable Funding Factor of 0% for any secured borrowing with less than a year remaining to maturity, and nearly all non-government assets with 100% Required Stable Funding Factors, banks would abandon secured borrowing deemed worthless by regulators. The 0% ASF Factors proposed by Basel for secured borrowings less than one year would not reflect the true stability of the funding, which proved far stickier through the crisis: certain types of secured borrowing should have gradation of ASF Factors greater than 0%.The 100% RSF Factors proposed by Basel for nearly all non-government assets overstates the stickiness of many of assets, which are regularly liquidated in the normal course of business: certain types of assets should have gradation of RSF Factors less than 100%

・Treatment of high rated bond (single A or above) and listed shares

If 50% of inventory which is high grade (single A or above) debt or listed equity has to be funded via long term funding in the calculation of the stable funding ratio while those inventories are not included as high quality liquidity assets under the liquidity coverage ratio framework, severe limitations will apply to the amount of assets that can be held as inventory by financial institutions.

If, as a result, market making activities by broker/dealers decline, as mentioned above, this may cause material effects on market liquidity of bonds and shares as well as bid/ask spreads. Effects on secondary markets will affects investors' demand and increase issuance costs as mentioned above, eventually making primary markets sluggish as well, i.e., creating difficulties in corporate finance activities.

・Gold and trading equities

Gold and trading equities including major indexes are treated as illiquid in LCR (50% haircuts in NSFR): Regulators may wish to review based on empirical evidence which would prove more liquidity/ funding value to those instruments.

・Committed facilities

Exclusion of drawdown on committed facilities is too aggressive. This creates disincentives for firms to maintain a committed facility

Suggested way forward

・Concept of "aging test"

We propose to introduce the concept of "aging test" into a new regulatory framework for secondary market trading activities for equities, corporate bonds and securitized products in order to avoid over-concentration or accumulation of risk without reducing market liquidity. Under this concept, capital charges or liquidity charges would be progressively increased along with the aging period of cash inventory. The aging test is a powerful tool to prevent banks from disguising their long-term holdings

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of securities as trading positions or repo positions. The aging test can also be applied to repo positions to prevent possible abuse.

While this concept is not new to bankers for managing inventories of securities and associated inventory risks, not all banks have automated monitoring systems, so we would need to set aside a transition period if we were to introduce this concept into a new regulatory framework.

・Suggested framework for capital charges to secure market liquidity

(1) Progressive capital charges or liquidity charges to secure market liquidity as aging gets longer

The following is an example of "progressive capital charges" to equities, convertible bonds, corporate bonds and securitized products, with charges being incremental according to the level of aging.

If more than, say, 15% of the position of a security has been turned over within the last six months, there will be no additional capital charges beyond the current regime. Consequently, if 85% or more of the position of a security has stayed as inventory for more than six months, a progressive multiplier, with three equal increments, will apply to the calculation of risk capital charge for the position at or after six months' aging, at or after nine months' aging and at or after twelve months' aging. Beyond twelve months, the multiplier will stay flat. For example, the progressive multiplier can be 110% to 130% in accordance with the aging period. A risk capital charge for corporate bond positions that have hit the six month aging bar will be multiplied by 110%, the nine month bar by 120% and beyond twelve months by 130%. This gives an incentive to bank traders to sell before inventory hits the bar, and enhances risk management.

Another idea is to introduce incremental liquidity charges for security inventories as follows:
A progressive required stable funding factor, with three equal increments, will apply at or after six months' aging, at or after nine months' aging and at or after twelve months' aging. Beyond twelve months, the liquidity charge will stay flat at 50% long-term funding requirement for investment grade securities.

We note that because the concept of a capital charge multiplier is such a strong incentive for banks to sell at least 15% of the inventory before hitting the aging bar, long-term funding requirements will become unnecessary if the purpose is to prevent corporate bond inventories from being used as a disguise for corporate loans. The choice should be either a capital charge multiplier or incremental liquidity charges.

In order for banks to judge the turn-over ratio and aging period of the position of a security, a First-In-First-Out (FIFO) basis should be applied.

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Furthermore, corporate bonds hedged with same name CDSs should be excluded from the aged inventory analysis, or at least the time test on what accounts for aged inventory should be extended.

(2) Capital charges for bank equity held long
As we stated above, there should be no deduction from Tier 1 common with respect to banks' capital raising instruments held in trading book. However, a progressive multiplier, with three equal increments, should apply at or after six months' aging, at or after nine months' aging and at or after twelve months' aging. Beyond twelve months, 100% multiplier should be applied to the positions.

Conclusion: Striking a Balance
In producing the new regulatory framework in such a short period, we should avoid producing unintended consequences, stay clear of myopia, strike a balance between banking prudence and secondary market liquidity, make sure that capital markets provide capital to banks and prevent regulatory arbitrage from taking place between the banking book and the trading book.

Lastly, we would like to express deep respect for the thoughtfulness of the Basel Committee in designing a comprehensive and effective regulatory framework. We hope our comments will be regarded as worthy of consideration.

Yours sincerely,

Masafumi Nakada
Executive Managing Director and
Chief Financial Officer