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By Electronic Mail

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

E-mail: regs.comments@federalreserve.gov

Re: Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations
Docket No. 1438 and RIN 7100-AD-86

Ladies and Gentlemen:

Mizuho Financial Group, Inc., a financial holding company organized under the laws of Japan ("MHFG"), and Mizuho Corporate Bank Ltd., a full service depository institution organized under the laws of Japan ("MHCB", and together with MHFG and their affiliates, "Mizuho"), appreciate the opportunity to comment on the proposed regulations published by the Board of Governors of the Federal Reserve System (the "Board") to implement Sections 165 and 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Dodd-Frank") for foreign banking organizations ("FBOs") and foreign nonbank financial companies.[1]

Mizuho's operations in the U.S. are multifaceted and it has a significant interest in the outcome of the Proposal, both because of its direct impact on Mizuho's operations and its more general effect on the U.S. and international banking industry. MHCB operates in the U.S. directly through branches in New York, Los Angeles and Chicago. Mizuho's primary subsidiaries in the U.S. include:

1 Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies, 77 Fed. Reg. 76,628 (Dec. 28, 2012) (the "Proposal"). For ease of reference we refer to the foreign banking organizations covered by the Proposal as "FBOs", a U.S. branch or agency of an FBO as a "U.S. branch", and all the U.S. branches and agencies of an FBO collectively as its "U.S. branches" or "U.S. branch network", unless the context requires otherwise. We also refer to Sections 165 and 166 of Dodd-Frank collectively as "Section 165" and the heightened prudential standards contemplated in Sections 165 and 166 of Dodd-Frank as the "Section 165 Standards".

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- Mizuho Corporate Bank (USA), a New York state-chartered member bank;
- Mizuho Trust & Banking Co. (USA), a New York state-chartered non-member trust company;
- Mizuho Securities USA Inc., a full service broker-dealer registered with the Securities and Exchange Commission, a futures commission merchant registered with the Commodity Futures Trading Commission ("CFTC"), and a swap dealer registered with the CFTC ("MSUSA"); and
- Mizuho Capital Markets Corporation, a swap dealer registered with the CFTC.

As a member of the Japan Bankers Association ("JBA"), Mizuho supports the comment letter on the Proposal submitted by the JBA ("JBA Comment Letter"). Also, as a member of the Institute of International Bankers ("IIB"), Mizuho supports the comment letter on the Proposal submitted by the IIB ("IIB Comment Letter"). While concurring with all the issues raised in the JBA Comment Letter and the IIB Comment Letter, we wish to emphasize and elaborate on certain issues that are especially important to Mizuho.

At the outset, we would like to comment on certain assumptions upon which the Proposal is based. We believe that the Japanese banking industry generally, and we know that Mizuho specifically, will continue to support their respective local branches and subsidiaries around the world, as failure to do so would significantly impair the global entity. This has been demonstrated consistently over the past several decades. In addition, the Japanese government has significant authority under Japanese law to provide going concern assistance to Japanese banks,[2] and has consistently met Board standards for comprehensive consolidated supervision. Japanese banks have consistently supported their local operations around the world with capital and liquidity during the recent crises. Thus, although we understand the Board's broader concerns, the costs and impediments to Mizuho's global banking business which will be incurred due to the extensive dislocation of legal entity structure, capital and liquidity imposed by the Proposal seem unwarranted in light of the reality of our own situation. As pointed out in the IIB Comment Letter, we believe the Proposal should be tailored based on home country standards applicable to an FBO, based on strength of consolidated capital and liquidity of individual FBOs and based on likelihood of impact to U.S. financial stability.

Below we highlight certain modifications and clarifications which we believe should be made to the Proposal. First, if the requirement in the Proposal to establish an "intermediate holding company" (an "IHC", and the requirement, the "IHC Requirement") is retained by the Board, we recommend that the following alterations to the Proposal be adopted in order to incorporate this structure into the broader context of enhanced enterprise-wide risk management:

2 See Deposit Insurance Corporation of Japan, "A Guide to the Deposit Insurance System," at pp. 24-25, available at http://www.dic.go.jp/english/e_shikumi/e_kaisetsu/e_kaisetsu.pdf (describing the provisions of the Japan Deposit Insurance Law that permit financial assistance to going concern banks). See also Moody's 2012 Report ("The report notes the continued strong willingness and ability of the Japanese authorities to provide support to troubled banks -- a credit positive. In this context, Japan has a comprehensive set of regulations and tool kit to provide public support to the financial system, when necessary.")

- Certain high quality, highly liquid assets should be excluded from the calculations of the IHC threshold and the leverage ratio denominator, otherwise the size and leverage of the IHC will be distorted and there may be a significant negative impact on the markets for such assets.

- Certain entities that are integrally related to the operations of a U.S. branch should be deemed part of the branch itself and not be included in the IHC.

- The Board should clarify how the foreign exposures prong of the test for requiring the use of advanced approaches ("AA") methodology would apply to an IHC.

Second, regardless of whether the IHC Requirement is retained we recommend that:

- The Board clarify that an FBO may apply its own models and make reasonable assumptions for run-off rates, haircuts, and similar testing parameters when conducting liquidity stress tests and when calculating the applicable liquidity buffer.

- The Board clarify that transactions secured by highly liquid assets can be offset in the liquidity buffer calculation.

- The Board use its discretion to make the liquidity buffer maintenance requirement more flexible for FBOs that meet certain criteria, including strength of supervision of the home jurisdiction, head office support of U.S. operations, and willingness to provide full information about global liquidity stress tests and global liquidity profile on a timely basis.

- The Board confirm that comparability of FBO stress testing will be based on the general conceptual criteria described in the Proposal, and the Board will not undertake any more granular point-by-point matching of the U.S. stress testing regime to the regime in the home jurisdiction that is not otherwise discussed in the Proposal.

- The Board should provide a phase-in period of two to three years to allow for the development of necessary stress-testing infrastructure, processes and methodologies for U.S. operations

- Early remediation triggers based on an FBO's capital levels, which are designed to relate to the FBO's U.S. branch network, be based solely on the FBO that maintains one or more branches in the United States, and not based on its holding company.

- Early remediation triggers based on risk-based capital ratios not be imposed on top of any buffers required by Basel/home country/U.S. requirements.

- Early remediation triggers not be set higher than the Basel III minimums for risk-based capital and leverage ratios at the FBO.

I. IHC REQUIREMENT

A. The size and leverage of an IHC will be distorted, and the markets for certain assets could be significantly and negatively impacted, if certain high quality, highly liquid assets are not excluded from the IHC threshold and leverage ratio calculations

We support the recommendation in the IIB Comment Letter to adopt a framework that tailors requirements to the individual circumstances of FBOs. We believe (and agree with the JBA Comment Letter) that certain asset classes that serve mainly as stores of liquidity and excess capital, and do not represent a systemic risk to U.S. financial stability, should be excluded from the calculation of an FBO's non-branch assets and liabilities for the purposes of the IHC threshold and should be excluded from the calculation of the IHC leverage ratio. In addition, these assets also should be excluded from the calculation of other relevant asset thresholds in the Proposal (e.g., for application of enhanced liquidity, risk management or capital requirements).

For example, cash, as well as U.S. Treasury, U.S. Agency and other U.S. government securities (all "U.S. Government Securities"), that FBOs may hold in the United States for many reasons, including as a hedge against currency risks or simply as a low-risk store of excess U.S. dollar revenues from the FBO's worldwide operations, should be excluded, as should repurchase and reverse repurchase transactions backed by U.S. Government Securities. Furthermore, reserves on deposit at a Federal Reserve Bank should not be counted for purposes of calculating an FBO's combined U.S. assets. Such reserves consist of high quality assets and enhance the stability of an FBO's U.S. operations. FBOs should not be penalized with increased regulatory burdens for conservative reserve policies or their choice to store excess liquidity and capital in the United States. Indeed, the residual assets and liabilities calculated after the exclusion of such assets would serve as a proxy for determining the residual risk of U.S. operations, and therefore would be in line with the analysis that the Board is required to undertake pursuant to Section 165.

Consequently, we believe the Board should exclude from the leverage ratio calculation U.S. Government Securities and claims secured by U.S. Government Securities, as well as other highly liquid and low risk assets (e.g., assets that would be eligible as highly liquid assets for purposes of the liquidity buffer calculation). The Board should also exclude repurchase and reverse repurchase transactions and securities lending and borrowing, which are inherently low risk activities due to their high level of collateralization and their protections from an automatic stay in bankruptcy.

We believe that the impact of the IHC structure, and its attendant capital and leverage requirements, on the markets for these low-risk assets could be considerable. The Japanese government, the Bank of Japan and Japanese financial institutions and corporations, in aggregate, are among the largest holders of U.S. Government Securities, and are all active in the repo market for such securities, with Japanese financial institutions and their US affiliates (including Mizuho) providing significant intermediary services for such market participants. Indeed, Japanese entities are the second largest foreign holders of U.S. Treasury securities as of February

2013.[3] MSUSA is one of 21 primary dealers—the majority of which are subsidiaries of FBOs—and its participation in dealer activity for certain asset classes is substantial. Mizuho is therefore concerned about the potential impact on its business, and on these markets, of potentially being penalized for holdings of these safe assets. Although we have not yet modeled the exact impact, we believe that the substantial and immediate increase in the leverage capital requirements of MSUSA (and other FBO-owned primary dealers) could have a materially adverse impact on the degree of MSUSA's (and other FBO-owned primary dealers') involvement in the primary dealer business, and on the depth and liquidity of these markets. We note that the Proposal does not include any study of the impact of the leverage ratio requirement (or other requirements in the Proposal) on the holdings or the markets for U.S. Government Securities—we believe that such impact should be studied before the Proposal is finalized in order to determine whether some of the Proposal's requirements should be modified.

B. Certain entities that are integrally related to the operations of a branch should be deemed part of the branch and excluded from the IHC, and should not be deemed "internal" affiliates for cash flow analyses

The preamble to the Proposal helpfully confirms that the Proposal would not require an FBO "to transfer any assets associated with a U.S. branch" to the IHC.[4]

Certain subsidiaries established by foreign banks are integral to the operations of the branch, and should not be separated from the activities of the branch office (e.g., a limited liability company holding an asset acquired in satisfaction of a debt previously contracted (DPC) by the branch, or a commercial paper issuer that supplies funding to the branch). As noted in the JBA Comment Letter, such subsidiaries are managed in conjunction with the branch and are covered by the branch's risk management framework, including stress testing for liquidity risk management purposes. In many cases, these structures also reflect particular tax and regulatory constraints on branches, and along with operational costs (such as new documentation, new disclosures, etc.), such constraints should also be considered if the Board were to force modifications to existing structures.

A key example for Mizuho is its commercial paper ("CP") issuing company, organized as a Delaware limited liability corporation (the "CP LLC"), which exists solely for the purpose of issuing CP and providing proceeds thereof to the New York branch to fund U.S. operations. CP LLC serves to diversify MHCB's New York branch U.S. dollar funding sources and is integrally linked to the branch; it is not an asset-backed structure, but carries MHCB's unsecured rating, and the structure is integrated into the liquidity stress testing of the branch.

In that context, treating the CP LLC funding structure as anything other than part of the branch itself would yield anomalous and highly inefficient results. For example, under the Proposal's method of calculating liquidity buffers, from the branch's perspective, if it must treat payments due to CP LLC as internal cash needs, it would likely not be able to offset any external cash sources (such as termination, maturity or repayments of CP-funded loans). This would

3 See U.S. Department of Treasury, Major Foreign Holders of Treasury Securities, available at http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt.

4 See 77 Fed. Reg. at 76,638.

seem to generate unnecessarily a required internal buffer for the branch in order to meet any payments due to CP LLC (such as for redemptions or incomplete rollover of CP). From CP LLC's perspective, it would have an internal cash flow source from the branch that it would not seem to be able to offset against any payment to external CP investors that would need to be made. This would seem to generate, again unnecessarily, a required external buffer for CP LLC (or for the IHC, if it were required to be in the IHC) to satisfy CP investors.

We believe that the potential for duplicative buffers for the CP operation creates inefficiencies that should be corrected in the Proposal.[5] Furthermore there are difficulties in unwinding, modifying and replacing these established liquidity mechanisms. If they need to be restructured, the cost efficiencies of the structure will need to be reconsidered, significant expense of time and money will be required for new documentation, and the revised structure would need to be reviewed by credit rating agencies. Therefore, we recommend that subsidiaries that are integral to the funding or business of a branch and that provide funding or services directly and solely to a U.S. branch should be deemed part of the branch itself, and not be included in the IHC. Even if they were included in the IHC, the structure should be generally ignored, the CP should be seen as if it were direct external funding to the branch and cash flows with such entities should not be deemed "internal" or "affiliated" flows for purposes of cash flow analyses.

II. CAPITAL AND LEVERAGE REQUIREMENTS

A. The Board should clarify how the foreign exposures prong of the test for requiring use of the AA methodology would apply to an IHC

Under the proposed capital adequacy rules applicable to U.S. BHCs, and through the Proposal potentially applicable to IHCs, a BHC or IHC would have to employ the AA methodology if it has total consolidated assets of $250 billion or more or foreign exposure of $10 billion or more.[6] We believe that FBOs are more likely to cross the threshold for application of the AA methodology through the foreign exposure test, particularly if the foreign exposure test is not modified or clarified.

The need to clarify the foreign exposure test is particularly acute since existing U.S. guidance on application of the foreign exposures test seems centered on how a U.S. BHC or bank would calculate exposures. In particular, the Board's U.S. capital adequacy rules seem to base the test on "cross-border claims"[7] which, pursuant to the instructions in Federal Financial Institutions Examination Council ("FFIEC") Form 009 (Country Exposure Report), include claims of the U.S. offices on residents of foreign countries.[8] We also note that there seems to be

5 We recognize that, when calculating stressed cash flows, some buffer may be required for the CP LLC structure, but such buffer should be less than each of the buffers created by the lack of offset described above, and would certainly be less than the two buffers that would seemingly be required under the Proposal.

6 See 77 Fed. Reg. 52,792 (August 30, 2012).

7 12 C.F.R. Part 225, App. G., § 1(b)(ii).

8 FFIEC, Instructions for the Preparation of the Country Exposure Report (FFIEC 009), March 2006 ("FFIEC 009 Instructions"), at 9.

an exclusion for claims on foreign branches and foreign subsidiaries, but that is only because those entities are deemed to be part of the consolidated bank or BHC, and "claims on unconsolidated subsidiaries or associated companies of the reporter should be reported."[9] Therefore, IHCs with consolidated exposure to non-consolidated affiliates are likely to quickly reach the foreign exposure trigger for application of AA methodology unless parent company and non-U.S. affiliates of the IHC are excluded from the calculation. We recommend that exposure to the IHC's parent bank and to its non-U.S. affiliates be excluded.

Given the U.S.-centric nature of the calculation and the FFIEC 009 form, we believe that it is also necessary to clarify that both netting constructs and available collateral may be taken into account in calculating an IHC's foreign exposure. The Board should clarify that foreign exposure should be calculated as net exposure derived after taking into account enforceable master netting agreements and the amount of liquid collateral validly posted against such exposure.[10]

III. LIQUIDITY REQUIREMENTS

A. The Board should clarify that an FBO may apply its own models and may make reasonable assumptions for run-off rates, haircuts, etc. when conducting liquidity stress tests and when calculating the liquidity buffer

We support the Board's decision to defer to an FBO's reasonable assumptions developed as part of its liquidity stress testing process.[11] An FBO should be free to use its historical experience and make its own reasonable assumptions regarding, e.g., the use of statistical and behavioral models to predict the behavior of different classes of assets and liabilities, which may vary for a number of reasons, including whether particular assets or liabilities represent intragroup or external claims or whether they belong to the FBO's branch or its IHC. Of course, any such assumptions would be made in an explicit and transparent way, subject to Board examination.

However, we recommend additional clarity be provided. The examples that were provided in the preamble to the Proposal seem to assume 100% run-off based purely on contractual flow, which would greatly overestimate any required buffer. In the absence of further clarity, FBOs would face uncertainty about whether their internal methodologies for conducting liquidity stress tests and calculating the liquidity buffer would be acceptable to the Board. If the Board has specific expectations regarding what assumptions would be appropriate,

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9 Id. We do not address foreign-office/local country claims on local residents.

10 See FFIEC 009 Instructions at 7-8 and 22.

11 The Proposal does not explicitly discuss the types of assumptions that would be permitted under the stress testing requirements, but acknowledges that in making baseline cash flow projections an FBO should "use reasonable assumptions regarding the future behavior of assets, liabilities, and off-balance sheet exposures", which would include a "dynamic analysis that incorporates management's reasoned assumptions regarding the future behavior of assets, liabilities, and off-balance sheet items in projected cash flows." Proposal at 76,644. We presume that this acceptance of dynamic analysis based on reasonable assumptions carries over to the conduct of liquidity stress testing.

it should make those assumptions explicit to permit meaningful comment on their likely implications.

B. The Board should clarify an understanding that transactions secured by highly liquid assets can be offset in the liquidity buffer calculation

For the liquidity buffer calculations, we recommend that the Board state more clearly that a cash flow need related to payables to either internal or external counterparties can be offset by highly liquid assets that are expected to be returned by the counterparty. For example, the cash needed to satisfy liabilities to repurchase highly liquid securities should be offset by the securities being repurchased. These two flows should be offset because highly liquid assets, once returned, can be sold, re-pledged or rehypothecated to generate cash again. Although we suspect that there may be several ways for the Board to confirm this, a potential way to clarify this understanding is to consider the returning collateral to be a "cash flow source" (of equal maturity date) for the purposes of the liquidity buffer calculations, or merely to exclude secured cash flows altogether.[12]

C. The Board should use its discretion to make the liquidity buffer maintenance requirement more flexible for FBOs that meet certain criteria

Similar to the New York asset pledge and asset maintenance requirements,[13] we recommend the Board use its discretion to make the liquidity buffer maintenance requirement more flexible for FBOs that meet certain criteria. For example, if (a) an FBO's home jurisdiction is one that operates consistent with robust comprehensive consolidated supervision and that routinely implements the Basel accords, (b) an FBO's head office has provided sufficient comfort to the Board that it will support the U.S. operations of the FBO, and (c) the FBO is willing to provide full information about its global liquidity stress test and global liquidity profile on a timely basis, then flexibility should be justifiable.

Such flexibility could include maintenance of liquidity in the manner and location of the FBO's determination, appropriate in accordance with its own stress testing and risk management judgments, without a rigid rule on the number of days' buffer that must be maintained in the U.S. The U.S. branches and/or the U.S. IHC may also be permitted to hold the liquidity buffer outside the U.S., or at least a greater percentage of the buffer could be held outside the U.S. If at any time U.S. bank regulators determine that, based on a change of circumstances or liquidity stress test results, the liquidity buffer needs to be increased or held in the U.S., they would still have the ability to require the FBO to do so.

Providing such flexibility admittedly places a greater degree of responsibility on U.S. bank regulators to evaluate criteria such as the ones described above, and may not provide the same level of comfort as knowing that the liquidity buffer is in the U.S. However, by giving

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12 We see that the Proposal, at § 252.227(e)(3), seems to exclude internal cash flows that are secured by highly liquid assets, but there is no similar requirement for external cash flows. There does not seem to be any basis for such distinction.

13 See N.Y.C.R.R., tit. 3, Parts 51, 52 and 322 (calibrating downward the asset requirement for "well-rated" institutions as defined in § 322.7).

banks the option of either complying with such criteria or incurring the cost of maintaining excessive liquidity reserves in a single jurisdiction, we believe FBOs will opt for the former. This approach of providing incentives to FBOs to share global stress test and liquidity results with regulators is one that can serve as an example to bank regulators in other countries as a way to balance the national interests of each jurisdiction against the benefits of allowing global banks to manage liquidity in the most efficient manner.

As also noted in the JBA Comment, Letter, the liquidity rules established by the U.K.'s Financial Services Authority permit exemptions according to the parent FBO's soundness, and do not require all FBOs to maintain liquidity in the United Kingdom.

IV. STRESS TESTING

A. The Board should confirm that it will not undertake granular point-by-point matching of FBO stress testing of U.S. operations to the U.S. stress testing regime applicable to U.S. BHCs

We support the Board's basic implementation of Section 165 for FBOs insofar as it would look first to the FBO's home country stress testing regime and would not impose separate stress testing requirements for the U.S. branches or nonbank subsidiaries of such FBOs. In our view, this approach complies with the Board's mandate in Section 165. However, we urge the Board to confirm that the comparability of stress testing of the FBO's U.S. operations to the U.S. stress testing regime applicable to U.S. BHCs will be based on the general conceptual criteria described in the Proposal, and that the Board will not undertake any more granular point-by-point matching of the U.S. stress testing regime and the home country regime applied to the U.S. operations that is not otherwise discussed in the Proposal.[14] The possibility of granular matching would create substantial uncertainty in stress testing, and additional requirements beyond those described in the Proposal could impose substantial, duplicative burdens upon the FBO, as it may be required to comply with both the home country stress testing regime as well as any modifications to such testing required by the Board. Again, if the Board has specific expectations regarding any additional criteria it would use to determine comparability, then we would ask that those criteria be made explicit to permit meaningful comment on their likely implications.

B. The Board should provide a phase-in period of two to three years to allow for the development of necessary stress-testing infrastructure, processes and methodologies for U.S. operations

We believe the Proposal's stress testing and capital planning requirements for IHCs and their subsidiaries would create certain operational challenges, and sufficient time will be needed for the development of risk modeling and forecasting processes for the IHC on a consolidated basis. Even if an FBO were to put an IHC in place by the July 2015 effective date, it will require additional time to implement the capital planning and other processes needed to analyze the IHC's consolidated information. We therefore recommend that the Board provide a phase-in

14 Like the JBA Comment Letter, we would request the Board also to confirm that the reporting deadlines for FBO stress test requirements will not create additional burdens upon FBOs whose fiscal year ends on a different schedule than U.S. BHCs.

period of two to three years after the effective date of the IHC requirement to allow necessary infrastructure, processes and methodologies to be developed and tested, including allowing for the incorporation of feedback from the Board. We note that such an approach would be consistent with Basel II, which allows a two year phase-in to develop methodologies for advanced approaches for newly acquired assets.

V. EARLY REMEDIATION

A. Early remediation triggers based on an FBO's capital levels, which are designed to relate to the FBO's U.S. branch network, should be based solely on the FBO that maintains one or more branches in the United States, and not based on any parent holding company.

As noted in the IIB Comment Letter, we recommend the Board clarify that the FBO capital triggers apply only to the FBO that operates the relevant U.S. branches. The remediation triggers should be understood in the context of impact on U.S. financial stability. The triggers based on home country capital are best understood as addressing the capital of foreign banks that are in fact operating the branches in the United States, just as the IHC capital remediation triggers address the capital of an FBO's non-branch banking and nonbanking financial subsidiaries in the United States. If the IHC Requirement is retained, then a significant bulk of the operations of a FBO will be covered by triggers applicable to the IHC. The only remaining businesses for which triggers could be applicable would be the branch network. Therefore, monitoring the capital of the foreign bank that is directly engaged in banking in the United States through such branch network should be sufficient to protect the U.S. operations from any deterioration in capital, and most directly addresses any impacts to U.S. financial stability.

B. Early remediation triggers based on risk-based capital ratios should not be imposed on top of any Basel/home country/U.S. buffers.

The Board should clarify that the early remediation triggers should be based on the minimum capital standards and, therefore, allow any Basel, home country and U.S. buffers applicable to the FBO or the IHC to assist in satisfying the threshold established by the trigger. We understand the Proposal would apply the early remediation "surcharge" to the Basel III minimum risk-based capital ratios applicable to an FBO's global operations under its home country capital regime, and not on top of any of the proposed Basel III capital buffers or capital surcharges, such as the capital conservation buffer, countercyclical capital buffer or G-SIB surcharge. The Proposal consistently distinguishes between the minimum risk-based capital standards applicable under Basel III on the one hand and the Basel III capital buffers on the other, and should clearly do so in the context of the early remediation triggers as well.

C. Early remediation triggers that are higher than the Basel III minimums for risk-based capital and leverage ratios at the FBO would inappropriately result in the extraterritorial application of U.S. requirements by the Board

Under the Proposal, if the FBO does not exceed the applicable Basel III risk-based capital ratio minimum floors by 200-250 basis points, or applicable Basel III leverage ratio minimum floor by 75-125 basis points, the early remediation triggers would apply. While the Board has helpfully noted that these triggers would kick in only after the transition period under Basel III,[15] as noted in the JBA Comment Letter, the Proposal would effectively force the FBO to maintain risk-based and leverage ratios at a global level that are higher than the internationally-negotiated Basel III floors after the transition period. Thus, if the Proposal is adopted in its current form, the Board would impose new requirements for minimum risk-based capital and leverage ratios on FBOs' <u>global</u> operations. We believe the extraterritorial application of these new requirements would inappropriately supersede the Basel III-compliant floors implemented by the home country regulators that actually have jurisdiction over the FBO's global operations.

For the risk-based capital ratios, if the Board follows our recommendation above not to apply the remediation surcharges on top of any Basel III buffers, then it would seem that wholly new requirements might not be imposed, to the extent that such buffers are applicable to an FBO under its home country implementation of Basel III. However, in the context of the leverage ratio minimum floor, the effect is particularly egregious because the Basel III floor agreed upon by international regulators was set at 3% (under the Basel III calculation methodology), without any additional buffers being required. The more appropriate forum for instituting new requirements that add to or replace the Basel III compromise is through international agreement on heightened leverage ratios.

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[15] <u>See</u> 77 Fed. Reg. at 76,668.

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We support the Board's efforts to enhance the strength of the U.S. financial system. In that connection, we also appreciate the difficulties involved in implementing Dodd Frank requirements in a manner that at once furthers that objective while not unduly constraining the vibrant role that foreign banks play in the U.S. domestic and global financial systems, and we urge the Board, in that light, to consider carefully the impact of the Proposal. Again, Mizuho appreciates the opportunity to comment on the Proposal. Please contact either of the undersigned, if we can provide any additional information or assistance.

Very truly yours,

Shinya Wako
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Head of the Americas
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