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By Electronic Submission

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: *Prudential Standards for Large Foreign Banking Organizations: Federal Reserve Docket No. R-1658 and RIN 7100-AF45; and 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: Federal Reserve Docket No. R-1628B and RIN 7100-AF21, OCC Docket ID OCC-2019-0009 and RIN 1557-AE63, FDIC RIN 3064-AE96*

Ladies and Gentlemen:

Mitsubishi UFJ Financial Group, Inc. ("MUFG") appreciates the opportunity to comment on the proposals on (i) changes to the enhanced prudential standards ("EPS") applicable to foreign banking organizations (the "EPS Proposal")[1] issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve") and (ii) changes to the applicability thresholds for certain capital and liquidity requirements applicable to foreign banking organizations and certain of their U.S. subsidiaries (the "Capital/Liquidity Proposal")[2] issued by the Federal Reserve, the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") (the Federal Reserve, OCC and FDIC together, the "Agencies"). We refer to the EPS Proposal and the Capital/Liquidity Proposal together as the "Proposal."

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1 "Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies", 84 Fed. Reg. 21988 (May 15, 2019).

2 "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, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries", 84 Fed. Reg. 24296 (May 24, 2019).

We have participated in the development of, and we support, the comment letters on the Proposal from the Institute of International Bankers, the Japanese Bankers Association, the Bank Policy Institute and the Institute of International Finance. This letter is intended to expand on and emphasize a number of concerns that are especially important to MUFG.

MUFG is a Japanese financial holding company, with its principal place of business in Tokyo. MUFG's principal banking subsidiary, MUFG Bank Ltd., is chartered under the laws of Japan, and maintains branches in New York, Chicago and Los Angeles, as well as agencies and representative offices in other states. MUFG Bank has a U.S. intermediate holding company ("IHC") – MUFG Americas Holdings Corporation ("MUAH") – the subsidiaries of which include MUFG Union Bank, N.A., a national bank ("MUB"), and MUFG Securities Americas, Inc., a U.S.-registered broker dealer and FINRA member ("MUSA"). MUFG's combined U.S. operations also include a branch of Mitsubishi UFJ Trust and Banking Corporation, a trust bank chartered under the laws of Japan. The combined U.S. operations of MUFG employ over 13,500 staff members in a number of states.

Regional banking is a cornerstone of our U.S. operations. In the first quarter of 2019, regional banking comprised almost half of MUAH's revenues, and the expansion and diversification of the regional banking business model is an ongoing MUFG goal.[3] MUAH's regional banking business includes consumer banking (through 342 full-service branches and other related outlets), commercial banking, real estate financing, and wealth and investment management. MUB also reaches customers through its PurePoint Financial online banking platform. As a regional bank, MUB's footprint is concentrated in the states of California, Oregon and Washington. Our U.S. operations have exhibited incremental recent growth in a balanced way, in accordance with our booking model, which has not changed since the adoption of the EPS framework and in accordance with customer preference and safety and soundness.

MUAH is a well-capitalized regional bank holding company with high tier 1 capital ratios and a high credit rating. MUAH has consistently maintained a strong capital position, including through the financial crisis and subsequent periods of significant regulatory change, such as the implementation of Basel III and its designation as MUFG's IHC. Since January 2019, MUAH has been subject to the Federal Reserve's internal total loss-absorbing capital ("TLAC") requirements, which have substantially increased MUAH's long-term debt.

MUSA (MUAH's broker-dealer) was responsible for nine percent of MUAH's first quarter 2019 revenues. MUSA operates a non-complex business model that provides global clients of MUFG access to the U.S. fixed-income securities and financing markets. For a firm of its size, MUSA maintains a comparatively low risk profile. The financing of high quality securities comprises a significant portion of MUSA's activities; other important activities include fixed-income origination and the distribution of and making of markets in highly-rated mortgage backed securities.

MUFG Bank's U.S. branches focus on providing traditional banking services to U.S. and non-U.S. corporate clients. These services include commercial lending, transaction banking, simple-structure interest rate and foreign exchange swaps to provide hedging solutions to primarily corporate clients, U.S. dollar clearing and other foreign exchange transactions and the support of U.S. infrastructure projects. Major clients of the U.S. branches include large U.S. corporations and subsidiaries of multinational corporations; some of these subsidiaries have substantial manufacturing facilities in a

[3] See MUAH, "Investor Presentation for the Quarter Ended March 31, 2019", available at https://www.unionbank.com/Images/MUAH-Investor-Presentation.pdf.

number of Midwestern and Southern states, and we also count local suppliers of these companies among our clients.

MUFG's commitment to U.S. banking is evidenced by our serving as a source of strength to the U.S. financial system during the financial crisis, through assistance to U.S. banking organizations and the strengthening of our own U.S. operations. In September 2008, we invested $9 billion to acquire approximately 20% of Morgan Stanley amid Morgan Stanley's declining share price and need for capital. Also in 2008, we acquired the 35% portion of MUB that we did not yet own. In 2010, MUB bought two failed banks in the Northwestern United States, Tamalpais Bank and Frontier Bank. In 2009, MUFG contributed an additional $2 billion in common equity to MUAH in part to offset the capital ratio deterioration caused by higher provisions for credit losses and in part to bolster capital positions in anticipation of future credit deterioration. In 2013, MUFG contributed another $1.2 billion in common equity to MUAH to support MUAH's early compliance with increased capital requirements under the Basel III regulatory capital reforms. In addition, to preserve and secure its capital positions throughout the financial crisis and subsequent significant regulatory changes, MUAH suspended capital distributions to MUFG from November 4, 2008 through December 11, 2017. Clearly, MUFG has served as an important source of strength to MUAH.

As a global banking organization, we continuously evaluate the jurisdictions in which we invest our capital and build our presence. We make strategic decisions based significantly on the returns we can generate from the capital we invest and retain in local markets. Because the U.S. is a strategically important market for MUFG we are especially concerned that the Proposal would put our U.S. business at a disadvantage vis-à-vis our U.S.-headquartered competitors. In our view the inequalities the Proposal would create are inconsistent with the internationally agreed principles of national treatment and competitive equality, which also are mandated by the U.S. Congress in the Dodd-Frank Act.[4]

I. Calibration of IHC EPS Based on CUSO Size or Risk

Our main concern regarding the Proposal is the proposed use of the attributes of an FBO's combined U.S. operations ("CUSO") to determine the applicability and stringency of EPS to an IHC. Because an IHC's liquidity, SCCL and risk management standards would be determined by the risk attributes of its parents' CUSO, an IHC and a similar U.S. bank holding company ("BHC") could become subject to different prudential standards solely on the basis of the attributes of the broader U.S. operations outside the IHC. Unlike IHCs, U.S. BHCs would not have their regulatory requirements determined by additional exogenous factors not indicative of the entity's own risks. The Agencies have not provided any qualitative or quantitative explanation that would justify imposing heightened requirements at the IHC level to address perceived risks at the parent's branches and agencies, or as to why home country requirements applied on a consolidated basis do not provide sufficient support for the CUSO, or why existing U.S. EPS applicable to the IHC require additional strengthening years after implementing a gold-plated prudential regulatory regime (and, indeed, why increased burdens on the IHC are warranted in the context of a tailoring or regulatory relief exercise).

This aspect of the Proposal would put severe pressure on our competitive position and regional banking model. Taken alone, our IHC size and characteristics would, at most, result in a Category IV placement under both the $75 billion risk-based indicator thresholds and the alternative method 1 scoring approach. As a result, MUAH as an IHC would be categorized together with other regional banks that operate in several states, and appropriately below the Category III super-regionals that are generally two to three times our IHC size as well as below the Category II classification.

[4] 12 U.S.C. § 5365(b)(2)(A).

Nevertheless, the Federal Reserve estimates that solely based on the addition of CUSO attributes to the calculation, MUFG would be placed, at a minimum, into Category III with a likelihood of MUAH being subject to Category II liquidity restrictions. This outcome would contravene the Federal Reserve's statutory mandate to take into account competitive equality and to provide a level playing field among similar institutions.[5] It also would not achieve the Proposal's goals of efficient and effective calibration of EPS.

II. Modifications to Cross-Jurisdictional Activity ("CJA") and Weighted Short-Term Wholesale Funding ("wSTWF") Risk-Based Indicators

A. The CJA indicator should be more closely tailored to the characteristics of FBOs.

Although we support the proposed changes to the CJA indicator with regard to affiliate transactions, the CJA indicator should be further revised to tailor it more closely to the characteristics of FBOs. First, all transactions with affiliates should be excluded from the calculation of CJA. These transactions do not pose the same risks as cross-border transactions with third-parties, and do not create complexity or interconnectedness. In fact, these transactions are an important part of the ordinary course of business for FBOs.

By its very nature, an IHC will have more cross-border transactions with affiliates than a U.S. BHC does. A CJA indicator that includes transactions with affiliates will be disproportionate to the risks that these transactions pose, interfering with the goal of calibrating EPS to risk. Many of the transactions with affiliates are an important internal liquidity and asset management tool, whether collateralized or not. Standards based on imprecisely calibrated risk-based indicators also present competitive equality and national treatment concerns, as similar transactions between affiliates consolidated within a U.S. BHC will not factor into this risk-based indicator.

Second, the Proposal should be finalized such that the measurement of exposure resulting from securities financing transactions is performed on an "ultimate risk" basis. Securities financing transactions on high quality collateral are a significant portion of our wholesale customer-facing business. International clients of the broader MUFG seek access to funding for U.S treasuries and agencies that they may either purchase as a store of value or receive as collateral in other transactions. Therefore, we support the Proposal's implication that securities borrowing and reverse repurchase transactions would be calculated on an ultimate risk basis, meaning that, in contrast to the current instructions related to the FFIEC 009 report, receipt of U.S. collateral in a securities borrow or reverse repurchase transaction would qualify as domestic exposure and not CJA. We understand that this calculation methodology would apply

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[5] See, e.g., Randal K. Quarles, Vice Chairman for Supervision, Federal Reserve, Opening Statements on Proposals to Modify Enhanced Prudential Standards for Foreign Banks and to Modify Resolution Plan Requirements for Domestic and Foreign Banks (Apr. 8, 2019) ("[T]oday's proposals were formulated with a basic objective in mind: to match the character of regulation to the character of the firm. But in approaching this objective for [FBOs], we had two additional objectives that we sought to achieve: creating a level playing field between [FBOs] operating in the United States and domestic firms of similar size and business models, and giving due regard to the principle of national treatment"; emphasis added); Semi-Annual Testimony on the Federal Reserve's Supervision and Regulation of the Financial System, Hearing Before the S. Comm. on Banking, 115th Cong. (2018) (testimony of Randal K. Quarles, Vice Chairman for Supervision, Federal Reserve) ("We need to ensure that we have a level playing field, that firms that are alike are treated alike, that's very important."); Randal K. Quarles, Vice Chairman for Supervision, Federal Reserve, Trust Everyone—But Brand Your Cattle: Finding the Right Balance in Cross-Border Resolution (May 16, 2018) ("Brand Your Cattle Speech") ("From a competitive equality standpoint, we believe that U.S. subsidiaries of foreign banks should operate on a level playing field with their domestic counterparts.").

to transactions with both affiliates and unaffiliated entities. We believe that this change would increase liquidity in the international repo markets because it would reduce concern over acquiring additional "units" of CJA in transactions with high quality U.S. collateral.

Third, transactions by our IHC and CUSO with a U.S. counterparty that is a subsidiary or affiliate of a non-U.S. corporation (often a client of our head office) are quite common. To mitigate risk, we may ask for, or our head office may have a pre-negotiated arrangement for, a guarantee by the non-U.S. parent as secondary obligor. These inherently domestic transactions should also be excluded from the CJA calculations. Under the current CJA calculations,[6] when a bank receives a guarantee from a non-U.S. parent of a U.S. subsidiary – even when it is a "fall back" or secondary guarantee – that guarantee is automatically treated as foreign exposure of the bank. This requirement has the effect of penalizing banks that prudently seek to manage risk by obtaining guarantees, and therefore evidences that this risk-based indicator is not sufficiently tailored to risk, but merely focused on the informational requirements of the FFIEC 009 which are not fit for this purpose. In a regulatory framework that utilizes foreign exposure or CJA as a factor for increasing stringency of regulation, more care is required to make the indicator risk-sensitive rather than informational.

B. The wSTWF indicator should be revised to exclude low-risk activity.

The Agencies should exclude low-risk transactions from the wSTWF risk-based indicator, including financing of high quality assets, all transactions with affiliates and short-term financing that is used to match fund short-term assets or liabilities. This wSTWF risk-based indicator captures many funding transactions that do not exhibit the kinds of risks that we believe the Agencies meant to capture, making the indicator an ineffective, over-inclusive barometer of risk. While we share the Agencies' concern that banks' reliance on short-term wholesale funding could potentially create liquidity shortfalls and funding runs for banks during times of stress, the types of short-term wholesale financing that we describe in this section do not pose such risks.

First, the wSTWF indicator should exclude short-term financing that funds high quality assets. An institution may finance its own highly liquid short-term assets, such as U.S. Treasuries or other Level 1 high quality liquid assets ("HQLA"), through repo or securities lending. The curtailment of funding for these assets is not likely to result in a "fire sale" of the underlying assets, or even if a quick sale is required, experience and empirical evidence has shown that these assets are likely to hold their value.[7] The Liquidity Coverage Ratio ("LCR") recognizes the stability of funding secured by level 1 HQLA by assigning it a 0% outflow rate,[8] and the wSTWF indicator should similarly apply a 0% weight to funding secured by level 1 HQLA. Currently, under the FR Y-15, funding secured by level 1 HQLA

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6 See FFIEC 009 Instructions, Section II.F.1. at p. 12.

7 See 12 C.F.R. § 249.20(a) (Level 1 HQLA are those instruments that are liquid, readily marketable and issued or guaranteed by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stress market conditions).

See also Federal Reserve Bank of New York Memorandum, dated February 11, 2010, to Bill Dudley, at https://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-02-11%20FRBNY%20Memo%20re%20Repo%20Haircuts.pdf (study of repo haircuts in triparty and dealer markets during 18-month period encompassing the financial crisis (July 2008 – January 2010) indicates that Treasury and Agency repo haircuts stayed relatively low and stable during that entire period).

8 See Form FR Y-15, Schedule G, Line Item 5, Column A, Item 1.e (encompassing funding secured by level 1 liquid assets, to which a 0.25 coefficient is applied to values that have a maturity of 30 days or less (or no maturity)).

receives a 25% weight.[9] The fact that the LCR – which is a stressed measure, unlike the wSTWF indicator – assigns a 0% outflow rate to assets secured by level 1 HQLA is a testament to the stability of level 1 HQLA and to the insufficient risk-sensitivity of the wSTWF indicator.

Second, for FBOs, all transactions with affiliates should be removed from the wSTWF calculation. Short-term funding from affiliates (e.g., an international parent) is much less likely to be pulled during times of stress than third-party funding, as affiliates generally have significant knowledge of the consolidated group and can more appropriately gauge risk or even increase funding (and can do so more quickly than going to market) to support a stressed institution. The Proposal's treatment of interaffiliate wSTWF transactions also raises national treatment and competitive equality concerns. FBOs are not only more likely to have wSTWF transactions with non-U.S. affiliates, but also their U.S. bank peers have the ability to offset many types of intragroup financing through consolidation. At a minimum, we would urge the Agencies to exclude all short-term financing transactions with affiliates secured by financial collateral, in parallel with the proposed exceptions for secured claims on affiliates in the CJA indicator.[10] The Agencies should also clarify that all HQLA collateral are acceptable financial collateral for purposes of both the wSTWF and the CJA indicators, and that such HQLA collateral should be subject to the LCR haircuts described in the preceding paragraph.

Third, other funding that does not raise the vulnerabilities or funding "gaps" identified by the Agencies[11] should be excluded from wSTWF. For instance, banking organizations dealing in any type of asset that requires balance sheet funding will often match the tenor of that funding to the underlying assets. In other words, short-term funding will be used to carry short-term assets. Therefore, the maturity of such funding, or the inability to "roll" such funding, would not create the risks identified by the Agencies, because it would match the maturity or pre-determined sale of the underlying asset.

A key example of this tenor matching is supply-chain financing and trade financing. While a financial institution is typically a provider of supply-chain or trade financing, it may also seek financing to back up its financing to customers. In connection with this activity, a finance provider will make payments to the seller of goods upon delivery of the goods to the buyer. In exchange, the seller will transfer the receivable (i.e., buyer's promise to pay by the invoice settlement date) to the finance provider at a discount. The financing bank owns the receivable and collects at or close to invoice settlement, earning the spread represented by the discount at which it purchased the receivable. The discount is based on the buyer's credit risk. The invoice settlement date of the receivable is typically 30-60 days. If the bank seeks funding for its purchase of the receivables (rather than using its own cash reserves), such funding does not exhibit the same maturity mismatch that would be the case if the bank used short-term funding for long-term assets. Therefore, there is significantly lower risk if the bank cannot roll the financing, as the term of the financing is likely matched already to the term of the receivable. In addition, under the terms of a typical agreement with its clients, a bank may terminate financing arrangements at any time at its discretion, meaning that the bank has greater control over tenor matching and greater control over whether it needs to roll financing. We note also that the purpose of these short-term trade and supply-chain financings is to fund the "real" economy.

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9 See 12 C.F.R. § 249.32(j)(1).

10 EPS Proposal at 21995.

11 Risks to financial stability may occur "when banks . . . fund long-term or illiquid assets with short-term deposits," and then find themselves in need of "rapidly sell[ing] less-liquid assets to maintain their operations." Randal K. Quarles, Vice Chair, Federal Reserve, Getting It Right: Factors for Tailoring Supervision and Regulation of Large Financial Institutions (July 18, 2018).

For reasons related to the wSTWF biases in method 2 scores, we do not support the use of the alternate method 2 composite scoring approach for categorization of the U.S. operations of FBOs. As one example of these biases, because the method 2 calculation of the wSTWF systemic indicator score requires aggregate wSTWF to be divided by risk-weighted assets, banks of comparable size with lower risk profiles and lower levels of risk-weighted assets are penalized by receiving a greater wSTWF systemic indicator score than firms with higher risk profiles and higher risk-weighted assets. Consequently, the wSTWF systemic indicator appears to contribute to a counterintuitive, untailored result to the overall method 2 score.

III. Single-Counterparty Credit Limits ("SCCL")

The Federal Reserve's final SCCL rules[12] created a significant competitive disadvantage for our IHC. IHCs of a similar size and business model to the under-$250-billion U.S. BHCs are subjected to an internal system build, regulatory credit limits and an ongoing monitoring exercise that do not apply to any under-$250-billion U.S. BHC. The Proposal would exacerbate this disparity without offering an explanation for the imposition of additional burdens as part of an initiative intended to provide tailored regulatory relief.

Under the Finalized SCCL Rules, even though IHCs (but not U.S. BHCs) between $100-$250 billion in assets are subject to the SCCL, there was a degree of tailoring, apparently in recognition that this group of IHCs was being disadvantaged vis-a-vis U.S. BHCs of a similar size and business model. IHCs with less than $250 billion in total consolidated assets are permitted to use Tier 1 capital as the denominator for the imposed limits, and also are exempt from the look-through requirements related to special purpose vehicle exposures and the economic interdependence and control relationship tests regarding certain counterparty exposures. The Proposal would eliminate this tailoring, notwithstanding that the Finalized SCCL Rules were published in 2018 after a notice-and-comment process and have not yet come into effect.

Six of the eight IHCs in Category III continue to maintain assets below $250 billion, and would have been subject to the tailored Finalized SCCL Rules. All six would be subject to enhanced, non-tailored SCCL rules under the Proposal. This is the case even though no U.S. BHC under $250 billion will be subject to the Finalized SCCL Rules, and only one U.S. BHC under $250 billion would be subject to the SCCL modified under the Proposal.[13]

It also appears, according to estimates, that two of the IHCs in Category III, including MUAH, land there solely because of the attributes of their parent bank CUSO. This is in sharp contrast to the categorization methodology under the Finalized SCCL Rules. Although we disagree with the application of the SCCL to IHCs under $250 billion, the Finalized SCCL Rules applied requirements to IHCs based on IHC size. The combination of the use of risk-based indicators other than size,[14] the

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12 "Single-Counterparty Credit Limits for Bank Holding Companies and Foreign Banking Organizations," 83 Fed. Reg. 38460 (Aug. 6, 2018) ("Finalized SCCL Rules").

13 We acknowledge that a U.S. BHC with less than $250 billion in assets could be subject to the SCCL rules, as proposed to be modified under the Proposal, because a U.S. BHC could be in Category II or III based on a risk-based indicator rather than its size. However, only one of the five U.S. BHCs in Category II or III lands there because of a risk-based indicator.

14 We also note that many of the risk-based indicators have no reasonable relationship to the risks of an IHC's concentrated exposure to single counterparties. That lack of correlation is indicative of insufficient tailoring, made worse when these indicators are viewed at the level of the CUSO.

application of CUSO risk-based indicators to categorize IHCs, and the removal of the previous SCCL tailoring would now subject several IHCs to more stringent requirements—requirements for which these IHCs have not been preparing under the Finalized SCCL Rules. Affected IHCs would incur a significant and uncompetitive burden given the costs of developing and maintaining systems and processes for new data collection, measurement, and reporting in order to comply with SCCL requirements. Even if most or all counterparty exposures would not exceed or approach the SCCL limits, the costs of conducting required measurements to comply with the SCCL limits would be substantial.

The Proposal should be modified such that the SCCL (i) applies solely based on IHC attributes, (ii) is triggered solely based on the size of the IHC, and (iii) does not apply to IHCs with total assets under $250 billion. Alternatively, Category III IHCs should benefit from the reduced requirements and greater flexibility afforded by the 2018 Finalized SCCL Rules.

While we strongly oppose adoption of the SCCL modifications set forth in the Proposal, if adopted as proposed, we would urge the Agencies to delay the implementation deadline from the current 2020 dates, as building the necessary systems and controls will require significant time and expenditure and most IHCs have not been preparing with the new level of stringency in mind.

IV. The Agencies should not apply standardized liquidity requirements at the branch level; these requirements are unnecessary in light of existing regulation and also risk regulatory and market fragmentation.

The Proposal seeks comment on whether the Agencies should apply standardized liquidity requirements at the branch level. We believe such requirements are unnecessary and would increase fragmentation of global credit and global liquidity.

Our branch network is already subject to robust liquidity regulation from multiple sources in the U.S. and abroad. Under Regulation YY, we provide the results of our global liquidity stress test to the Federal Reserve annually. U.S. liquidity stress testing requirements apply separately to the CUSO, to the branches and to the IHC. A liquidity buffer is required at the IHC level and the branch level. The OCC requires our branch network to hold high quality capital equivalency deposits equal to five percent of the liabilities of the branch. We are required to undertake FR 2052a reporting covering our U.S. branches, and the Agencies can calculate an LCR-equivalent from that data. We also must monitor the extent of our net due-from-affiliates at the branch level. Since the financial crisis, limits on access to Federal Reserve credit have been imposed and have been limited further in April 2019.[15] In addition, MUFG and MUFG Bank are already subject to home country liquidity requirements and international Basel standards, including TLAC at the MUFG top-tier holding company, the LCR and the proposed Net Stable Funding Ratio, all on a consolidated basis.

Furthermore, the existing regime of bank supervision through horizontal liquidity reviews provides a solution better tailored to liquidity management that more closely accounts for the size and complexity of each FBO. Each bank implements a unique approach to its liquidity strategy and management that aligns with its particular business model and risk profile. Under the existing supervisory regime, supervisors can engage in the oversight of risk management in a manner that takes into account a bank's risk profile. For instance, in our case, MUFG Bank U.S. branch operations focus on corporate and commercial lending to highly rated borrowers. A standardized regulatory approach would generally apply run-off and draw-down ratios with limited differentiation of the unique credit profiles of

[15] See "Federal Reserve Policy on Payment System Risk; U.S. Branches and Agencies of Foreign Banking Organizations", 84 Fed. Reg. 12049 (Apr. 1, 2019).

borrowers, with the result that our branches would be treated in the same manner as lenders with higher credit risk exposures. By contrast, a supervisory approach that is more in line with the principles of Regulation YY permits the characterization of MUFG's risks and its related liquidity needs in a more risk-sensitive fashion that is tailored to the bank's businesses. Horizontal exams also have made important contributions to the discovery and furtherance of liquidity management best practices among banks.

International coordination is among Japan's top priorities during its G20 presidency this year.[16] To support this work, the Financial Stability Board ("FSB") is in the process of exploring the nature and sources of post-crisis global market fragmentation[17] and has recently issued a report addressing market fragmentation.[18] In its discussion of national regulation, the FSB Report acutely described what we believe to be at stake with standardized liquidity requirements for branches, noting,

> an excessive siloing of capital and funding resources within national borders can be to the detriment of the overall resilience of financial institutions. For instance, such requirements that are not commensurate with the actual risk in those entities can constrain the degree to which financial institutions use capital and liquidity to meet shocks to their solvency and funding that occur across different jurisdictions.[19]

While a new standardized liquidity requirement for branches would be unnecessary in our view, if the Federal Reserve should choose to explore the concept, it should do so in consultation with international bodies and non-U.S. regulators. We are encouraged by Vice Chair Quarles' statements about the importance of international coordination on key regulations,[20] as we believe that such coordination greatly facilitates the identification of problems and best practices. International engagement and consensus-building within the Basel Committee and the FSB should be an essential part of conversations about standardized liquidity requirements applicable at the branch level. As the FSB Report states in its review of potential ways to combat market fragmentation, "Early dialogue, where practicable, of planned national regulatory initiatives can facilitate more efficient addressing of issues. When national rule-making under consideration can be expected to have a significant cross-border

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16 See, e.g., Japan Financial Services Agency, Vice Commissioner for International Affairs Shunsuke Shirakawa, "Overview of Financial System Issues for the 2019 G20 Japan Presidency" (Apr. 4, 2019) (the "2019 G20 Japan Presidency Overview") (Market fragmentation may be an "unintended" result of regulatory policies and "may reduce financial system resilience both domestically and globally. This could be the case if fragmentation limits cross-border diversification and risk management, impairs market liquidity, or prevents the cross-border flow of capital and liquidity during times of stress.").

17 Letter from Randal K. Quarles, Chairman, FSB, to G20 Finance Ministers and Central Bank Governors (Apr. 9, 2019); FSB, "Evaluation of too-big-to-fail reforms: Summary Terms of Reference (May 23, 2019).

18 FSB, "FSB Report on Market Fragmentation" (June 4, 2019) (the "FSB Report").

19 FSB Report at 9.

20 See, e.g., Brand Your Cattle Speech ("To enable cooperation and avoid a destabilizing seizure of assets by host regulators, I would submit that all jurisdictions must find a balance of flexibility for the parent bank and certainty for local stakeholders. Flexibility, or the ability to allocate capital and liquidity to different parts of the group on an as-needed basis, helps to meet unexpected demands on resources and reduces the risk of misallocation and inefficient use of resources. Certainty, or the local prepositioning of capital and liquidity to ensure a firm can satisfy local claimants under stressful conditions, helps to promote cooperation in the context of a cross-border resolution and avoid incentives for more drastic action by host authorities.").

implication, early dialogue between relevant authorities would allow such effects to be considered in the national policy process as appropriate."[21] Japan Financial Services Agency Vice Commissioner for International Affairs Shunsuke Shirakawa recently voiced similar sentiments, noting, "Insufficient cooperation often leads to excessive conservatism in comparability assessments of foreign regulatory frameworks, or excessive prepositioning of capital and liquidity."[22] We believe that the current post-crisis framework for liquidity generally strikes an appropriate balance among home country interests, host country interests and international coordination, and that, while additional requirements on U.S. branches are not necessary, any dialogue about revisions to this framework necessitates international cooperation and consensus.

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We appreciate your consideration of our concerns and recommendations on the Proposal, and would welcome the opportunity to answer any of your questions or to meet to discuss any of our recommendations. Please contact Roger Blissett, Head of Government and Regulatory Affairs for the Americas, by phone at 212-782-4704 or by email at RBlissett@us.mufg.jp with any questions you may have.

Very truly yours,

[redacted]

Stephen E. Cummings

MUFG Bank, Ltd.
Regional Executive for the Americas

21 FSB report at 17.

22 2019 G20 Japan Presidency Overview.