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April 7th, 2014

Secretariat of the Financial Stability Board
c/o Bank for International Settlements,
CH-4002, Basel, Switzerland

Dear Sirs and Madams,

Re: Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions

I. Preface

The Investment Trusts Association, Japan (hereafter, "JITA") appreciates the opportunity to provide these comments in response to the proposed Consultative Document, "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions" which was made public on January 8th, 2014.

JITA was established in July 1957 under a license of the Minister of Finance, which was the governing authority at that time, for the purposes of protecting investors and promoting sound development of investment trusts in Japan. JITA is positioned as "Authorized Financial Instruments Firms Association" under the Financial Instruments and Exchange Act of Japan, and the purposes and the scope of business of JITA are defined by the Act. JITA comprises of 133 full members including investment trust management companies and 19 supporting members including securities companies and custodian banks as of March 2014.

JITA would like to express our comments regarding the document.

II. Comment on the Consultative Document, "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions"

Q2-2. Is the initial focus on (i) finance companies, (ii) market intermediaries, and (iii) investment funds in developing sector-specific methodologies appropriate? Are there other NBNI financial entity types that the FSB should focus on? If so, why?

It is meaningful to consider whether the investment funds should be included in the NBNI G-SIFIs like other financial entities such as finance companies and market intermediaries or not.

However, in applying the methodology for the investment funds, further consideration is necessary, taking the characteristics of investment funds mentioned below into consideration;

・Investment funds have different characteristics compared to other financial entities,

・Among investment funds, each fund has different risk profiles, because there are various kinds of investment funds.

Especially, regarding the investment funds, because the assets entrusted from investors are in the status of the segregated custody for each fund, and investment fund manager manages such assets only for their investors as an agent of them, asset managers do not engage in a proprietary trading with their own risk. In addition, the investment funds are merely conduit vehicles, in which collected investors' money is pooled and managed, and its fruits are dividends to the investors. Therefore, in addition to strict disclosure requirements and regulations on conduct control are levied, regulations for management including leverage prohibition are levied for investment funds (especially for the publicly offered investment funds that consist mostly of whole investment funds). Accordingly, there would be little possibility for investment funds to pose systemic risks.

As you know, "Asset Management and Financial Stability," released by the OFR in last September, conducted an analysis on the systemic risk which investment advisors have, and many comments submitted to the public consultation on the report regarding issues mentioned above (http://www.sec.gov/comments/am-1/am-1.shtml). We would appreciate very much if you would review this issue with further analysis of such comments.

Q6-3. Which of the following four levels of focus is appropriate for assessing the systemic importance of asset management entities: (i) individual investment funds; (ii) family of funds; (iii) asset managers on a stand-alone entity basis; and (iv) asset managers and their funds collectively? Please also explain the reasons why you think the chosen level of focus is more appropriate than others.

Investment funds have the following characteristics to protect investors;
1) The entrusted assets are managed separately from asset managers' own asset of balance sheet legally and in actuality. Even in the umbrella scheme, each sub-fund is required to be managed separately based on the act of bankruptcy.
2) Each investment fund is managed in accordance with its investment policy, object and limitation, which are disclosed to investors.
3) Because asset managers manage investors' assets as agents for investors, they do not engage in the proprietary trading at all.

Regarding cross trading among investment funds, funds themselves do not enter into claims and debts relationships with each other, except for securities transactions among investment funds that are permitted by the SEC in the United States. Even in such case, strict regulations such as price investigation and so on are levied.

It is possible for the same asset manager who manages a number of funds to make a bundling order for such investment funds. But in practice, such order is based on the different guidelines that each fund has, and the result of such bundling trade is reflected to each funds' accounts when the delivery is made. So, there is no case that multiple investment funds enter into a single and integrated contractual relationship, nor in the case of OTC derivatives trading.

Based on the reasons mentioned above, because each of investment funds is highly independent, we think that (i) individual investment funds is the most rational choice to assess the systemic importance of the asset management entities.

As to adoption of (iv) as the focus levels to assess the systemic importance of the asset manager and its funds collectively, we suppose that it would make no sense to use aggregated assets of various funds managed by a single manager, because the larger total asset size of a single manager is, the wider variety of funds the asset manager has, in terms of investment objectives, policy and targets, etc. Accordingly, it is not appropriate to assess the systemic importance by aggregating the funds which have different characteristics. For reference, in the case of the past fund bankruptcies such as LTCM and so on, the most cases were caused mainly by the concentration of money for individual investment funds, rather than the total asset size managed by a single manager. For this reason, it is appropriate to assess the systemic importance of asset management entities through an individual investment fund.

In the jurisdictions where the systems for transfer and handover of investment fund contracts are put in place, it would prevent or suppress the occurrences of systemic risk in case of a bankruptcy of an asset manager. In such jurisdictions, it is not necessary to focus on asset managers.

Q6-5. Are the proposed indicators appropriate for assessing the relevant impact factors? If not, please provide alternative indicators and the reasons why such measures are more appropriate.
Q6-2. Does the above description of systemic importance of asset management entities adequately capture potential systemic risks associated with their financial distress or disorderly failure at the global level?

It is necessary to assess whether each indicator mentioned in the document is appropriate or not, based on the purpose to introduce new regulation on investment funds.

If we introduce the regulation from a viewpoint that entities would have the impact on the market, it would be possible to define the market share of each participant as the indicator of top priority. But, it is hard to explain the reason why this indicator would be applicable only to investment funds.

On the other hand, if an investment fund borrows money from a counter party, it is likely that the investment funds would fail to repay, and if the failed amounts are large, it would have a material impact on the financial system. So, it is possible that the volume of the leverage trading is assumed as the indicator with the highest priority.

During the Great Depression in 1929, there was a bankruptcy of the investment funds. One of the reasons for this bankruptcy was that a closed end fund expanded its gross asset by borrowing money at that time.

Considering such an experience, the investment funds that use leverages by borrowing money, and that exceed a certain level of asset size should be subject to the regulation.

Besides, in the events such as the Great Depression in 1929 or IOS shock in 1970, pyramid scheme by the investment funds had caused the systemic risk at that time.

So, we suppose that multilevel investment by pyramid scheme would be considered as an indicator of the complexity of the investment funds.

When we intent to measure the substitutability (or low potential of it) within a same category, it would be possible;
①to introduce the number of funds in a same category as an indicator in addition to Indicator 3-2 or,
②to measure Indicator 3-2 by using outstanding of each asset instead of turnover.

Q6-9. Would collecting or providing any of the information included in the indicators present any practical problems? If so, please clarify which items, the practical problems, and possible proxies that could be collected or provided instead.

The consultative document does not clarify the treatment of FOFs. It is quite difficult to calculate indicators of FOFs by look-through approach. (FOFs is merely the beneficiary of investment funds it invests. It is sufficient that assessment of each investment fund the FOFs invests is performed, because it means FOFs is assessed indirectly. If the indicators are calculated by looking through the funds invested by the FOFs, they are double-counted both in the FOFs and in the funds it invests.) Therefore, it would be appreciated if you could consider not to require calculation of indicators by look-through approach.

Besides, it is difficult to measure Indicator 3-1 of the minor financial products of which whole trade volume is not made public, such as structured bond and so on. From the viewpoint of assessment of systemic importance, it is considered appropriate that assessment of indicators 3-1 is restricted to primary financial products.

Sincerely yours,

Makoto Shirakawa

Makoto Shirakawa
Chairman
The Investment Trusts Association, Japan