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Comments on consultative document on Revisions to the Standardized Approach for credit risk

Shinkumi Federation Bank (SFB) is the central bank for Japanese credit cooperatives (Shinkumi banks＊).

As the central bank for Shinkumi banks, SFB provides members (Shinkumi banks) with liquidity, extensive investment, settlement, funds transfer and payment services (indirecting effect extended their members).

In addition, SFB provides consulting and monitoring services, ALM support and analysis of marketable securities portfolio for its members.

＊Outline of Shinkumi banks (As of March 31, 2014)

Shinkumi banks are not-for-profit cooperative financial institutions owned and managed by their members, and they offer various financial services (such as commercial banks) for their members.

Shinkumi banks were founded for the purpose of mutual financial aid among their own communities.

Shinkumi banks are divided into three groups sharing type of common bond in a membership, residents, type of business, and occupation (workplace).

At March of 2014, there were 155 Shinkumi banks through Japan, which had a total of 1,718 outlets, 3,868,757 members, total deposits of ¥18,667 billion (US$183 billion), and outstanding loans of ¥9,797 billion (US$96 billion).

SFB wishes to express its appreciation for the opportunity to comment on the consultative document on Revisions to the Standardized Approach for credit risk.

SFB hopes that its comments below will help to further discuss in the BCBS.

Comments:

When applying the new framework to non-joint stock companies such as cooperatives, it should be consistent with discretion given to national supervisory authorities, taking into account their specific constitution and legal structure. The necessity of such consideration has already been mentioned in *Basel Ⅲ : A global regulatory framework for more resilient banks and banking systems* issued by the Basel Committee (December 2010 <rev June 2011>).

Financial institutions are required to exercise their financial intermediary function toward companies and individuals, while also maintaining their own sound financial conditions. In particular, cooperative-type financial institutions play a socially indispensable role in supporting small companies and individuals and revitalizing economies. Such social responsibility of cooperative financial institutions should also be taken into account. If global regulations are mechanically applied to those financial institutions in a uniform manner, it could produce the unintended effect of hurting the financial intermediary function, which could have a negative impact on regional economies.

Taking the abovementioned risk into consideration, when improving financial regulations in the area of financing for small and medium-size enterprises(SMEs), it should be left to the discretionary powers of national authorities which are well informed of their own domestic circumstances.

(Specific constitution of cooperative financial institutions)

Cooperative financial institutions have the central organization, which plays a significant role in bolstering the foundation of the management of individual cooperative institutions through measures such as schemes for supporting the strengthening of their capital bases. The central organization also performs payments and settlements smoothly between cooperative institutions and its customers and provides cooperative institutions with collective investment facilities by using the claims deposited to it.

In addition, regarding the governance structure, cooperative banks and their central organization can mutually grasp and influence each other's management as follows:

representatives of the individual cooperative institutions, who act on the board of their central organization as part-time directors, can influence the organization's policies. on the other hand, the central organization can grasp the business conditions of the individual cooperative institutions through monitoring services accompanied by strengthening their capital bases. In a way, cooperative financial institutions and their central organization are closely connected as a unified organization.

Taking into account the abovementioned specific constitution, exposures between cooperative institutions and their central organization would qualify for preferential treatment. Concretely, their claims deposited to the central organization as well as the central organization's acquired preferred equities issued by them for the supporting scheme should receive a preferential risk weight.

(END)