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Secretariat of Financial Stability Board  
c/o Bank for International Settlements  
CH-4002 Basel  
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Submitted by email: [fsb@bis.org](mailto:fsb@bis.org)

11 January 2013

Dear Secretariat

**Subject: Consultative Document: Strengthening Oversight and Regulation of Shadow Banking – A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos**

Nomura appreciates the opportunity to respond to the Financial Stability Board's Consultation Paper: "Consultative Document: Strengthening Oversight and Regulation of Shadow Banking – A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published on 18 November 2012. Nomura supports the efforts to address the risks to financial stability associated with securities lending and repo markets, which play crucial role in providing liquidity for various securities market to support market making function and active money flows in the financial system.

As a co-chair of the Japan Financial Markets Council ("JFMC"), Nomura fully concurs with the view expressed its response letter to the FSB dated 11 January 2013. For supplementing the JFMC's response and the benefit of FSB's further understanding of the issue, we would like to provide this letter for elaborating our specific concern on introducing minimum haircut or numerical floors on haircut which is concentration of market participants.

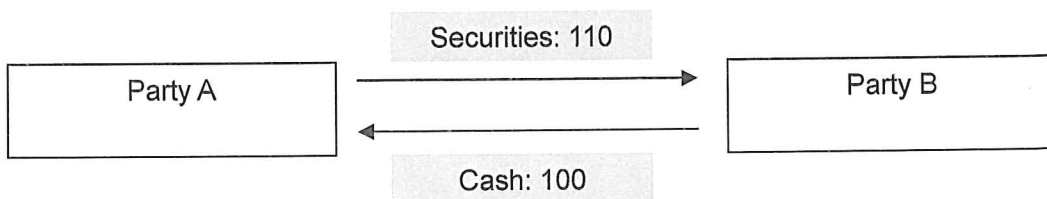
### Minimum Haircut/Numerical Floor on Haircut: Concentration Issue

Introduction of the proposed minimum haircut/numerical floor on haircut (together "Minimum Haircut") may result in concentration of market participants especially those among with higher creditworthiness, or more narrowly, limited number of systemically important financial institutions whose interconnectedness in the financial markets being in question under the recent past or current various regulatory reform discussions.

For example, in the case of securities-against-cash transaction where Party A lending securities to Party B, if the Minimum Haircut is higher than the perceived market price, Party A has to assume credit risk equivalent to a balance between the Minimum Haircut and the perceived market price.

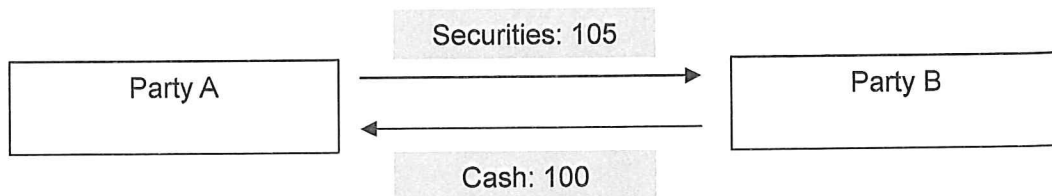
\*EXAMPLE

Minimum Haircut 10% (assumption):



= Party A assumes credit risk of Party B: 10 (= +5 compared to the outcome below)

Perceived Market Price 5% (assumption):



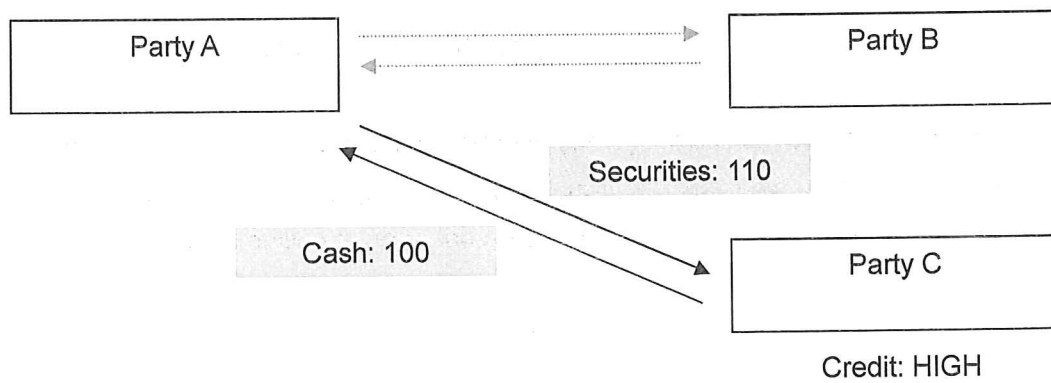
= Party A assumes credit risk of Party B: 5

Under the situation (i.e. numerical floor already set regardless of counterparty), Party A will naturally choose a party with higher creditworthiness. For example, in addition to Party B, if Party C with higher creditworthiness than Party B appears, Party A prefers to trade with

Party C rather than Party B. It is a commercially reasonable practice in the market to choose more credible party if other conditions are being the same. However, it exacerbates further concentration of market participants while ruling out medium or smaller size players or any other market participants with relatively lower creditworthiness.

\*EXAMPLE

Minimum Haircut 10% (assumption):



= Party A assumes credit risk of Party C: 10

Financial markets effectively and efficiently work if the markets ensure deeper liquidity, and such deeper liquidity is provided through wider range of market participants entering into a trade with various purposes. In the example above, based on securities lending or repos in the market, Party B may need to sell or buy certain securities for legitimate investment purposes. However, if a market participant like Party B becomes difficult to trade securities lending or repos mostly due to the Minimum Haircut, various investment activities in the markets are constrained.

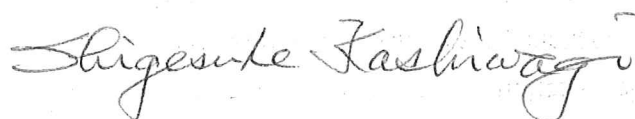
In addition to systemic implications with respect to more concentration and interconnectedness among the SIFI-type institutions, if number of market participants is limited through ruling out certain class of parties, liquidity in the securities lending and repos market decreases and this affects overall liquidity in the securities markets (e.g. secondary market). Then, eventually, this causes negative spiral effect through further funding cost increase ending up to impact on economic growth.

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We hope that the above is clear and concise and provide additional useful views in addition to the JFMC's response.

On behalf of Nomura, I would like to once again thank you for your Board's continued leadership and guidance in this vital policy area.

Sincerely,

A handwritten signature in cursive script that reads "Shigesuke Kashiwagi".

**Shigesuke Kashiwagi**

Senior Managing Director

Corporate Office

Nomura Holdings, Inc.