

Comments on the Consultative Document

*Principles on Bail-in Execution* issued by the Financial Stability Board

Japanese Bankers Association

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the consultative document *Principles on Bail-in Execution* issued by the Financial Stability Board (FSB) on November 30, 2017.

We respectfully expect that the following comments will contribute to your further discussion.

[General Comments]

While this consultative document sets out guidance on bail-in execution, we believe that it would be important to ensure flexibility in implementing the guidance given that resolution frameworks and financial institutions' business models vary across jurisdiction. In this respect, we support this consultative document as it allows jurisdiction to have a certain level of flexibility in implementing the guidance within its national framework and at the same time to maintain consistency with the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the "Key Attributes") issued by the FSB.

Principles set out in the document require actions not only by authorities but also by financial institutions. In taking actions in line with the purpose of the consultative document, some principles, particularly those related to the bail-in scope and valuation, include some difficult part to implement in practice or need further clarification. It is expected that these principles will be reviewed to establish more effective and well-balanced principles.

In the following section, we would like to comment on specific issues that would need to be noted from practical perspectives.

[Specific Comments]

1. Provision and disclosures of information required (Principles 3 and 4)

In Principle 3 (Information requirements on the scope of bail-in), the FSB specifies the baseline information that is likely to be required while it states that the exact information requirements are likely to differ depending on the jurisdiction. Furthermore, in Principle 4 (Ex ante disclosures by firms of instruments within the bail-in scope), the FSB requires disclosures to market participants regarding the amount, maturity and

composition of instruments and liabilities that could be subject to bail-in.

However, home authorities' discretion should be respected in this respect, limiting such information to truly necessary information depending on the resolution framework and process established by each jurisdiction.

## 2. Establishment of technological infrastructures (Principle 3)

In Principle 3, financial institutions are required to establish appropriate technological infrastructures to ensure access by authorities to the information that would be required to determine the bail-in scope.

However, the establishment of technological infrastructures is not necessarily required for supervisory authorities to access the information needed to determine the bail-in scope. Moreover, regulation requiring excessive investment for the sole purpose of executing resolution in a smooth manner will increase costs incurred by financial institutions and would undermine their appropriate fulfillment of the function of financial intermediation. Given this, the requirement to establish technological infrastructures should entail flexibility by, for example, allowing the use of existing infrastructures.

## 3. Establishment of processes/procedures needed for valuation (Principle 6)

In Principle 6 (Management of information systems and capabilities of firms to support timely and robust valuations), financial institutions are required to have the management information system (MIS) and other infrastructures to support timely and robust valuations.

Given that a business model and risk profile varies across financial institutions, in order to implement this principle, it would be necessary to allow financial institutions to take flexible actions with respect to the level of realization and the timing of implementation, etc. depending on respective circumstances. From this viewpoint, the FSB should not limit the action to the establishment of a specific IT system, etc. but should develop a flexible framework which allows the use of existing infrastructures.

Furthermore, the establishment of a framework needed for valuation should be aligned with characteristics of the financial system of each jurisdiction and business processes. It is also requested that a sufficient timeframe will be given to financial institutions so that they can work on the establishment of a framework in accordance with the situation of each jurisdiction.

## 4. Valuation model (Principle 6)

Principle 6 refers to "valuation models" as an example of "technological

infrastructure”. Taking into account resolution regimes and financial institutions’ business models across jurisdictions, it is assumed that some financial institutions may need to develop their own valuation models. The FSB is requested to confirm that this Principle does not require financial institutions to always take this action.

The FSB should add an explanation regarding the meaning/scope of the term “valuation models” used in Principle 6 in order to avoid misunderstanding.

Furthermore, if “valuation models” do not vary across financial institutions, we would like to suggest the possibility of determining a standard valuation model would be explored.