

September 20, 2004

JBA Comments on the Joint Forum Consultative Document "Outsourcing in Financial Services"

Japanese Bankers Association

The Japanese Bankers Association is an industry association with 144 Japanese bank and 38 foreign bank members. We have listed below our comments on the consultative document, "Outsourcing in Financial Services," published on August 2, 2004 by the Basel Committee on Banking Supervision. We hope that ample consideration will be given to our comments and that they will be reflected in the final publication.

1. Principle I

As shown in Section 4. "Developments in Industry Practice and motivation," "outsourcing in financial services" encompasses an extremely wide array of functions, from core banking operations to the same administrative and clerical functions that are also outsourced by non-financial entities. In addition, the volume, quality and risks associated with these functions are also diverse. In light of these realities, we do not believe that there should be a strong across-the-board recommendation stating that entities "should" have in place a comprehensive policy to guide the assessment of outsourcing. Rather, it should be clearly stated that institutions may handle outsourcing as warranted by the nature of the activities outsourced.

2. Principle IV

The principle reads that financial institutions should conduct appropriate due diligence in selecting third-party service providers. However, considering the complexity of the reality in that the paper also allows "subcontracting," it is not advisable to have across-the-board, mandatory requirements for "due diligence." These types of requirements should instead be listed by each national regulator in their regulations with appropriate examples.

3. Principle VIII

The principle suggests that the power of regulators may be expanded to cover third-party service providers. Stating that third-party service providers may be subject to the jurisdiction of regulators, the possibility of direct or indirect jurisdiction by regulators is likely to be negatively construed by providers considering accepting work, which could in turn hamper the efficiency of outsourcing itself.