Ref: CHG/16/R3 May 28, 2021



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

Japanese Bankers Association

## JBA high level comments on the proposal to revise the Complex Institution Liquidity Monitoring Report (FR 2052a; OMB Control Number 7100-0361)

Dear Sirs/Madams:

The Japanese Bankers Association<sup>1</sup> (JBA) appreciates the opportunity to provide our comments on the proposal by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to revise the Complex Institution Liquidity Monitoring Report (FR 2052a) (hereafter "the Proposal)" issued on March 29, 2021.<sup>2</sup>

The JBA member banks have significant operations in the U.S., which are the center of operations for these banks outside Japan, and the Proposal affects not only the banking activities of our member banks within the U.S. but also their global businesses.

We hope you find our comments constructive and useful in further advancing this critical agenda.

## Request for postponing the effective date

The final rule implementing the Net Stable Funding Ratio ("NSFR") was released on October 20, 2020, and firms subject to the NSFR are currently preparing for the July 1, 2021 effective date of this rule. The proposed revisions to the FR 2052a were published in the Federal Register on March 29, 2021 with a 60-day comment period closing on May 28, 2021 and an effective date of July 1, 2021.

Most of the JBA member banks are no longer subject to the Liquidity Coverage Ratio ("LCR") or the NSFR requirements, but some of them are still in the scope for FR 2052a reporting, which incorporates certain data required under the NSFR. Additionally, some of the larger JBA member banks that are not subject to the LCR or the NSFR but whose combined U.S. operations ("CUSO") fall under Category II or III under the FBO Tailoring Rules<sup>3</sup>, are submitting the FR 2052a report on a daily T+2 basis as compared to all Category IV institutions, which are only required to submit the FR 2052a on a monthly basis. New FR 2052a reporting requirements will require banks in Category II and III to develop substantial data capabilities and enhancements for reporting some NSFR components even though these banks are not required to comply with the NSFR requirements. Given the current absence of an NSFR reporting framework for the banks not subject to this rule, and the substantial build-out necessary for these banks to meet the proposed FR 2052a changes, we believe that a phased approach for the implementation of the new requirements should be implemented. Banks that are not subject to the NSFR should be given more time to implement the additional FR 2052a reporting requirements while banks that are subject to the NSFR requirements can start reporting their data

<sup>&</sup>lt;sup>1</sup> The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of May 28, 2021, the JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 74 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members. Several of its largest member banks are active participants in the U.S. financial markets.

<sup>&</sup>lt;sup>2</sup> 86 Fed. Reg. 16365 (March 29, 2021).

<sup>&</sup>lt;sup>3</sup> The Federal Reserve issued a final enhanced prudential standards tailoring rule and the banking agencies issued a companion final rule on capital and liquidity tailoring on October 10, 2019 (together, the "Tailoring Rules").

sooner. Therefore, the JBA would like to request a postponement of the effective date for the change of the FR 2052a proposed reporting requirements for banks that are not subject to the NSFR. Since all the JBA member banks are not subject to the NSFR, our recommendation would be to extend the proposed implementation timeline of the proposed FR 2052a items necessary for the Federal Reserve to calculate the NSFR to October 1, 2022, for those institutions that are not subject to NSFR.

The Proposal contains significant changes to the FR 2052a that could impact a firm's compliance with the new reporting requirements. Furthermore, the Proposal requires multiple new data elements, three new supplemental tables, and additional breakdowns of counterparty data. However, the Proposal provides too short a transition period of weeks, or even days, for the implementation of a robust reporting framework.

The proposed timeline clearly provides respondents with insufficient time to utilize the processes and procedures developed for implementing changes to reporting systems in order to meet both the Federal Reserve's, and their own, high expectations for a sustainable process involving testing, data quality, governance, and controls, including testing protocols and data accuracy reviews prior to the implementation of changes. The Federal Reserve's decision to use the FR 2052a as a means for collection of NSFR data is requiring banking organizations that are not subject to the NSFR under the operation of the Tailoring Rules to make significant changes to their existing regulatory reporting processes without having developed the requisite data collection infrastructure needed for gathering this new data. In addition to imposing a greater burden on these institutions compared to institutions already subject to the LCR and the NSFR, the timelines provided in the Proposal do not allow for a sustainable development of this new infrastructure for purposes of the FR 2052a.

## Clarification for Scope of Applicability and FBO Organizational Differences

The Tailoring Rules classified foreign banking organizations ("FBOs") into three categories based on their asset size and other risk-based indicators. The Tailoring Rules are already in effect, and FBOs have begun complying with their requirements based on the FBOs' respective categories. While a number of the large Japanese FBOs are subject to FR 2052a reporting with respect to their CUSO, none of these banks is subject to the LCR or the NSFR rules, which would be applicable at the level of their subsidiary U.S. operations, because the U.S. subsidiaries fall under a lower category than the CUSO operations under the Tailoring Rules. Although we recognize the value of the FR 2052a for its use in existing liquidity monitoring programs as applied to individual banks and to systemic analyses of liquidity, structural differences between the FBO U.S. branches and the Intermediate Holding Company ("IHC") subsidiaries result in the branches lacking the dedicated capital that is required for the construction of an NSFR reporting model. Additionally, risk weight calculations applicable to branches based on home country regulations are different than the risk weight measures required in the FR 2052a. FBO-specific organizational structures present additional challenges to the implementation of the proposed reporting requirements. Given the inconsistencies between these structures and the expansion of data requested under the Proposal, we ask that the U.S. branches continue to be subject to existing requirements and not to any newly proposed data that is specific to the NSFR.

(End)