Kamakura
Corporation

2222 Kalakaua Avenue
Suite 1400
Honolulu, Hawaii 96815, USA
phone 1 808 791 9888
facsimile 1 808 791 9898
www.kamakuraco.com

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Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551

Submitted via email to: regs.comments@federalreserve.gov

The Proposed Rule for Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies was very well done and comprehensive. In the wake of the credit crisis of 2006-2010, it should be more obvious to the management, boards and shareholders of major financial institutions that the legacy silo approach to risk management systems and organization was simply ineffective in preventing the collapse of some of the world's most prominent financial organizations. A robust system must fully and concurrently integrate credit risk, market risk, asset and liability management, liquidity risk, performance management and capital allocation. The tools must be forward looking and not backwards looking. The technology must be robust enough to assess risk at the transaction level as well be able to build up for every organizational unit and for the firm as a whole, and allow regulators that same clarity. The institution should be able to run stress tests that can be completed quickly as we witnessed the speed at which markets shut down and liquidity evaporated from the market. The institution must be able to simulate random movements in default probabilities for every reference name as a function of time and any user defined macro-economic factors both as defined by the regulators as well as those more relevant to the institution or the product. It must also be able to simulate the fact that correlations converge in a crisis. The institution and the regulator must be able to calculate every default-adjusted market value for every asset and liability both on and off balance sheet at the transaction level, regardless of whether the transaction is traded or non-traded. Equally important is the ability for internal and external parties to validate these models and avoid reliance on spreadsheets and manual aggregation in order to insure accuracy and speed.

The proposed rule is a step in the right direction and addresses many of these issues. There are a few areas that we would like to specifically provide additional comment. In some cases the transition period seems longer than advisable. We have seen institutions in many parts of the world work to implement these tools, especially liquidity management in a much more accelerated pace than the rule as currently allows.

Another lesson from the credit crisis that should be specifically written into the rules are the fact that so called "core deposits", consumer savings and demand deposits, aren't really "core" when you need them, when the institution is in trouble, as some large institutions with significant amounts of retail core deposits also failed. The stress tests for deposit withdrawal and the corollary event for troubled institutions, its weakest borrowers will fully draw on available credit, should be more explicitly defined as a liquidity test. During the 2007-2010 financial crisis various credit facilities were made available to financial institutions. The maximum amounts borrowed, as disclosed by the Board under the Dodd-Frank Act, should be the minimum level to stress deposit loss.

The CDS market and CDS price data is specifically defined within the proposed rule as a debt based market indicator. The CDS market lacks transparency and trading volume is overwhelmingly dealer to dealer trades. This makes the CDS market very susceptible to manipulation but also a poor indicator of default risk. Given the lack of transparency in the market combined with the lack of non-dealer trades it is a mistake to provide regulatory credibility to this market without better market controls and liquidity.

Finally, in the same section the Proposed Rule references the Board's use of EDF (expected default frequency) calculated using Moody's KMV RISKCALC model. We believe that it is a mistake not to provide further clarifying commentary that while the Board is using this model there are other models available with as solid a historical track record of performance and transparency and in fact that that this is not a recommendation nor a certification of this model. Given the role that the rating agencies played in the credit crisis, the description of the model and its use seems to run counter to the intent of Dodd-Frank. Given these rules, it is imperative that the Board and the rules not be seen as favoring one model over others and certainly not provide indirect governmental support to Moody's.

We hope that these comments are useful.

Sincerely,

Martin M. Zorn
Chief Financial Officer