



**Financial Services Agency  
Government of Japan**



*Bank of Japan*

Mr. Joseph M. Otting  
Comptroller of the Currency  
Office of the Comptroller of the Currency

Mr. Jerome H. Powell  
Chair  
Board of Governors of the Federal Reserve System

Ms. Jelena McWilliams  
Chairman  
Federal Deposit Insurance Corporation

June 21, 2019

Re: Comments on the "Proposed changes to applicability thresholds for regulatory capital requirements for certain U.S. subsidiaries of foreign banking organizations and application of liquidity requirements for foreign banking organizations"

Dear Sirs/Madam,

We appreciate the opportunity to provide comments on the "Proposed changes to applicability thresholds for regulatory capital requirements for certain U.S. subsidiaries of foreign banking organizations and application of liquidity requirements to foreign banking organizations." In response to solicitation of comments, we would like to express our views on whether the agencies should impose standardized liquidity requirements on foreign banking organizations (hereinafter "FBOs") with respect to their U.S. branches.

We understand that the agencies' idea behind the consultation is to ensure overall financial stability by improving the liquidity robustness of U.S. branches of FBOs during a stress period. We also recognize that FBOs' U.S. branches, compared to U.S. banks, generally tend to rely on short-term wholesale funding, to which authorities should pay closer attention.

That said, we have been scrupulous in monitoring Japanese banking groups' financial conditions and liquidity risk on a global basis. Furthermore, U.S. and Japanese authorities have closely cooperated in supervising both U.S. and Japanese banks. Such supervisory framework has functioned well even in the face of series of crises. From these viewpoints, we would like to convey the following concerns on an approach to imposing standardized liquidity requirements on FBOs' U.S. branches.

- The supervisory cooperation between home and host authorities on cross-border banking groups has been enhanced through supervisory colleges and CMGs. Against this backdrop, it is important for home and host authorities to fully leverage such cross-border cooperation and to conduct the supervision taking due account of the profile of each banking group under supervision. We believe that this supervisory approach would be more appropriate than standardized liquidity requirements such as Liquidity Coverage Ratio (hereinafter "LCR") to FBOs' U.S. branches. This is because the supervisory approach enables authorities to take due account of each bank's business model and support facilities from headquarters to overseas branches.
- Furthermore, the U.S. dollar is a key international currency and indispensable for international banking, and thus used globally in FBOs' non-U.S. establishments. If FBOs' U.S. branches are required to maintain liquidity buffers within the U.S., this requirement could impair the effectiveness of FBOs' liquidity management on a global basis, which may lead to weakening FBOs' capability to respond to the liquidity shortage of the U.S. dollar in their non-U.S. establishments. If such distress arises in multiple banks or in different jurisdictions, the functioning of global financial markets could be impaired.

- Finally, if the U.S. introduces LCR on FBOs' branches which is not required by Basel III, there is a concern that other jurisdictions would mirror the U.S. approach. Rather, we believe each authority should take both perspectives of home and host authority into account in a balanced manner, while considering consistency with the internationally agreed principles. These efforts would help prevent additional sources of market fragmentation.

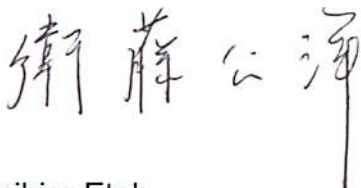
Taking these points into account, we believe that it would be desirable to pursue more effective and tailored supervisory approaches based on close cooperation between home and host authorities, rather than imposing the standardized liquidity requirements on FBOs' U.S. branches.

We have strong interest in the consultation. We hope that the agencies will kindly consider the points above. We look forward to continued dialogue on this matter.

Yours sincerely,

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Financial Services Agency

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