MUFG Americas Holdings Corporation
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By electronic submission to regs.comments@federalreserve.gov

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Supplemental Comment Letter on the Notice of Proposed Rulemaking on Internal TLAC, LTD, and Related Requirements Applicable to MUFG Americas Holding Corp., the U.S. Intermediate Holding Company of MUFG

Docket No. R-1523; RIN 7100 AE-37

Ladies and Gentlemen:

Mitsubishi UFJ Financial Group, Inc. ("MUFG" or "we") welcomes the opportunity to submit this letter as a supplement to our original comment letter dated February 19, 2016 (the "February 19 Letter"), on the proposed rule (the "Proposed Rule") issued by the Board of Governors of the Federal Reserve System (the "Board") that would impose internal total loss-absorbing capacity ("TLAC"), internal loss-absorbing long-term debt ("LTD"), and related requirements on MUFG Americas Holdings Corporation ("MUAH"), the U.S. intermediate holding company of MUFG.[1]

MUFG understands that the Board has been working to develop a solution to the uncertainty in the tax treatment of the proposed Internal LTD that accomplishes policy objectives without increasing the tax burden for intermediate holding companies of foreign banking organizations ("IHCs"). We appreciate the work that the Board has done on this front to consider alternatives to its original proposal. We also appreciate the Board's consideration of other issues while developing the final rule, including the application of balance sheet depletion effects when calibrating LTD for IHCs and removal of the 50% LTD haircut for debt with remaining maturities between 12 and 24 months.

We note that the Board is in receipt of other supplementary comment letters (the "Comment Letters") that recommended that the Board allow resolution entity IHCs to issue External LTD. MUFG supports external LTD issuance for resolution entity IHCs and further requests that the Board permit all IHCs, regardless of resolution strategy, to have the option to issue less than a

[1] Notice of Proposed Rulemaking, Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations; Regulatory Capital Deduction for Investments in Certain Unsecured Debt of Systemically Important U.S. Bank Holding Companies, 80 Fed. Reg. 74926 (Nov. 30, 2015) (the "Proposed Rule").

majority of their LTD externally. Externally issued LTD would diversify IHCs' funding sources which strengthens their liquidity profiles and would also bring market discipline that is not possible with privately-issued funding.

Further, MUFG wishes to reiterate that the cost of the proposed Internal LTD for IHCs is higher than that of typical bank long term unsecured funding and would, therefore, meaningfully increase the costs of maintaining a competitive presence in the U.S. Further, these additional costs may negatively impact the ability of IHCs to continue to extend credit and liquidity to U.S. customers at competitive rates. We propose to the Board that allowing IHCs to issue LTD that is contractually senior and contains market-standard acceleration rights would alleviate some of the cost associated with meeting the proposed LTD requirements.

I. Overview of MUFG's Organizational Structure in the U.S.

MUAH is 96.2% owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU"), a direct wholly-owned subsidiary of MUFG, and the remaining 3.8% is owned by MUFG directly. The IHC has approximately the same amount in total assets (nearly $150 billion) as BTMU's primary U.S. branch, which is located in New York.[2] Our IHC is so central to our U.S. operations that all employees who perform services for BTMU's U.S. branches (the "Branches") are employees of our U.S. bank, MUFG Union Bank. N.A. ("MUB"). In 2014, we integrated the Branches' operations under MUB's in order to establish a single management structure over all of BTMU's branch and subsidiary banking activities. This integration has facilitated a strong, coordinated and robust franchise in the U.S. to serve our domestic clients, as supported by unified risk management and governance structures. Part of the strength of our model derives from our access to multiple funding sources from both MUAH and the Branches. While we have committed to pursuing an SPOE resolution, we embrace the opposite approach for our funding strategy and have built a funding platform that includes a strong presence in the wholesale U.S. debt markets for our IHC.

A review of the funding of the eight foreign-owned IHCs that are subject to the annual Comprehensive Capital Analysis and Review ("CCAR") reveals the uniqueness of MUAH's funding structure. Of these eight IHCs, only five are owned by foreign G-SIBs identified on the most recent BCBS list (dated November 2015) and would, therefore, be subject to the Proposed Rule. Among those five IHCs, three are part of global organizations that expect to be resolved through an SPOE mechanism. Only our IHC among these three maintains an active presence in the long term wholesale debt markets. Apart from MUAH, no other SPOE IHC CCAR filer issues medium- or long-term bonds in the capital markets.

II. IHCs Should Be Permitted To Issue External LTD

The proposed Internal LTD requirements would limit an IHCs ability to maximize and diversify its funding sources and would, therefore, restrict liquidity risk management activities. This limitation is contrary to post financial-crisis supervisory guidance, which encourages

[2] In addition, Mitsubishi UFJ Trust and Banking, a direct, wholly-owned subsidiary of MUFG, maintains a branch in New York with more than $20 billion of total assets.

diversification of funding sources, as discussed in the February 19 Letter. We think that it is possible to enhance an IHCs liquidity risk management toolkit by allowing external LTD issuance without materially impacting the ease of resolution that results from rapid LTD conversion to equity where the majority of the IHCs post-conversion equity is held by a committed foreign parent.

To illustrate the impact of proposed Internal LTD requirements on the diversity of our wholesale funding, we offer these data points based on our June 30, 2016 balance sheet:

1. MUAH's structural long term debt was comprised of 10% capital instruments (subordinated notes) issued internally to our shareholder (by policy, all of our capital is issued internally) and 90% externally issued non-capital long term structural liquidity.
2. If the Proposed Rule were effective on 6/30, the amount of long term funding issued by our IHC would have increased 2.3 times and we would have been required to borrow 100% of it from our parent.
3. If the Proposed Rule were effective on 6/30 and it permitted us to issue our required LTD externally, only 4% of our IHCs structural long term debt would have been issued to our parent (due to our capital policy).

By reducing an IHCs issuance in the external term debt capital markets, proposed Internal LTD also reduces (and potentially eliminates) several key sources of information about the condition of the IHC that could be valuable to regulators and to the banking organizations themselves. Observable trading of a bank's bonds, along with commentary from credit rating agencies and credit analysts, provides market-based discipline to bond issuers and regulators, which is not available to an issuer of only privately placed securities.

In sum, IHCs should be allowed, if not encouraged, to maintain external LTD issuance to facilitate diversity of funding sources and to maximize the information available for regulators to evaluate the health of the bank and to focus on areas for regulatory oversight.

III. A Proposal For External LTD Issuance for Non-Resolution IHCs

The Comment Letters supported external issuance of LTD for IHCs with multiple point of entry ("MPOE") resolution strategies akin to the issuance of U.S. G-SIBs. We suggest that IHCs with single point of entry ("SPOE") resolution strategies also be allowed to issue LTD externally, provided that a majority of the non-resolution IHCs total liabilities be comprised of Internal LTD. This restriction would ensure that less than a majority of the IHCs total liabilities could be issued to third party investors. In the event that all creditors became equity owners, the foreign parent would remain the controlling owner from both economic and governance perspectives, thereby preserving alignment of interest between the IHC and its parent.[3]

[3] Our suggestion is based on our presumption that all LTD must convert into the same class of shares in order to achieve the Board's targeted CET1 capital levels post-conversion. If different post-conversion share classes (e.g., voting shares and non-voting shares with equal economics) are both eligible to be considered CET1, then non-resolution IHCs may be able to issue a majority of LTD externally without surrendering a controlling interest to external investors.

Because we propose that the foreign parents of non-resolution IHCs retain a controlling interest in their IHCs before and after LTD conversion, these IHCs should not be required to maintain the same total TLAC levels as IHCs that expect to enter resolution separately from their respective parents. While non-resolution IHCs may choose to strengthen their liquidity profiles by diversifying funding sources, they do not thereby alter their resolution approach and they remain strongly tied to their foreign parents. The Proposed Rule identifies the objective of Internal TLAC calibration as balancing support for the foreign parent's SPOE resolution (which keeps the U.S. IHC operating) with the need to maintain some loss-absorbing capacity in the event this resolution does not occur as planned and the IHC needs material support.[4] With continuing majority ownership and control by the foreign parent, the Board may be assured of full alignment of interests even as the IHC benefits from a stronger liquidity profile.

We are cognizant that the Board may be concerned that an external LTD investor may become a significant equity owner in the event of LTD conversion. If an investor's interest exceeded certain thresholds, this excess might trigger certain regulatory obligations on the part of both the investor and the Board. To address such obligations, the Board might, in its discretion, impose alternative approaches to limit the investor's post-conversion ownership in the IHC, including mandatory sell-downs, passivity commitments, conversion into non-voting shares and the adoption of share conversion ratios that result in ownership dilution.

We also recognize that an important part of the Board's TLAC proposal is the concept of a "Clean Holding Company;" an IHC issuing its LTD externally must maintain a structure that facilitates resolution. Therefore, we further suggest that, if an IHC chooses to issue LTD externally in any amount, the IHC would need to abide by the cap imposed on non-TLAC external liabilities that applies to U.S. G-SIBs (proposed at 5% of total TLAC requirements).

Further, we are aware that investors who will acquire externally-placed LTD that may convert into equity will need adequate disclosure to facilitate their evaluation of the IHCs financial condition. For that reason, we suggest that IHCs wishing to issue any of their required LTD externally should maintain registration with the SEC. Such registration would require the IHC to publicly furnish updated financial information, thereby providing the means by which investors could evaluate the LTD.

In sum, we suggest that the Board allow SPOE IHCs to retain the flexibility to make individual funding and liquidity risk management decisions by issuing less than a majority of their liabilities in the form of external LTD. If the Board perceives the potential creation of controlling ownership interests among external LTD investors as a barrier to providing this flexibility, the final rule might permit external LTD issuance subject to specific approval by the Board.

IV. Structurally Subordinate, Contractually Senior LTD for IHCs is Recommended

Since the issuance of the Proposed Rule, IHCs have provided substantial feedback to the Board regarding the significantly higher costs of the proposed Internal LTD compared to the external term debt issued by our peer U.S. banks (whether in the form of External LTD issued by U.S. G-SIBs or

[4] 80 Fed. Reg. at 74941.

non-TLAC debt issued by public U.S. regional banks). Specifically, these additional costs derive from the requirements that:

1. IHCs issue holding company-level obligations instead of bank-level obligations;
2. IHCs issue long-tenor obligations due to the reduction or elimination in LTD credit for near-term maturities (instead of shorter tenor debt matching typical bank asset duration);
3. LTD be contractually subordinated to all other IHC obligations (therefore more loss-absorbing); and
4. LTD contain a provision eliminating creditors' acceleration rights.

Estimates for the impact of each of these factors on debt valuation vary, but each is significant. Based on the principle of national treatment (which entails parity of treatment between foreign and domestic banks in like circumstances), we believe that IHCs should not be required to issue this more costly debt compared to U.S. G-SIBs or our peer regional banks that are not subject to an equivalent requirement.

To partially reduce the cost burden on IHCs, we suggest that LTD for IHCs, whether issued internally or externally, be allowed to be contractually senior in priority while remaining structurally subordinated to the obligations of operating bank subsidiaries. We also suggest that the Board allow contractual acceleration rights in LTD instruments equivalent to those allowed in LTD for U.S. G-SIBs. By removing the contractual subordination requirement and allowing acceleration rights, the Board would reduce some of the additional cost burden associated with the Proposed Rule.

V. Regulatory Guidance Regarding the Use of LTD Conversion vs. Bankruptcy

The Proposed Rule has led to some uncertainty regarding the regulators' intent to use the conversion of LTD into common equity in the resolution of an IHC. IHCs, their foreign parents, debt investors and credit rating agencies all have an interest in understanding the circumstances under which regulators may allow the IHC to enter bankruptcy in contrast to the circumstances under which regulators may write-down or convert LTD to equity in order to avoid bankruptcy. In our view, putting an IHC that is subject to TLAC through a bankruptcy process in which the IHCs major creditor, its foreign parent, emerges as the majority equity holder would be a longer and more uncertain, destabilizing and expensive way to accomplish the recapitalization than the process that the Proposed Rules enable. Therefore, we would not expect bankruptcy to be the preferred approach of our regulators. However, in the absence of any formal guidance, market participants are developing varied individual expectations that could lead to market inefficiencies and confusion.

As an example, a recent Standard and Poor's article[5] cited a May 2015 speech by Chairman Gruenberg[6] of the Federal Deposit Insurance Corporation, in which he commented that Title I

[5] Standard and Poor's, "Assessing The Creditor Waterfall For U.S. Global Systemically Important Banks," June 14, 2016.
[6] "A Progress Report on the Resolution of Systemically Important Financial Institutions, Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation, to the Peterson Institute for International Economics; Washington, D.C" May 12, 2015

bankruptcy is the statutory first option to resolve U.S. G-SIBs, but that the Orderly Liquidation Authority under Title II is available as a backup. Similarly, Moody's methodology for assigning credit ratings to banks[7] considers loss rates sustained on bank assets during resolution. According to Moody's methodology, a rapid resolution that permits subsidiaries of a bank holding company to remain operational through resolution results in lower asset losses (and therefore losses borne by creditors) than a resolution accomplished through bankruptcy proceedings. As a result, IHCs' credit ratings could be impacted by Moody's understanding of likely resolution approaches.

We would appreciate some guidance on this matter, by whatever means the Board deems appropriate, so as to reduce the likelihood of confusion on the part of the impacted institutions and the markets regarding the Board's approach to an IHCs resolution.

[7] Moody's, "Rating Methodology: Banks," March 16, 2015.

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We thank the Board for its consideration of our comments, and encourage you to contact the undersigned to discuss further.

Sincerely,

John F. Woods
Executive Officer, Mitsubishi UFJ Financial Group, Inc.
Chief Financial Officer, MUFG Americas Holdings Corp. and MUFG Union Bank, N.A.

Copy to:

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