

November 28, 2008

**Comments on the Consultative Document concerning the “Range of practices and issues in economic capital modelling” by the Basel Committee on Banking Supervision**

Japanese Bankers Association

The Japanese Bankers Association (JBA) would like to express our gratitude for this opportunity to comment on the consultative document concerning the “Range of practices and issues in economic capital modelling” issued by the Basel Committee on Banking Supervision on August 29, 2008.

We understand that the recommendations in this consultative document have been compiled based on current business practices, and we principally agree to the purpose and the content of them.

On that basis, we would like to confirm that the “economic capital models” referred to in the recommendations of the paper are not intended to be incorporated in the regulatory requirements, such as Pillar 1 (“Calculation of minimum capital requirements”) of Basel II.

Our understanding of the original purposes of “economic capital” is to flexibly use that economic capital – the aggregate risk that a bank encounters – for performance assessment, capital allocation, assessment of capital adequacy under Pillar 2 of Basel II, etc. The internal model for calculating economic capital is primarily an internal risk management tool for financial institutions, and it is believed that various forms of the tool may exist, according to the characteristic of each financial institution. For this reason, we deem that the placement of regulatory requirements on economic capital models, such as Pillar 1 of Basel II, does not seem to be appropriate, even in light of its original purposes.

We hope that our comments will be of some assistance to the Basel Committee as it works towards the finalizing of this paper.

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