



FINANCIAL SERVICES AGENCY
GOVERNMENT OF JAPAN

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Mr. Gary Gensler
Chairman
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
USA

1 April 2011

Dear Mr. Gensler,

I am writing this letter to request your Commission's consideration concerning the rules on Over-the-Counter (OTC) derivatives trading, as applied to Japanese financial institutions. We have a concern regarding the extraterritorial application of rules relating to US Dodd-Frank Act (DFA), which are shared by Japanese financial institutions, and seek your consideration on this issue.

Following the agreement reached at the G20 Pittsburgh summit, we the financial regulators of the World are in the process of creating an internationally consistent regulatory framework. In Japan, Financial Instruments and Exchanges Act (FIEA) was amended last year, and we are now drafting a regulation to mandate central clearing for liquid and standardized types of OTC derivatives. We understand that your Commission and the Securities and Exchange Commission are also working day and night to prescribe the rules on OTC derivatives by the deadline of 15 July 2011.

As DFA is an US law, naturally we expect this law to be applied to US entities incorporated in the US. For Japanese financial institutions, laws and regulations of Japan, which are consistent with the internationally agreed framework such as G20 and IOSCO, should apply. Therefore, we believe that Japanese financial institution should not be asked to register as Swap Dealer (SD) or Major Swap Participant (MSP) under the framework of DFA. If these institutions were also to be regulated under US DFA framework, this will create an undesirable and redundant effect on these Japanese institutions.

Given the above, we should be grateful if you would confirm that:

1. For a Japanese financial institution including its branches located in the US, as it is incorporated in Japan, the institution is regulated under FIEA. In such circumstances, naturally, there should be no requirement for it to register as a SD or MSP, as stipulated under DFA.
2. For a US subsidiary of a Japanese financial institution, as it is incorporated in the US, it will naturally be regulated under DFA. Conversely, a Japanese subsidiary of a US financial institution will be regulated under the Japanese law, and therefore should not be required to register as SD or MSP under DFA.

Another concern is the different timing of OTC clearing requirement implementation. Japan is currently in the process of creating an infrastructure to facilitate central clearing and other obligations by end-2012 the deadline agreed by G20. In the interim period, if a swap trade between a Japanese financial institution and an US financial institution is

required to be cleared centrally under DFA, this could have the following unintended consequences:

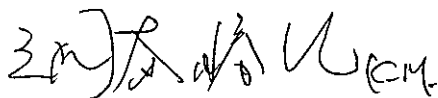
1. Japanese institutions might have to avoid trading with US institutions, having no choice other than to dealing with non-US financial institutions.
2. For certain swap trades that need to take place with US institutions, they would be forced to use the incumbent CCP – LCH.Clearnet. This would inadvertently strengthen the LCH's current dominant status in the interest rates swap market.

Therefore, we should be grateful if you could confirm that, as you phase in the central clearing requirement, it would only be applied if both parties of such swaps are US institutions. If this treatment could not be made permanent, at the very least we would formally request that such a transitional arrangement be made until end-2012. We trust that a mutually satisfactory permanent arrangement could be agreed between us by then.

We are fully committed to implementing an internationally consistent OTC derivative regulation as agreed by the G20 and FSB. In this regard, we think it is very important to coordinate among national regulators so that the regulations will be introduced in a consistent and effective manner.

Thank you very much in advance for your kind assistance. Should you have any questions concerning the above, or any questions concerning the OTC derivatives regulation in Japan, please do not hesitate to contact me.

Yours sincerely,



Katsunori Mikuniya
Commissioner & Chief Executive
Financial Services Agency
Government of Japan

Cc: Commissioner Bart Chilton, CFTC
Commissioner Michael Dunn, CFTC
Commissioner Scott D. O'Malia, CFTC
Commissioner Jill E. Sommers, CFTC

Chairman Mary L. Schapiro, SEC
Commissioner Luis A. Aguilar, SEC
Commissioner Kathleen L. Casey, SEC
Commissioner Troy A. Paredes, SEC
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