MORI HAMADA & MATSUMOTO

Marunouchi Park Building
2-6-1 Marunouchi, Chiyoda-ku
Tokyo 100-8222, Japan

To: Secretariat of the Financial Stability Board (the "FSB")
c/o Bank for International Settlements
CH-4002, Basel, Switzerland

From: Taro Omoto
Attorney-at-law
Mori Hamada & Matsumoto
Marunouchi Park Building, 2-6-1 Marunouchi
Chiyoda-ku, Tokyo 100-8222
Japan
On behalf of
The Association for Real Estate Securitization ("ARES")
NOF Tameike Building, 3F
1-1-14 Akasaka
Minato-ku, Tokyo 107-0052
Japan

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Re: Comments to the Consultative Document "Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities" dated 22 June 2016 (the "Consultative Document")

General Remark

While ARES does not object to the general principles contained in the recommendations proposed in the Consultative Document, ARES requests the FSB, IOSCO and local regulators to, when formulating the regulatory framework, take due regard to the unique character of Japanese real estate funds and take heed of the framework they have formulated thus far so as not to impose incommensurable and unnecessary burden or restrictions on beneficial fund activities. It is very unlikely that Japanese real estate funds will have a material adverse effect on overall financial stability because they have already adequately considered and dealt with the potential risks—(i) liquidity mismatch of open-ended funds and (ii) leverage within funds—as described in the Consultative Document, and they are relatively small in terms of asset size. (ARES understands that (iii) operational risks and challenges in transferring investment mandates and (iv) securities lending activities are irrelevant because Japanese real estate fund managers are relatively small and are not engaged in any securities lending activities.)

<u>Liquidity mismatch</u>

ARES particularly would like to explain the structure of non-listed J-REITs in relation to the liquidity mismatch issue. Among Japanese real estate funds, only non-listed J-REITs have open-ended structures, and as such the risk only applies to non-listed J-REITs. When non-listed J-REITs were first created six years ago, they learned from the past financial crisis suffered by global real estate funds to carefully structure them to prevent potential liquidity mismatch. Non-listed J-REITs generally create upper limits on redemption requests (less than 2.5% every six months), impose redemption fees on investors who request redemptions, set forth relatively long notice periods and permit suspension of redemptions during stressed situations. These mechanisms are disclosed in a private placement memorandum, and investors are fully aware of such restrictions when subscribing for shares of non-listed J-REITs. Also investors are strictly limited to the qualified institutional investors who are able to understand and tolerate these restrictions.

* About ARES

The Association for Real Estate Securitization is a Japanese incorporated association that aims to protect investors, contribute to the sound development of the real estate securitization product market and facilitate expansion of the real estate investment market. ARES has 110 members comprised of, among others, real estate asset management companies, real estate companies, construction companies and financial institutions. ARES is also a member of the Real Estate Equity Securitization Alliance (REESA). REESA is made up of seven real estate organizations around the world. REESA's broad mission is to improve the opportunities for investment in securitized real estate equity around the globe.

The REESA member organizations are:
Asia Pacific Real Estate Association (APREA)
Association for Real Estate Securitization in Japan (ARES)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts in the United States (NAREIT)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)