March 4, 2009

# Comments on the UK FSA "Strengthening liquidity standards" Consultation Paper (08/22)

Japanese Bankers Association

We are an industry association that represents the Japanese banking sector. Our membership consists of 144 Japanese banks and 48 foreign banks active in Japan.

We are pleased to take this opportunity to comment on the United Kingdom's Financial Services Authority (FSA) consultation paper (CP08/22) "*Strengthening Liquidity Standards*". Some of our member banks operate as branches or subsidiaries in London, because of its attractiveness as an international financing centre with a proportionate and principle based approach to regulation. The liquidity regime proposed in CP08/22 is likely to have a material impact on our member banks' businesses in London and will certainly reduce the attractiveness of London as a financial centre.

We fully understand that the FSA wishes to strengthen its current liquidity standards. However, we are concerned about the FSA proposals which we believe may preemptively hamper current efforts to achieve international convergence in the area of banking supervision practices.

From a general perspective, we believe that one of the main lessons to be learned from the current financial crisis is that any initiative that needs to be taken to enhance financial supervision must be coordinated on a global level. This is particularly true in the area of liquidity risk management as internationally active banks manage liquidity risk on a global basis.

Particularly, we are concerned that fragmentation of the regulatory landscape in the area of liquidity would have a negative impact on the global financial system.

For example, at first, globally available liquidity will be reduced by driving national regulators to strengthen liquidity standards in each country from the standpoint of reciprocity.

Secondly, self sufficiency standards will require both of UK banks and foreign banks to compliant with the UK standards regardless of different business models, causing London market less popular in the global markets.

Thirdly, we are also concerned that the proposed standards would hinder an appropriate global liquidity allocation for each banking organisation and, moreover, that it they would encourage regulatory arbitrage and threaten financial instability. The *"Principles for Sound Liquidity Risk Management and Supervision"* which the Basel Committee published in September 2008 accepts both centralised and decentralised structures for liquidity management.

Fourthly, such fragmentation may result in a reduction in the availability of credit in the UK and other areas, which would not be helpful in the context of the current global recession and that would cause procyclicality effect due to excessive liquidity burden especially in a severely stressed period.

Fifthly, we are concerned that the cost of liquidity requirement for branches or subsidiaries of foreign banks would increase significantly so that it would be difficult for foreign banks to remain operations in London.

Finally, the FSA proposals are not in consist the with G7 statement on February 14th, which expressed that the G7 remains committed to avoiding protectionist measures that would only exacerbate the downturn.

Furthermore, we would like to propose that regulatory reporting requirements for global financial institutions as well as regulatory requirements for waiver and modification to foreign banks should in any event ideally be managed and coordinated through one unified global body (or College of Supervisors). This is more efficient from both the regulatory bodies' and the financial institutions' points of view. More harmonisation and convergence in the globally coordinated regulatory framework can bring plenty of benefits, and we encourage regulatory authorities to cooperate and harmonise their supervisory practices in relation to liquidity. Globally coordinated solutions, supported by working agreements reached in Colleges of Supervisors, can promote holistic approaches that avoid the fragmentation of liquidity pools.

We do believe that multilaterally developed prudential regulatory initiatives, including those in the area of the liquidity regulation, through the discussion in the level of the Basel Committee are most appropriate.

Therefore, we request the FSA to restrain from introducing the new liquidity requirements into the UK regulation in a way that would conflict with international standards. The introduction of new regime should not be rushed through before an international consensus has been formed. In light of the magnitude of the impact of this consultation paper, we hope that our comments above would assist the FSA in its further work on this matter.