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April 27, 2012

By Electronic Mail

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

Re: Federal Reserve Notice of Proposed Rulemaking regarding Enhanced Prudential Standards for Covered Companies: Docket No. 1438, RIN 7100–AD–86

Ladies and Gentlemen:

Mitsubishi UFJ Financial Group, Inc. ("*MUFG*") appreciates the opportunity to comment on the notice of proposed rulemaking (the "*NPR*") implementing Section 165(e) of the Dodd Frank Wall Street Reform and Consumer Protection Act (the "*Dodd Frank Act*").

MUFG is a non-U.S. banking organization, and we recognize that the rules proposed by the NPR (the "*Proposed Rules*") do not apply directly to non-U.S. banking organizations. We are limiting our comments in this letter to an issue that does directly affect MUFG: the application of the single-counterparty credit limits set forth in the Proposed Rules to a company (i) that is consolidated as a subsidiary by a company that has a majority interest in such subsidiary but (ii) in which another company has a minority interest of more than 25 percent. This issue directly affects MUFG because it has a Japanese securities subsidiary, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("*MUMSS*"), through which it conducts its investment banking and wholesale and retail securities businesses in Japan, that is partially owned by Morgan Stanley, a U.S. bank holding company. MUFG owns a 60% economic interest and holds a 60% voting interest in MUMSS, while Morgan Stanley owns a 40% economic interest and holds a 40% voting interest in MUMSS.

Definition of "Subsidiary"

The Proposed Rules would apply the single-counterparty credit limits to each covered company and its subsidiaries on an aggregate basis. The Proposed Rules define "subsidiary" as "a specified company that is directly or indirectly controlled by the specified company" and, in turn, would provide that a company would "control" another company if it "(1) owns, controls, or holds with power to vote 25 percent or more of a class of voting securities of the company; (2) owns or controls 25 percent or more of the total equity of the company; or (3) consolidates the company for financial reporting purposes." "Counterparty" is defined in the Proposed Rules to include a company and its subsidiaries, with no exceptions.

As a result of these definitions, if a covered company (the "*Minority Owner*") owns 25 percent or more of the shares of another company, the other company would be treated as a "subsidiary" of the Minority Owner even if the company is majority-owned and thus consolidated as a subsidiary by another company (the "*Majority Owner*").

The aggregate effect of the Proposed Rules' definitions of "subsidiary," "control" and "counterparty" on the scenario described above is as follows:

> (i) the Minority Owner would be forced (a) to treat exposures of the Minority Owner (and its subsidiaries) to the "subsidiary" as the Minority Owner's exposure to the Majority Owner and (b) to treat exposure of the "subsidiary" to various counterparties as the Minority Owner's exposure to the counterparties;
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> (ii) if the Majority Owner is itself a covered company, it would be forced (a) to treat exposure of the "subsidiary" to various counterparties as the Majority Owner's exposure to the counterparties and (b) to treat exposure of the Majority Owner (and its subsidiaries) to the "subsidiary" as the Majority Owner's exposure to the Minority Owner; and
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> (iii) any other covered company would be forced (a) to treat exposure of such covered company (and its subsidiaries) to the "subsidiary" as the covered company's exposure to the Majority Owner and (b) to treat the same exposure of such covered company (and its subsidiaries) to the "subsidiary" as also the covered company's exposure to the Minority Owner.

Although (i)(a), (ii)(a) and (iii)(a) are consistent with the reality that the "subsidiary" is a consolidated subsidiary of the Majority Owner and operating as part of the Majority Owner's company group, we submit that (i)(b), (ii)(b) and (iii)(b) are not and thus would create serious practical difficulties with respect to exposure management.

Further, the "subsidiary" would be subject not only to the single-counterparty credit exposure limits of the Proposed Rules but also to the associated recordkeeping requirements. In order for the Minority Owner to comply with the Proposed Rules, the "subsidiary" would be required to report, on a daily basis, to the Minority Owner the "subsidiary's" credit exposures to all counterparties unless other means to comply with the requirement (e.g., autonomy to manage credit exposure to a certain limit) is implemented by the Minority Owner. This requirement would be particularly burdensome because the "subsidiary" is only minority-owned by the Minority Owner and thus would not normally integrate its internal systems with those of the Minority Owner.

These presumably unintended consequences could be avoided by providing for purposes of the Proposed Rules that control be defined in terms of the consolidation requirements of generally accepted accounting principles ("*GAAP*"). This is a simple rule, and is otherwise generally followed by the Federal Reserve for financial reporting and record keeping purposes. Alternatively, the unintended consequences could be avoided if the final rule provides that a company that is a consolidated, majority-owned subsidiary of another company would not be deemed also to be a subsidiary of a minority investor in such company. MUFG submits that the Proposed Rules be revised in one of these two manners.

Application of the Definition of "Subsidiary" to MUMSS

As noted, the application of the definition of "subsidiary" will directly affect MUFG because of the status of MUMSS. Under the Proposed Rules, MUMSS would be treated as a "subsidiary" of both MUFG and Morgan Stanley.

This outcome could have serious implications for the way MUMSS or a similarly situated joint venture entity does business. Because MUMSS is a "subsidiary" of MUFG, third party covered companies would have to aggregate their exposures to MUMSS with their exposures to MUFG. MUMSS would thereby be adversely affected by any large exposures its covered company counterparties have to MUFG, although such aggregation would seem appropriate given that MUMSS is consolidated by MUFG. But in addition to such consequences as a subsidiary of MUFG, as a "subsidiary" of Morgan Stanley, MUMSS would have its credit exposures aggregated with those of Morgan Stanley, and third party covered companies would have to aggregate their exposures to MUMSS with their exposures to Morgan Stanley. MUMSS would thereby be adversely affected by any large exposures Morgan Stanley has to entities that are counterparties of both Morgan Stanley and MUMSS and by any large exposures third parties have to Morgan Stanley. MUFG submits that this double-counting of MUMSS as a subsidiary of both MUFG and Morgan Stanley (when MUFG consolidates MUMSS but

Morgan Stanley only owns a minority interest in MUMSS and its capital is not available to support Morgan Stanley's activities) seems inappropriate and unfair.

MUFG accepts that it may be appropriate in certain cases to apply certain U.S. regulations to foreign companies in which a covered U.S. company makes a "controlling" investment (as that term is defined under the Bank Holding Company Act of 1956). We submit, however, that it would be contrary to traditional principles of comity for the operations of MUMSS, a Japanese company that is a consolidated subsidiary of MUFG, a qualifying foreign banking organization, and is regulated by the Japanese Financial Services Agency as such, to be subjected to additional single-party credit concentration limits as a subsidiary of Morgan Stanley, a domestic U.S. bank holding company that is a minority owner of MUMSS.

Unless the revision we are requesting is made to the Proposed Rules, a foreign-controlled broker-dealer would be at a competitive disadvantage to other broker-dealers in the relevant foreign country. MUMSS would be subject to substantive restrictions on the conduct of its business in Japan and to extensive reporting requirements. These effects will hurt MUMSS' ability to compete in its home market.

In particular, as a result of being deemed a subsidiary of Morgan Stanley for purposes of the Proposed Rules, MUMSS would face restrictions on its holdings of Japanese Government Bonds ("*JGBs*") that its competitors do not have. By virtue of MUMSS' holding of JGBs, the Japanese government is the largest counterparty of MUMSS. It is common for Japanese broker-dealers to hold large amounts of JGBs pursuant to their roles as licensed primary dealers and as secondary market-makers, as well as to hold more modest amounts of JGBs as portfolio investments. In fact, MUMSS is a leading institution in the JGB market, and was the largest licensed primary dealer of JGBs in the fiscal year ended March 31, 2012.

If MUMSS were required to reduce its holdings of JGBs, MUMSS would be placed at a disadvantage against its competitors that are not subject to such requirements, and there could be a substantial adverse impact on the liquidity of the JGB market in Japan and, consequently, on the Japanese government's ability to raise funds. Under the Proposed Rules, MUMSS' ability to engage in other transactions with the Japanese government beyond holding JGBs would also be restricted. MUFG believes it is particularly inappropriate to limit the ability of a foreign company such as MUMSS to transact with its own government or its instrumentalities and agencies, including its central bank.

Further, because MUMSS' internal systems are not integrated with those of Morgan Stanley, the recordkeeping and reporting requirements associated with the single-counterparty credit exposure limits would be particularly burdensome.

For these reasons, MUFG submits that, for purposes of the Proposed Rules, either control be defined on the basis of consolidation under GAAP or a company that is a consolidated, majority-owned subsidiary of another company not be deemed to be a subsidiary of a minority investor in such company.

Possible Implications for Foreign Investments by U.S. Banking Entities

We note that if the Proposed Rules are adopted without change, qualifying foreign banking organizations may be unwilling to accept investments from U.S. banking entities if those investments would make the foreign banking organization's subsidiary subject to the Proposed Rules as a result of being "controlled" by the U.S. banking entity for purposes of the Proposed Rules. If this is the case, U.S. banking entities would be unable to make investments of 25 percent or more. This limitation may make it impossible for U.S. banking entities to pursue the sort of investments and related legal and contractual arrangements that best allocate the operational control, risk management and financial interests between foreign banking organizations and U.S. banking institutions.

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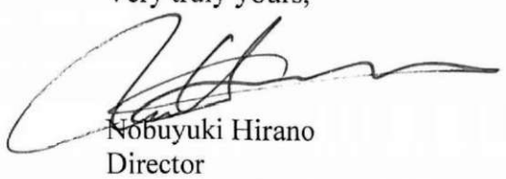
We appreciate your consideration of our comments on the Proposed Rules. Please contact Robert E. Hand, General Counsel, Mitsubishi UFJ Financial Group, Inc., Corporate Governance Division for the United States at (212) 782-4630 (e-mail: rhand@us.mufg.jp) or Donald J. Toumey of Sullivan & Cromwell LLP at (212) 558-7281 (e-mail: toumeyd@sullcrom.com) with any questions about our comments.

Very truly yours,



Nobuyuki Hirano
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