



11th March 2016

Comments on the second 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 December 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 December of 2015, there were 153 Shinkumi banks through Japan, which had a total of 1,697 outlets, 3,926,547 members, total deposits of ¥19,647 billion (US\$174 billion), and outstanding loans of ¥10,217 billion (US\$90 billion).

SFB wishes to express its appreciation for the opportunity to comment on the second 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:

We evaluate the second consultative document reintroducing external ratings as better than the first one in terms of simplicity and feasibility.

However, there still remain problems worthy of mention from our point of view, as follows.

- As we commented on the first consultative document, when applying the new framework to non-joint stock companies such as cooperatives, it should take 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>).

From what we've seen of the second consultative document, there still seems to be a lack of attention to this viewpoint.

For example, as we pointed out in the comments on the first consultative document, cooperative financial institutions and their central organization are, in a way, closely connected as a unified organization. Taking into account this specific constitution, exposures between cooperative institutions and their central organization would qualify for preferential treatment. Concretely, their exposures to their central organization (claims deposited to the central organization and their acquired common equities issued by 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.

- With regard to the rating bucket of exposures, it seems to not be detailed enough and figures should be more gradual. For example, unrated bank exposures are classified into only three risk weight buckets (i.e. Grades A,B and C) and basic risk weight of unrated bank exposures at 50 %, which is applied to the most sound and robust financial institutions (Grade A), appears to be too high. Some cooperative financial institutions or their central organization are unrated but highly sound and robust compared to AAA to AA—bucket institutions.



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-sized enterprises (SMEs), it should be left to the discretionary powers of national authorities which are well informed of their own domestic circumstances.

Actually, in EU member states, cooperative financial institutions and their central organization could be regarded as a unified organization - in the context of prudential regulation - by the supervisory authorities and EU Directives are provided in line with this concept. In EU Directives, a risk weight of 0% may be applied to exposures between cooperative institutions and their central organization, if both of them are members of the same “institutional protection scheme”.

The new proposals in the second consultative document, such as banks’ external ratings excluding government support and due diligence requirements should also be consistent with discretion given to national supervisory authorities and carefully discussed with them.

(END)