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By Electronic Mail

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Rule on Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies (Regulation YY) (Docket No. 1438; RIN 7100 AD 86)

Ladies and Gentlemen:

Mitsubishi UFJ Financial Group, Inc. ("MUFG", "we," or "us", as applicable), appreciates the opportunity to comment on the above-referenced Proposed Rule on Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies (the "Proposed Rule") issued by the Board of Governors of the Federal Reserve System (the "Board"). MUFG is a non-U.S. banking organization chartered under the laws of, and with its principal place of business in, Japan, and has a number of direct and indirect subsidiaries (and investments in other entities) that are organized and/or have places of business in the United States.

MUFG's principal subsidiaries include: (1) The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU"), which operates in the United States through a number of branches, agencies, representative offices, and direct and indirect bank and nonbank subsidiaries; (2) Mitsubishi UFJ Trust and Banking Corporation, which operates in the United States through a branch and a direct bank subsidiary; and (3) Mitsubishi UFJ Securities Holdings Co., Ltd., which operates in the United States through a direct broker-dealer subsidiary.

In view of the complex structure of our operations in the United States, we recognize that the Proposed Rule, if finalized substantially in its current form, may have significant impact on the current structure of those operations, as well as on the manner in which we oversee and manage those operations. Accordingly, we take considerable interest in the

Proposed Rule and would like to offer the following comments for your consideration in developing a final rule (the "Final Rule"):

A. Intermediate Holding Company ("IHC") Requirement

While the IHC concept as set forth in the Proposed Rule identifies the structural requirements for the U.S. operations of a foreign banking organization ("FBO") in some detail, the Proposed Rule offers little guidance about how an FBO may structure its ownership of the IHC. For example, it is unclear whether the FBO's top tier entity should own the IHC as a direct subsidiary, or whether it can own it indirectly through one or more of its non-U.S. subsidiaries. Certain home country ownership structures may have adverse home country tax consequences for the FBO or may have significant adverse foreign exchange consequences. For example, if MUFG's subsidiary, BTMU were to transfer the shares of its directly-owned U.S. domestic intermediate bank holding company subsidiary to the direct ownership of MUFG, the impact on MUFG's consolidated financial statements would be minimal, but the impact on BTMU's financial statements resulting from foreign exchange and other factors would be significant. Given that the IHC structure would have the effect of lessening the dependence of an FBO's U.S. operations on the Head Office of the FBO, the home country ownership structure of the IHC should be of less concern to the Board so long as the fundamental objectives of the Final Rule are not undermined. Therefore, we urge the Board explicitly to include flexibility in its Final Rule with respect to an FBO's choice of the non-U.S. structure of its ownership of its IHC.

Similarly, the structure of an FBO's U.S. operations may be complex due to the range of its business activities, its history in the U.S., and the possible legacy of multiple mergers and acquisitions. Consolidating all subsidiaries under one IHC may have certain negative impacts with respect to tax, customer relations, systems and services, and other areas. Examples of practical tax, customer, and other obstacles to consolidation include limited options for reorganization that avoid adverse tax consequences; historically separate systems and platforms that may not be able to support consolidated business lines; customer consents required for assignment to other legal entities under some agreements; restrictions under state law on certain products; and variations in compensation, benefit, and retirement programs for personnel in historically separate legal entities.

Because of these potential obstacles, we recommend that the Board explicitly retain the authority to approve, on an exception basis as necessary, extensions of time beyond the effective date of the Final Rule for FBOs to meet the structural requirements. We believe that the Board should entertain requests for such extensions where the FBO has acted in good faith to consolidate its U.S. operations as much as possible by the effective date, but requires additional time for some aspects of the consolidation to avoid adverse impacts.

The process of consolidating entities is complex and requires many separate work streams. Because of the complexity of and internal time required to accomplish consolidations, we further recommend that the Board facilitate proposals for FBOs moving ahead with consolidating portions of their U.S. operations through mergers, in-kind capital contributions, transfers of assets and liabilities, personnel migration, and other mechanics. We urge the Board to consider Section 23A exemptions and other regulatory relief, as necessary, to facilitate the timely accomplishment of such consolidations.

B. Risk Based Capital Requirements

Consistent with the Basel II rules, we urge the Board to allow a two year phase-in period to provide sufficient time for FBOs to develop advanced approaches methodology with respect to the nonbank subsidiary assets to be consolidated under the IHC. The Basel II rules allow for a two year phase-in period to develop such methodology when a bank acquires assets[1] and we therefore believe that consistent treatment allowing a two year phase-in from the effective date of the Final Rule should be permitted.

C. Liquidity Requirements

With respect to the liquidity buffer proposed for an FBO's U.S. branches and agencies, we note that the liquid assets eligibility criteria for days 15 through 30 of that liquidity buffer are very broad, whereas the criteria for the first 14 days are restricted to highly liquid assets held in the U.S. and not held at the IHC, the FBO's head office, or other affiliate. We urge the Board to align the Final Rule with certain components of Basel III that allow firms to use their liquidity buffers in a "situation of financial stress" and provide guidelines for how banking regulators should evaluate a firm's use of its branches' liquidity buffer.[2]

- We request confirmation from the Board that G-7 sovereign debt securities held in the U.S. by FBO branches and agencies would be eligible to meet the buffer requirement for the first 14 days. Sovereign debt is accepted in the Basel liquidity framework[3] and G-7 sovereign debt, in particular, has proven to be highly liquid in past crises.

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[1] Basel II Final Rule – 72 Fed. Reg. 69,321 (Dec. 7, 2007)

[2] "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," Basel Committee on Banking Supervision (Jan. 7, 2013), Part 1, Paragraph 17

[3] "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," Basel Committee on Banking Supervision (Jan. 7, 2013), Part 1, Paragraphs 49, 50

- In the event that the Board cannot confirm eligibility of G-7 sovereign debt held by FBO branches and agencies, we request confirmation from the Board that G-7 sovereign debt that is legally and physically pledged collateral with Federal Reserve Banks is eligible for meeting the first 14 days of the branch liquidity buffer requirement.

With Respect to Question 24, implementing the monitoring of liquidity on a U.S.-wide basis will be burdensome, given that our U.S. subsidiaries are not on uniform reporting, risk modeling, and forecast platforms, and is likely to require significant systems enhancements. In addition, achieving the requirement of reporting to the Board within 14 days of the close of the month will pose significant challenges across various entities under the IHC, and the Board also should consider home country holidays as FBO systems are generally managed based on home country business days. We recommend that the Board delay the monitoring and reporting requirements for at least two years after the effective date of the Final Rule, consistent with the Basel II rules allowing a two year phase-in for development of advanced approaches methodologies with respect to asset acquisitions.[4]

With respect to Question 30 in the Proposed Rule, we are of the view that the Board should permit the cash portion of the liquidity buffer to be held in currency other than U.S. dollars if the currency is highly liquid and readily convertible into U.S. dollars.

D. Single-Counterparty Credit Limits

We request the Board to provide more clarity regarding how the exposures will be calculated. We note that the Proposed Rule indicates that limit calculations may not be consistent with other regulatory required calculations, in particular with respect to derivative related exposures.

Compliance with the requirements calls for involvement of multiple systems platforms that are unrelated today and will therefore demand significant effort and investment in systems in order to allow aggregation of exposures across multiple MUFG entities in the format specified. Accordingly, similar to capital, liquidity, and stress testing requirements, we urge the Board to allow a two year phase-in period beyond the effective date of the Final Rule.

E. Risk Management and Risk Committee Requirements

While we do not object in concept to a U.S.-based risk management framework (including the Risk Committee requirements) for our U.S. operations, we believe that further clarity is required in defining the relative role of that U.S. framework as a part of the FBO's

[4] Basel II Final Rule – 72 Fed. Reg. 69,321 (Dec. 7, 2007)

global risk management structure. Thus, clarity would be welcome regarding the extent to which the U.S. risk framework is expected to function independently of the global risk framework, and the resulting global risk appetite and risk strategies, of the FBO. In addition, we believe that clarification is necessary with respect to the expected roles and responsibilities of the U.S. risk framework (including those of the Risk Committee) in relation to a U.S. subsidiary bank of an IHC where the U.S. subsidiary bank is required by its primary U.S. regulator to have a comparable risk management framework within the bank. Further, as we currently have a number of Risk Committees in place at multiple levels within our U.S. operations, we would welcome clarity and flexibility in the Risk Committee requirements, in particular with respect to the IHC Board of Directors.

F. Stress Test Requirements

We believe that we would face a substantial operational challenge to consolidate reporting, risk modeling, and forecasting processes across IHC subsidiaries and separately for our U.S. branches and agencies to facilitate the stress testing as proposed. Consistent with the Basel II rules that allow a two year phase-in to develop methodologies for advanced approaches for newly acquired assets, we urge the Board to allow a two year period beyond the effective date of the Final Rule to allow time for the development of consolidated reporting, risk modeling, and forecasting processes.

We urge the Board to clarify the level of disclosure it expects with respect to the results of the annual supervisory stress testing and the semi-annual company-run stress testing. As it is unlikely that most IHCs will be publicly registered companies in the United States, we would ask the Board to take into account the private ownership structure of IHCs and require less disclosure than might otherwise be the case for publicly owned firms.

G. Early Remediation

We recommend that the Final Rule include early remediation provisions that are sufficiently flexible to allow consistency with the FBO's home country recovery and resolution planning and the "single point of entry approach" recently outlined by the FDIC and the Bank of England. In addition, we urge that market-related indicators, although as yet undefined, not be considered as triggering events for early remediation, since such indicators are likely to reflect subjective perceptions of market participants rather than an entity's actual safety and soundness.

H. Roles and Responsibilities of the Top Tier FBO

Finally, in order to ensure comprehensive compliance with the requirements delineated in the Proposed Rule as implemented in final form, we would welcome clarification of the roles and responsibilities of top tier holding companies with respect to oversight of the activities of their subsidiaries, including their IHCs, in the United States.

We appreciate your consideration of our comments on the Proposed Rule. Please contact Robert E. Hand, General Counsel, Mitsubishi UFJ Financial Group, Inc., U.S. Holdings Division at (212) 782-4630 (e-mail: rhand@us.mufg.jp), with any questions about our comments.

Very truly yours,

M. Tanaka

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