June 3, 2016

Comment on the proposed rule: *Single-Counterparty Credit Limits for Large Banking Organizations*, issued by the Board of Governors of the Federal Reserve System

Japanese Bankers Association

We, the Japanese Bankers Association ("JBA"), would like to express our gratitude for this opportunity to comment on the proposed rule: *Single-Counterparty Credit Limits for Large Banking Organizations*, issued on March 4, 2015 by the Board of Governors of the Federal Reserve System (the "Board").

We understand the objective and intent of the proposed rule to prevent credit risk concentrations by establishing certain single-counterparty credit limits for financial institutions to ensure the soundness of financial institutions, but also request that the feasibility of this regulatory framework will be enhanced from a practical perspective.

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

[Comments on questions]

Question 6 (Clarification of the definition of "economic interdependence", and increase of the threshold)

What operational or other challenges, if any, would covered companies face in identifying companies that are economically interdependent? Will covered companies have access to all of the information needed to complete the analysis of economic interdependence? Is this type of information collected by covered companies in the ordinary course of business as part of underwriting or other, similar processes?

(Our comment)

- As the definition needed to determine the economic interdependence is unclear, the Board is requested to provide practical guidance or other available information and data. Such guidance should be realistic and applicable in practice; for example, it should permit the economic interdependence determination to rely only on those information available to banks (e.g. publicly-available information on borrowers exceeding the threshold).

(Basis, etc.)

・In analyzing economic interdependence, banks generally need to collect not only those information obtained for credit assessment and management purposes (e.g. financial statements) but also more detailed information, including counterparties' customers, suppliers and funding sources. However, this is difficult to realize in practice. For example, when exposures to a manufacturer with a huge number of subcontractors exceed the threshold, it is not feasible in practice to analyze economic interdependence with respect to all of such subcontractors. In addition, it is also not a realistic approach, from the perspectives of authority (legal relationship) and burden in practice, to request the borrower to provide information of those companies that are economically interdependent. From this view, the Board is requested to consider providing guidance that is applicable in practice.

Question 7 (Introduction of thresholds for determining certain control relationships) Should covered companies only be required to aggregate exposures to entities that are connected by certain control relationships if the exposure exceeds five percent of the covered company's capital stock and surplus, in the case of a covered company that does not have $250 billion or more in total consolidated assets or $10 billion or more in total on-balance-sheet foreign exposures, and tier 1 capital, in the case of a covered company with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance-sheet foreign exposures?

(Our comment)

・Similarly to the case of aggregation of exposures due to economic interdependence, a threshold of 5% (i.e. percentage of exposures to a single borrower relative to capital) should also be applied to aggregation of exposures to entities that are connected by certain control relationships.

(Basis, etc.)

・It is not a realistic approach in practice to identify the existence of certain control relationships for all borrowers. Therefore, the BCBS is requested to consider introducing the principle of materiality with respect to the determination of certain control relationships as well.

Question 41 (Timing of implementation)

Should the Board consider a longer or shorter phase-in period for all or a subset of covered companies? Is a shorter phase-in period for covered companies with $250 billion or more in total consolidated exposures, or $10 billion or more in total on-balance-sheet foreign exposures, compared to firms below these thresholds, appropriate?

(Our comment)

- With respect to covered companies that have $250 billion or more in total consolidated assets or $10 billion or more in total on-balance-sheet foreign exposures, the BCBS is requested to extend the implementation date to at least two years, instead of the proposed one year, from the effective date of the rule.

(Basis, etc.)

- Given the complexity of the rule and clarification of criteria as well as compliance efforts, including the establishment of infrastructures necessary to satisfy daily compliance requirements, communication to counterparties and necessary adjustments to exposures, it is considered that at least two years from the finalization of the rule is needed to prepare for the implementation of the rule.

Question 46 (Confirmation of the timing of implementation for IHC)

What challenges, if any, would a foreign banking organization face in implementing the requirement that all subsidiaries of the U.S. intermediate holding company and the combined U.S. operations be subject to the proposed single-counterparty credit limit?

(Our comment)

- If the compliance deadline differs between IHCs and FBOs (i.e. two years in the case of IHCs, and one year in the case of FBOs, from the effective date of the rule), it is requested that a longer period will be applied to both.

(Basis, etc.)

- The proposed rule for foreign financial institutions sets out three categories of covered entities. In some cases, IHCs may be assigned the first category of limits, whereas FBOs may be assigned the second category of exposure limits (on a basis of combined U.S. operations) or the third category of exposure limits. In such cases,

the compliance deadline differs between IHCs and FBOs: two years for the former and one year for the latter after the finalization of the rule. Since an IHC constitutes a part of a FBO, the FBO needs to include exposures of the IHC in its calculation in order to comply with the rule. As a result, the IHC would be required to take action in line with the FBO's compliance deadline. This virtually means that the rule will be applied to IHCs one year earlier, giving rise to significant practical burdens for relatively small IHCs, which is considered as unreasonable from the perspective of a level playing field of the rule.

Question 58 (Treatment of sovereign) Should the Board consider any temporary exceptions particularly for foreign banking organizations or the U.S. intermediate holding companies of foreign banking organizations? In what situations would a temporary exception be appropriate?

(Our comment)

・If a 0% risk weight will no longer be assigned under the standardized approach for credit risk prescribed by the Board, it is requested that a certain preparation period will be provided for sovereign exposures before the application of the rule, instead of immediately treating them as covered exposures, so that adjustments to exposures and other necessary compliance actions can be taken.

(Basis, etc.)

・There is a possibility that the risk weight becomes no longer 0% due to events that are beyond control of financial institutions. In such cases, each financial institution needs to take actions to comply with the rules, such as hedging of covered exposures. Such compliance actions cannot be immediately taken because they may have a significant impact on the market environment. This is why a certain preparation period is considered to be necessary. As one of possible options, we propose the preparation period of four quarterly periods by applying mutatis mutandis the concept of "ongoing applicability" stated in §252.70(h).