

10th September 2015

Comments on consultative document on Interest rate risk in the banking book

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, 2015)**

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 2015, there were 154 Shinkumi banks through Japan, which had a total of 1,709 outlets, 3,898,932 members, total deposits of ¥19,206 billion (US\$160 billion), and outstanding loans of ¥10,031 billion (US\$83 billion).

SFB wishes to express its appreciation for the opportunity to comment on the consultative document on Interest rate risk in the banking book.

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

Comments:

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. If global regulations on the Interest Rate Risk in the Banking Book (IRRBB) using the proposed standardized measure 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. For example, a uniform application of caps and floors in the interest rate shock calibration and standardized methods of non-maturity-deposits seem to ignore the differences in financial conditions and stickiness of customer deposits across countries and financial institutions, which could lead to the misunderstanding in evaluating of financial institutions' asset liability management and financial soundness.

In light of such heterogeneity of IRRBB across countries and financial institutions in terms of the nature of the underlying risk and the process for monitoring and managing it, one-size-fits-all regulatory capital charges do not fit IRRBB, but rather it is most appropriate to treat IRRBB under Pillar 2 framework. In line with this framework, the regulations on IRRBB of cooperative-type financial institutions, which, in particular, have the abovementioned social responsibility, should be left to the development approach and the discretionary powers of national authorities which are well-informed of their own domestic circumstances.

With regard to the proposed enhanced Pillar 2 approach, financial institutions are required to calculate and disclose a common standardized measure based on Pillar 1 framework. However, Pillar 2 approach is, in definition, imposing responsibility on bank supervisors, who, on the other hand, could use the discretion that this approach provides. An advantage of Pillar 2 approach is that it can better accommodate differing market conditions and risk management practices across jurisdictions. Thus, it is also not rational to adopt the proposed enhanced Pillar 2 approach which could hurt this advantage of Pillar 2 approach.

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