FINANCIAL SERVICES COMMISSION
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By e-mail :
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12 CFR Part 252
[Regulation YY; Docket No. 1438]
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Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies

Dear Dr. Ben Bernanke,

I would like to take the opportunity to offer my comments on the recent FRB proposal to enhance prudential standards for Foreign Banking Organizations (FBOs). The FSC supports your effort to improve financial stability and reduce systemic risks by stepping up regulation and supervision of FBOs. I believe the proposal is very much in line with the efforts of major international organizations—including the G20, FSB, BCBS and IMF—to strengthen capital and liquidity requirements of global systematically important banks (G-SIBs). However, given that the proposed rule might cause some unintended effect, I would like to present my point of view from the perspective of Korea's financial authorities.

My foremost concern is that the proposed rule may cause excessive competition among countries to strengthen their own regulatory standards, as it involves extraterritorial application of U.S. prudential standards. Stricter extraterritorial regulation on FBOs may induce other countries to impose a similar level of standards. In case of this event, FBOs will face a greater regulatory burden by having to meet the standards of both home and host countries. This may also lower regulatory effectiveness, since the standards are likely to be inconsistent and overlapping. In light of this possibility, I believe it is best to keep extraterritorial application at a minimum, only to secure the stability of the financial system.

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However, the current scope of application is set too broad in my view. Some FBOs, like the Korean FBOs, that hold very little assets within the U.S. are still subject to the rule as their global consolidated assets amount to $10 billion or more. Further, FBOs with global consolidated assets of $50 billion or more are subject to stronger supervision. Yet in reality, FBOs with insignificant amount of assets within the U.S. are unlikely to have much impact on its financial system. Also, such FBOs are already regulated by home country authorities (on a consolidated base which covers both U.S. branches and firms). Thus admittedly, I do not see a strong need for enhanced standards. In fact, the proposed rule may only result in inconsistent and overlapping regulations among regulatory authorities. And this, in turn, is likely to undermine regulatory effectiveness.

Given this, my view is that the proposed rule should only be imposed on FBOs that have material impact on the U.S. financial system. I would like to suggest that the coverage of the proposed rule be limited by using another standard which can exactly assess systemic risks posed by FBOs within the U.S. financial system instead of global consolidated assets. I would also like to highlight that the enhanced regulation on FBOs should be implemented flexibly in a manner that corresponds to the level of cooperation and regulation of their home countries.

Thank you in advance for your consideration of the above comments. The FSC is fully committed to enhancing financial stability and stands ready to strengthen its cooperation with the FRB on this front.

Sincerely,

Chairman
Financial Services Commission