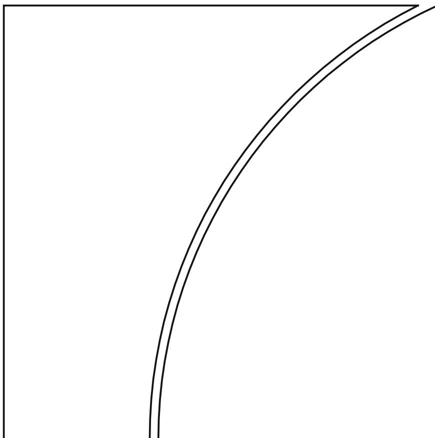
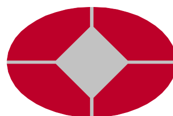
Basel Committee
on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III LCR regulations – China

July 2017



BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available on the BIS website (www.bis.org).

© *Bank for International Settlements 2017. All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.*

ISBN 978-92-9259-066-6

Contents

Preface 5

Executive summary 6

Response from the Chinese authorities 7

1 Assessment context and main findings 8

- 1.1 Context 8
- 1.2 Structure, enforceability and binding nature of prudential regulations 9
- 1.3 Scope of the assessment 9
- 1.4 Main findings 10

2 Detailed assessment findings 12

- 2.1 LCR 12
- 2.2 LCR disclosure requirements 12
- 2.3 Observations specific to the implementation practices in China 12

Annexes 15

- Annex 1: RCAP Assessment Team and Review Team 15
- Annex 2: Local regulations issued by Chinese authorities to implement Basel LCR standards 16
- Annex 3: List of Basel LCR standards used for the assessment 17
- Annex 4: Details of the RCAP assessment process 18
- Annex 5: Key liquidity indicators of the Chinese banking system 19
- Annex 6: Materiality assessment 20
- Annex 7: China's implementation of the liquidity monitoring tools 21
- Annex 8: China's adoption of the *Principles for sound liquidity risk management and supervision* 23
- Annex 9: Areas where Chinese LCR rules are stricter than the Basel standards 26
- Annex 10: Implementation of LCR elements subject to prudential judgment or discretion in China 27

Glossary

ALA	Alternative Liquidity Approaches
BEPS	Bulk electronic payment system
BIS	Bank for International Settlements
C	Compliant (grade)
CBRC	China Banking Regulatory Commission
CNY	Chinese yuan renminbi
EBA	European Banking Authority
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
HVPS	High-value payment system
IBPS	Internet banking payment system
LC	Largely compliant (grade)
LCR	Liquidity Coverage Ratio
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
PBoC	People's Bank of China
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RMBS	Residential mortgage-backed securities
SIG	Supervision and Implementation Group

Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of an RCAP Assessment Team on the domestic adoption of the Basel Liquidity Coverage Ratio (LCR) standard in China and its consistency with the minimum requirements of the Basel III framework. The assessment focuses on the largest Chinese banks, including those that are internationally active and of significance to domestic financial stability.

The RCAP Assessment Team was led by Mr Adam Farkas, Executive Director of the European Banking Authority (EBA). The Assessment Team comprised two technical experts, from the Financial Stability Institute and the United States. The main counterpart for the assessment was the China Banking Regulatory Commission (CBRC). The work was coordinated by the Basel Committee Secretariat with support from staff at the EBA.

The focus of the assessment was on the consistency and completeness of the Chinese regulations with the Basel minimum requirements, based on the Chinese regulations in force on 31 March 2017. Issues relating to prudential outcomes, the liquidity position of individual banks or the Chinese authorities' supervisory effectiveness were not in the scope of this RCAP assessment. The assessment relied on translated regulations and other information and explanations provided by the Chinese authorities and ultimately reflects the expert view of the Assessment Team on the documents and data reviewed.

The assessment began in September 2016 and consisted of three phases: (i) completion of an RCAP questionnaire (a self-assessment) by CBRC; (ii) an assessment phase (December 2016 to March 2017); and (iii) a post-assessment review phase (April to June 2017). The second phase included an on-site assessment, which included discussions with the Chinese authorities and representatives of Chinese banks. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel LCR in China. The third stage comprised a two-stage technical review of the assessment findings: first, by a separate RCAP Review Team, as well as feedback from the Basel Committee's Supervision and Implementation Group (SIG); and, second, by the RCAP Peer Review Board and the Basel Committee. This review process is a key part of the RCAP, providing quality control and ensuring the integrity of the assessment findings. The assessment outcome was based on the materiality of findings (in both quantitative and qualitative terms) and expert judgment.

The report has three sections and a set of annexes: (i) an executive summary with a statement from the Chinese authorities on the assessment outcome; (ii) the context, scope and methodology, together with the main assessment findings; and (iii) other assessment-related observations.

Executive summary

In China, the LCR applies to all commercial banks with total assets of at least 200 billion Chinese renminbi (CNY). It was implemented via three regulations on reporting, minimum LCR requirements and disclosure. These were issued in December 2013, February 2014 and December 2015, respectively, and came into effect in January 2014, March 2014 and December 2015.

Overall, as of 31 March 2017, the LCR regulations in China are assessed as compliant with the Basel LCR standards. This is the highest possible grade. All four components are also assessed as compliant, with no gaps identified between the Basel LCR standards and the Chinese regulations. The Assessment Team compliments the CBRC on its implementation of an alignment with the Basel LCR framework.

In some respects, the Chinese LCR framework is stricter than the Basel standards, particularly with respect to the definition of high-quality liquid assets (HQLA).

In addition to the formal assessment of the LCR standard and disclosure requirements, this report contains annexes that summarise China's implementation of the LCR monitoring tools and the Basel Committee's principles for sound liquidity risk management, as well as the key national discretions and approaches that the CBRC has adopted when implementing the LCR. These annexes show how national authorities implement certain aspects of the Basel standards that are not in scope of the formal RCAP-LCR assessment. Over time, this information will provide a basis for designing sound practices and additional supervisory guidance that will benefit the regulatory community and the banking industry. This should raise the consistency of LCR implementation and improve the ratio's effectiveness in practice.

Response from the Chinese authorities

As one of the largest emerging economies, China has strong commitment to global regulatory standards for the purpose of building a sound and resilient financial system. In January 2014, the CBRC issued the *Rules on Liquidity Risk Management of Commercial Banks* benchmarking Basel III to ensure a timely implementation of Basel III from 1 January 2015, the start date set by the Basel Committee. In December 2015, the CBRC issued the *Rules on Information Disclosure of Liquidity Coverage Ratio of Commercial Banks* benchmarking Basel standards. The *Liquidity Rules* and *LCR Disclosure Rules* reflect the CBRC's continuous efforts for strengthening banking regulation and supervision. Compared with the Basel rules text, the *Liquidity Rules* have a wider scope of application and set higher requirements in selected areas in a more prudent way.

The CBRC fully supports the RCAP put in place by the Basel Committee, which aims to foster a consistent implementation of Basel standards across jurisdictions. We welcome the detailed assessment of LCR regulations in China and highly appreciate the expertise and efficiency of the Assessment Team shown in the assessment process, whose recommendations have therefore been well received and carefully considered by the CBRC.

The Basel III implementation is an evolving process that deserves ongoing commitment, hard work and coordinated efforts. So we look forward to further cooperation and collaboration with the Basel Committee.

1 Assessment context and main findings

1.1 Context

Status of implementation

The CBRC is responsible for the implementation of the LCR in China. It implemented the LCR framework via three regulations on reporting, minimum LCR requirements and disclosure. A *Notice on the off-site supervisory report (Instructions on LCR reporting G25-1)* was issued in December 2013 and came into effect in January 2014. The *Rules on Liquidity Risk Management of Commercial Banks (provisional)*, which contains the minimum LCR requirements, was issued in February 2014 and came into effect in March 2014. The *Rules on Information Disclosure of Liquidity Coverage Ratio of Commercial Banks* was issued in December 2015 and came into effect the same month. The CBRC revised the *Rules* and its regulations on reporting in 2015 and 2016, respectively.

In China, the LCR applies to all commercial banks with total assets of at least CNY 200 billion. This includes all internationally active banks based in China and accounts for around 90% of Chinese banking system assets. As of end-2016, 70 banks exceeded the threshold and must comply with the LCR rules; this has been rising gradually in recent years. In 2014, when the regulation was first implemented, the minimum LCR was 60%. This will increase by 10% a year until the end of 2018, at which time banks will be subject to a minimum LCR requirement of 100%.

The Basel standard allows jurisdictions that have a structural shortfall in HQLA to implement Alternative Liquidity Approaches (ALA). At the time of the assessment, the Chinese authorities have not implemented ALA.

Structure of the banking sector

The core business of the Chinese banking system remains relatively traditional, concentrated in domestic lending and services. As of end-2016, there were 1,373 banks operating in China. Over 1,000 of these banks are small independent rural banks, which mainly serve farmers in their local communities. However, the system has grown rapidly in recent years and the depth of many financial markets has increased, along with the size and diversity of institutional investors. For example, as at end-2016, the outstanding value of bonds listed on the securities market stood at CNY 63.8 trillion and average daily turnover in the interbank repo and spot bond trading markets were approximately CNY 2.4 trillion and CNY 506.3 billion respectively.

Six Chinese banks are internationally active, including the four Chinese banks designated as global systemically important banks (G-SIBs), although most banks' international activity is quite limited. The Chinese banking system's overseas exposures comprise only around 4% of the banks' total assets. Chinese banks do not make use of holding company structures.

In evaluating the materiality of its findings, the RCAP Assessment Team focused on 12 of the largest banks in China (see Annex 6). Together, the 12 banks comprise about 70% of the Chinese banking sector. The average LCR of these banks at end-2016 was 120%.

Regulatory system and model of supervision

The CBRC has been responsible for banking regulation and supervision in China since 2003. It reports directly to the State Council. Its objective is to promote a safe and sound banking industry by preventing and reducing banking risks while protecting the legitimate interests of depositors and other clients. The *Law on Banking Supervision and Regulation*, from which the CBRC derives its powers, also applies to asset management companies, trust companies, finance companies, financial leasing companies incorporated in China and other non-bank financial institutions approved by the CBRC.

Chinese banks have been subject to liquidity requirements and a quantitative liquidity requirement since 1995.[1] In addition to the supervision of minimum liquidity requirements, the CBRC monitors the banks' liquidity position using, among other metrics, the Basel liquidity monitoring tools. The CBRC has also implemented the Basel monitoring tools for intraday liquidity management. The monitoring of liquidity conducted by CBRC is explained in more detail in Annex 7. Annex 8 describes how the Chinese authorities have responded to the Basel principles on sound liquidity risk management.

While the CBRC is responsible for the regulation and supervision of liquidity, it collaborates with the People's Bank of China (PBoC) when conducting liquidity stress testing. The PBoC also closely monitors the liquidity of the banking system and financial markets as part of its roles with respect to monetary policy and financial stability.

1.2 Structure, enforceability and binding nature of prudential regulations

Under its founding law, the CBRC has the power to issue two types of legal instrument: regulations and regulatory documents. Regulations have the highest legal force and are used to implement the main elements of the prudential framework. Regulatory documents have a legal status subordinate to regulations and typically contain more detailed requirements. Both types of documents constitute legally binding rules, non-compliance with which can be used as basis for enforcement action against banks. Table 1 summarises the structure of prudential regulations in China. Annex 2 lists main regulations implementing the LCR in China. As for the Committee's RCAP assessment of the implementation of the risk-based capital framework in China, both regulations and regulatory documents are considered eligible for this RCAP assessment.[2]

Structure of Chinese laws and regulatory instruments — Table 1

	Type of document
Laws that empower the CBRC as supervisor	Law on Banking Supervision and Regulation
Legal instruments issued by CBRC under the above law	Regulations: used for the main provisions in the prudential framework. There are various names and titles for regulations, including, "Provisions", "Measures" and "Rules".
	Regulatory documents, including "Notices" and "Circulars", issued to support regulations

The CBRC regulates its own rule-making process through the *CBRC Rule-making Provisions*, which requires the CBRC to review regularly the rules it makes to ensure their relevance and effectiveness.

Source: CBRC.

1.3 Scope of the assessment

The Assessment Team considered the LCR requirements applicable to large banks in China as of 31 March 2017. The assessment had two dimensions:

[1] The minimum quantitative metric introduced at that stage, the liquidity ratio, is still in force alongside the LCR.

[2] Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III regulations – China*, September 2013, www.bis.org/bcbs/implementation/l2_cn.pdf. See in particular Annex 7.

- a comparison of domestic regulations with the Basel LCR standards to ascertain that all the required provisions have been adopted (*completeness* of the Chinese domestic regulations); and
- whether there are any differences in substance between the domestic regulations and the Basel LCR standards and their significance (*consistency* of the Chinese regulations).

In its assessment, the RCAP Assessment Team considered all binding documents that effectively implement the Basel LCR standards in China. Importantly, the assessment did not evaluate the adequacy of liquidity or resilience of the banking system in China or the supervisory effectiveness of the Chinese authorities.

Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the four key components of the Basel LCR framework and the overall assessment of compliance. The four grades are: compliant, largely compliant, materially non-compliant and non-compliant.[3]

The RCAP methodology expects assessors to assess the materiality of any identified deviations between the Basel standard and the local regulations in terms of their current or, where applicable, potential future impact (or non-impact) on banks' LCRs. The quantification is, however, limited to the agreed sample of banks. In addition to the available data, RCAP assessments rely on expert judgment as to whether the domestic regulations meet the Basel framework in letter and in spirit. The non-quantifiable aspects of identified deviations are reviewed in the context of the prevailing domestic regulatory practices and processes.

Ultimately, the assignment of the assessment grades is guided by the collective expert judgment of the Assessment Team. In doing so, Assessment Teams rely on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. The materiality analysis is summarised in Annex 6.

In a number of areas, the Chinese rules go beyond the minimum Basel standards (see Annex 9). Although these elements provide for a more rigorous implementation of the Basel framework in some aspects, they have not been taken into account for the assessment of compliance, as per the agreed RCAP methodology.

1.4 Main findings

Overall, the Assessment Team finds the Chinese LCR requirements to be compliant with the Basel standard.

[3] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable. See www.bis.org/bcbs/publ/d361.htm for further details.

Summary of assessment grades	Table 2
Key component of the Basel LCR framework	Grade
Overall grade	C
Definition of high-quality liquid assets (numerator)	C
Definition of net outflows (denominator)	C
Definition of net inflows (denominator)	C
LCR disclosure requirements	C

Compliance assessment scale (see also Section 1.3): C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

Main findings by component

High-quality liquid assets (numerator)

The Chinese rules on HQLA are compliant with the Basel standards.

The description of and requirements for HQLA in the Chinese LCR regulations and instructions closely follow the text of the LCR standard. The Assessment Team observed three instances where the text could be made clearer: on certain operational requirements, the treatment of public sector entity (PSE) securities and the treatment of certain sovereign exposures. However, these observations do not affect the compliance of the Chinese rules with the Basel framework.

Outflows (denominator)

The rules on the definition of net outflows in the Chinese LCR regulations are compliant with the Basel standards.

The Assessment Team observed that certain provisions relating to prime brokerage were not included. This is because, according to Chinese laws, Chinese banks are not allowed to conduct such business.

Inflows (denominator)

The Assessment Team considered the definition of inflows in the Chinese LCR regulations to be compliant with the Basel standards.

Disclosure requirements

The Chinese LCR disclosure requirements are compliant with the Basel standards.

Under the Chinese regulation, all commercial banks with assets above CNY 200 billion must calculate and report the LCR to the CBRC monthly and disclose it with the same frequency as financial reports (listed banks, including all internationally active banks, disclose this information quarterly). As of end-2016, this threshold applies to 70 banks. As the size of the banking sector has increased while the threshold has remained constant, the number of banks required to disclose the LCR has increased from 48 when the LCR requirements were first introduced. The CBRC can vary the frequency of supervisory reports on the LCR based on commercial banks' business scale, nature, complexity, risk management mode and liquidity characteristics.

2 Detailed assessment findings

The detailed findings of the Assessment Team on compliance of the Chinese LCR with the Basel framework are described below, component by component. Sections 2.1 and 2.2 focus on findings that were assessed to deviate from the Basel minimum standards, with an assessment of their materiality. Section 2.3 lists some observations on the specific implementation practices in China.

2.1 LCR

High-quality liquid assets (numerator)

Section grade	Compliant
Summary	The Assessment Team did not identify any gaps between the Chinese definition of HQLA and that in the Basel standard. In some respects, the Chinese definition is stricter (see Section 2.3 and Annex 9).

Outflows (denominator)

Section grade	Compliant
Summary	The Assessment Team found the definition of outflows in the Chinese standards consistent with that in the Basel LCR framework.

Inflows (denominator)

Section grade	Compliant
Summary	The Assessment Team has found that the Chinese regulations follow the Basel standards for determining inflows allowed in the denominator of the LCR.

2.2 LCR disclosure requirements

Section grade	Compliant
Summary	The Assessment Team did not find any substantive differences between the Chinese LCR disclosure requirements and those set out in the Basel standards.

2.3 Observations specific to the implementation practices in China

The following observations highlight special features of the regulatory implementation of the Basel LCR standards in China. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

High-quality liquid assets (numerator)

Basel paragraph number	39 and 40: operational requirements for HQLA
Reference in the domestic regulation	Rules on Liquidity Risk Management of Commercial Banks (provisional), Annex 2(II-iii-2)
Observation	The Basel LCR standard describes operational requirements applying to HQLA. One such requirement is that banks should not include in HQLA assets received under the right of rehypothecation. The corresponding section in the Chinese rules is included at the end of a section in Annex 2 (II-iii-2) that is titled “Level 2 assets”. Although the text on rehypothecation in the Chinese regulation refers to HQLA, its position at the end of the section on Level 2

	assets could be confusing. It is recommended to separate the HQLA reference more clearly from the Level 2 section.
Basel paragraph number	50: Level 1 assets
Reference in the domestic regulation	Rules on Liquidity Risk Management of Commercial Banks (provisional), Annex 2(II-iii-1(5)), and Instructions on LCR Reporting (G25, Section I, 1.1.5)
Observation	Domestic sovereign or central bank debt securities issued in foreign currencies may be included in Level 1 HQLA up to the amount of the bank's stressed net outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken. This limit on eligibility is clearly specified in the Chinese instructions for LCR reporting, though not in the main LCR regulation. It is recommended that the Chinese authorities clearly specify that their translation of Basel paragraph 50(e) only applies to the amount of the bank's stressed net cash outflows in that specific foreign currency and excludes those in the bank's home country, as correctly reported in the instructions for LCR reporting.
Basel paragraph number	50: PSE securities in HQLA
Reference in the domestic regulation	Rules on Liquidity Risk Management of Commercial Banks (provisional), Annex 2(II-iii-1), Article 58 of the Capital rules
Observation	The Basel standard includes the securities of PSEs in HQLA, subject to conditions. Securities of PSEs assigned a 0% risk weight under the standardised approach to credit risk (and that meet the liquidity conditions) are classified as Level 1 HQLA, while securities of PSEs assigned a 20% risk weight are classified as Level 2A HQLA. In the Chinese capital regulation, securities of all PSEs are assigned a 20% risk weight. They are automatically included in Level 2 HQLA and cannot be included in Level 1 assets. To clarify this, a reference to Article 58 of the capital regulation rule could be included in the Chinese LCR regulation where PSEs are mentioned.
Basel paragraph number	52 and footnote 17: sovereign and central bank securities in HQLA
Reference in the domestic regulation	Rules on Liquidity Risk Management of Commercial Banks (provisional), Annex 2(II-iii-2)
Observation	Contrary to the Basel LCR standard (footnote 17 to paragraph 52), the Chinese law does not include the symmetrical restrictions applicable to Level 1 assets that are assigned a 0% risk weight under the CBRC requirements rather than the Basel II standardised approach for credit risk in the case of the 20% risk weight for the Level 2 assets. The Chinese authorities interpret footnote 17 as a supplementary instruction and prove clarification to banks on this point as needed; the number of banks to which such a case applies is very limited. Nonetheless, in order to have clear guidance about the availability of the option to classify these assets as either Level 1 or Level 2 assets, a footnote could be added to the Chinese rules similar to footnote 17 in the Basel LCR standard.

Outflows (denominator)

Basel paragraph number	99: prime brokerage services
Reference in the domestic regulation	Commercial Bank Law
Observation	The Basel LCR standard specifies the treatment of deposits and other customer cash balances arising from the provision of prime brokerage services. In China, such services can only be provided by securities firms. According to Chinese laws, commercial banks cannot act as broker-dealers. Therefore, these provisions are not applicable in the Chinese LCR rules.

Application issues

Basel paragraph number	162: frequency of reporting
Reference in the domestic regulation	Rules on Liquidity Risk Management of Commercial Banks (provisional), Articles 36 and 49, and Instructions on LCR reporting G25-1(Part Two-4)
Observation	The Basel standard expects banks to report their LCR to supervisors at least monthly and to have the operational capacity to increase the frequency to weekly or even daily in stressed situations at the discretion of the supervisor. The CBRC applies a principles-based approach to require an increase in the frequency of reporting to weekly or daily in stressed situations. Article 49 enables the CBRC to "determine the content and frequency of liquidity risk statements and reports from banks on the basis of banks' business scale, nature, complexity, risk management and liquidity characteristics". A stressed situation would be regarded as one of these criteria, enabling the CBRC to require daily or weekly reporting. The representatives of some of the Chinese sample banks that met the Assessment Team confirmed their technical capabilities to report the LCR on a daily basis, at least for their domestic operations.
Basel paragraph number	172 and 173: liquidity risk management within consolidated groups
Reference in the domestic regulation	Rules on Liquidity Risk Management of Commercial Banks (provisional), Articles 22, 31, 32, 44 and 60 and Annex 2 (II-iii)
Observation	The Basel standard applies the LCR at the consolidated level. It also notes that there could be restrictions in transferring liquidity within banking groups, particularly cross-border and between currencies. The Chinese banks explained that they are required to meet the LCR requirements both at the consolidated level by CBRC and for overseas entities by host regulators.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Adam Farkas	European Banking Authority

Assessment Team members

Ms Patrizia Baudino	Financial Stability Institute, Bank for International Settlements
Ms Kristin Bogue	Office of the Comptroller of the Currency

Supporting members

Mr Gerbert van der Kamp	European Banking Authority
Mr Luis del Olmo	European Banking Authority
Ms Louise Eggett	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Mr Toshio Tsuiki	Basel Committee Secretariat
Ms Karin Lundberg	Finansinspektionen (Sweden)
Mr Denzel Bostander	South African Reserve Bank

Annex 2: Local regulations issued by Chinese authorities to implement Basel LCR standards

Overview of issuance dates of important Chinese liquidity regulations — Table A.1

Domestic regulations	Type, version and date
Rules on Liquidity Risk Management of Commercial Banks (provisional)	Regulation issued in February 2014, last revised in September 2015
Rules on Information Disclosure of Liquidity Coverage Ratio of Commercial Banks	Regulation issued in December 2015
Notice on the off-site supervisory report (Instructions on LCR reporting G25-1)	Regulatory document issued in December 2013, last revised in December 2016

Source: CBRC.

Hierarchy of Chinese laws and regulatory instruments — Table A.2

Level of rules (in legal terms)	Description
Laws	Enacted by the National People's Congress
Ordinances	Enacted by the State Council
Regulations	Issued by the CBRC
Regulatory documents	Issued by the CBRC

Source: Basel Committee, *RCAP Assessment of Basel III regulations – China*, September 2013, www.bis.org/bcbs/implementation/l2_cn.pdf.

The RCAP assessment of China's implementation of the Basel risk-based capital standards considered the binding nature of regulatory documents in China. This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous RCAP findings.

The findings of the previous assessment of bindingness are in Annex 7 of the RCAP-Capital assessment report.[4] Under Chinese law, courts can refer to both effective regulations and regulatory documents in trials of administrative cases. Both regulations and regulatory documents are made public, viewed as binding by banks and supervisors and can be used as a basis for remedial measures or enforcement actions, including the imposition of administrative penalties by CBRC.

[4] Basel Committee, *RCAP Assessment of Basel III regulations – China*, September 2013, www.bis.org/bcbs/implementation/l2_cn.pdf.

Annex 3: List of Basel LCR standards used for the assessment

Basel documents in scope of the assessment

- *The Liquidity Coverage Ratio* (January 2013), including the *Frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio* (April 2014)
- *Liquidity Coverage Ratio disclosure standards* (January 2014)

Basel documents reviewed for information purposes

- *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (January 2013), part on liquidity risk monitoring tools only
- *Monitoring tools for intraday liquidity management* (April 2013)
- *Principles for sound liquidity risk management and supervision* (September 2008)

Annex 4: Details of the RCAP assessment process

Off-site evaluation

- Completion of a self-assessment questionnaire by the Chinese authorities
- Evaluation of the self-assessment by the RCAP Assessment Team
- Independent comparison and evaluation of the domestic regulations issued by the Chinese authorities with corresponding Basel standards issued by the Basel committee
- Identification of observations
- Refinement of the list of observations based on clarifications provided by the Chinese authorities
- Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment
- Sending the list of observations to the Chinese authorities

On-site assessment

- Discussion of individual observations with the Chinese authorities
- Meeting with selected Chinese banks
- Discussion with the Chinese authorities and revision of findings to reflect additional information received
- Assignment of component grades and overall grade
- Submission of the detailed findings and grades to the Chinese authorities
- Receipt of comments on the detailed findings from the Chinese authorities

Review and finalisation of the RCAP report

- Review of comments by the RCAP Assessment Team, finalisation of the draft report and sending to the Chinese authorities for comments
- Review of the Chinese authorities' comments by the RCAP Assessment Team
- Review of the draft report by the RCAP Review Team
- Report of findings to the SIG by the Team Leader
- Review of the draft report by the Peer Review Board
- Approval of the report by the Basel Committee and publication

Annex 5: Key liquidity indicators of the Chinese banking system

Overview of Chinese banking sector liquidity as of end-2016 — Table A.3

Size of banking sector (CNY, millions)		
Total assets of all banks operating in China (including off-balance sheet exposures)	206,043,961	
Total assets of all locally incorporated internationally active banks	105,060,073	
Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied	183,951,532	
Number of banks		
Number of banks operating in China (excluding local representative offices)	1,373	
Number of G-SIBs	4	
Number of domestic systemically important banks	Local framework still under development	
Number of banks which are internationally active	6	
Number of banks required to implement Basel III liquidity standards	70	
Number of banks required to implement domestic liquidity standards	1,373	
Breakdown of LCR for 12 RCAP sample banks (CNY, millions)	**Unweighted**	**Weighted**
Total HQLA	22,158,218	20,746,432
Level 1 HQLA	14,087,816	14,087,816
Level 2A HQLA	7,622,664	6,479,264
Level 2B HQLA	447,738	223,869
ALA HQLA	-	-
Total cash outflows	121,079,997	27,619,747
Retail and small business stable deposits	6,490,229	321,886
Retail and small business less stable deposits	32,387,808	3,238,781
Wholesale unsecured operational deposits	27,941,235	6,658,518
Wholesale unsecured non-operational funding	25,260,061	13,199,245
Secured funding	2,560,458	221,784
Debt issued instruments (including credit and liquidity facilities)	8,942,593	868,095
Other contractual outflows	2,823,985	2,823,493
Contingent funding obligations	14,673,628	287,945
Total cash inflows	13,991,915	10,317,364
Secured lending	2,183,557	1,497,450
Fully performing unsecured loans	9,585,042	6,774,199
Other cash inflows	2,223,316	2,045,715
LCR		120%

Source: CBRC.

Annex 6: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings. As a general principle, and mirroring the RCAP assessment methodology for the risk-based capital standards, a distinction is made between quantifiable and non-quantifiable findings. The RCAP-LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, teams also take into account the dynamic nature of liquidity risks and seek to address the materiality of any deviations at different points in time.

In line with underlying RCAP principles, the materiality assessment for quantifiable gaps is based on a determination of the cumulative impact of the identified deviations on the reported LCRs of banks in the RCAP sample. For non-quantifiable gaps, the Assessment Team relies on expert judgment only. Following this approach, the findings are classified as "not material", "potentially material" or "material". The following table summarises the deviations according to their materiality.

Number of deviations by component — Table A.4

Component	Not material	Potentially material	Material
HQLA (numerator)	0	0	0
Outflows (denominator)	0	0	0
Inflows (denominator)	0	0	0
LCR disclosure requirements	0	0	0

RCAP sample of banks

The following Chinese banks were selected for testing the materiality of quantifiable deviations. Together these banks represent about 70% of the total assets of the Chinese banking system.

RCAP sample banks — Table A.5

Banking group	Share of bank's assets in the total assets of the Chinese banking system (per cent)
Agricultural Bank of China	10.1
Bank of China	9.5
Bank of Communications	4.4
China Construction Bank	11.0
Industrial and Commercial Bank of China	12.5
China CITIC Bank	3.4
China Everbright Bank	2.2
China Merchants Bank	3.3
China Minsheng Banking Corporation	3.3
Industrial Bank	3.3
Ping An Bank	1.7
Shanghai Pudong Development Bank	3.2
Total	68.0

Source: CBRC. For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Annex 7: China's implementation of the liquidity monitoring tools

In addition to the minimum standard for the LCR, the Basel liquidity framework outlines the metrics to be used to monitor liquidity risks ("the monitoring tools"). The monitoring tools capture specific information related to a bank's cash flows, balance sheet structure, available unencumbered collateral and certain market indicators. The monitoring tools supplement the LCR standard and provide a benchmark for supervisors in assessing the liquidity risk of a bank. This annex provides an overview of the implementation of the monitoring tools in China.

Given that a single indicator or monitoring tool has limitations in reflecting the full liquidity risk of commercial banks, the CBRC uses a number of tools and methods to monitor and analyse liquidity risk. In line with the Basel III liquidity monitoring framework, the CBRC monitors and analyses commercial banks' liquidity risk from the perspective of assets and liabilities maturity mismatch, the diversity and stability of funding sources, unencumbered assets, liquidity risk by significant currencies, market liquidity etc. Various monitoring requirements and indicators are requested under the *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*. Most indicators are obtained monthly or quarterly through the Off-site Supervisory Reporting System. The other indicators are obtained through specific reporting required by CBRC from banks, or through market monitoring. The specific monitoring framework and indicators are as follows.

1. *Contractual maturity mismatch*

The CBRC regularly monitors commercial banks' contractual maturity mismatch of different time periods for all the on- and off- balance sheet items, and analyses its effects on liquidity risk. The analysis and monitoring of contractual maturity mismatch can cover buckets of overnight, seven days, 14 days, one month, two months, three months, six months, nine months, one year, two years, three years, five years and over five years. Relevant indicators include but are not limited to the liquidity gap and liquidity gap ratio. Commercial banks regularly monitor and report the *Liquidity Gap Report* to the CBRC, the banks' on- and off- balance sheet items are separated into different buckets (overnight, two to seven days, eight to 30 days, 31–90 days, 91 days to one year, over one year and undetermined maturity) by different residual maturity, and liquidity gaps are calculated accordingly.

2. *Concentration of funding*

The CBRC regularly monitors the diversification and stability of commercial banks' funding sources, and analyses their effects on liquidity risk. According to the principle of materiality, the CBRC analyses the concentration of commercial banks' on- and off-balance-sheet liabilities in funding instruments, counterparties and currencies. Relevant indicators include but are not limited to the core funding ratio, interbank funding ratio, the top 10 depositors ratio and the top 10 interbank funding ratio. Commercial banks regularly monitor and report *Asset and Liability Items Report*, *Liquidity Gap Report*, *Top 10 Depositor Report*, *Top 10 Interbank Funding Report* to the CBRC. The CBRC monitors and analyses the commercial banks' funding concentration through the regularly reported data.

3. *Available unencumbered assets*

The CBRC regularly monitors the type, quantity and location of commercial banks' unencumbered assets. Relevant indicators include but are not limited to the excess reserve ratio, high-quality liquidity assets and assets eligible as collateral at the central bank or for secured funding in secondary markets. Commercial banks monitor and report *Asset and Liability Items Report*, *Liquidity Ratio Report*, *Liquidity Coverage Ratio Report* etc to the CBRC. The CBRC analyses the available unencumbered assets of commercial banks through the reported data.

4. *Liquidity Coverage Ratio by significant currency*

Significant currencies refer to currencies in which the liabilities denominated account for more than 5% of the total commercial bank's liabilities. The CBRC decides whether to separately monitor the liquidity risk of significant currencies on the basis of commercial bank's scale of the foreign exchange business, currency mismatching, impacts on the market etc. Relevant indicators include but are not limited to LCR by significant currencies. Commercial banks need to report LCR by significant currencies according to the CBRC's requirement.

5. *Market-related monitoring tools*

The CBRC closely monitors and analyses the effects of changes in macroeconomic situation and financial markets on banking system liquidity, as well as overall liquidity conditions in financial markets. When situations such as an increase in funding costs, a decline in or deteriorating marketability of high-quality liquid assets, limited liquidity transfer, or tight market liquidity are detected, the CBRC will immediately analyse their effects on commercial banks' funding capacity. The relevant indicators used to analyse and monitor market liquidity by the CBRC include but are not limited to the relevant interbank market interest rates and trading volume, treasury term deposit offer rate, discount rate of BAs and stock market indexes. Commercial banks need to monitor the relevant indicators and immediately report to the CBRC if it is found that the indicators are fluctuating abnormally and may adversely affect the bank.

Basel monitoring tools for intraday liquidity management

The Basel Committee issued a standard on monitoring tools for intraday liquidity management in April 2013.

According to Article 27 of the *Rules on Liquidity Risk Management of Commercial Banks (Provisional),* commercial banks shall strengthen intraday liquidity risk management, ensure that adequate intraday liquidity position and related funding arrangements are in place to meet intraday payment and settlement obligations on a timely basis under both normal and stressed scenarios.

Commercial banks use the PBoC's High-value Payment System (HVPS), Bulk Electronic Payment System (BEPS) and Internet Banking Payment System (IBPS) to make payments and conduct clearing. HVPS is used to clear large value credit payments above a preset limit as well as urgent small-value credit payments. Large-value payment orders are sent transaction-by-transaction in real time and cleared in gross amount. SVPS is used to clear debit payments as well as small credit payments below a preset limit. Payment orders are sent in bulk and cleared on a netting basis. IBPS is used to clear customers' online interbank payments with a limit below CNY 50,000.

The PBoC monitors transaction volumes, payment risks, system stability and abnormal payments via LVPS, BEPS or IBPS in real time. The PBoC can check banks' clearing account balances in real time and set warning limits. If a bank's clearing account balance reaches the preset warning limit, the system can automatically notify the PBOC. As for HVPS, the PBoC requires banks to effectively strengthen day-to-day monitoring and liquidity management of their clearing account positions, and ensure that sufficient funds are in place to clear payments in time. As for BEPS and IBPS, the PBoC requires banks to provide equivalent funding (or credit limit or collateral) guarantees to secure any net debt to be settled.

Annex 8: China's adoption of the *Principles for sound liquidity risk management and supervision*

This annex outlines how the Basel Committee's *Principles for sound liquidity risk management and supervision* have been incorporated in the Chinese liquidity framework. The CBRC has incorporated many of the Sound Principles in its *Rules on Liquidity Risk Management of Commercial Banks* (hereinafter referred to as "the Rules"). The principles are not part of the formal RCAP-LCR assessment and no grade is assigned. This description of the Chinese requirements, provided by the CBRC, is for information only.

Fundamental principle for the management and supervision of liquidity risk – Principle 1

Commercial banks are required to establish sound liquidity risk management systems to identify, measure, monitor and control liquidity risks effectively at both legal entity and group level, and to ensure the liquidity needs can be met on a timely basis at a reasonable cost. Commercial banks should hold sufficient high-quality liquid assets to ensure their liquidity needs can be satisfied in a timely manner under stress scenarios.

The CBRC supervises commercial banks' liquidity risk and its management at both the legal entity and group levels, and aims to take measures to address potential liquidity risks as soon as possible.

Governance of liquidity risk management – Principles 2–4

Commercial banks must determine their liquidity risk appetite according to their business strategies, business characteristics, financial strength, financing ability, whole risk preferences and market influence. The liquidity risk appetite should clarify the liquidity risk levels that the bank is willing and able to bear under both normal times and stressed circumstances.

The senior management of a commercial bank should: (i) formulate, regularly assess and supervise the implementation of the liquidity risk appetite, liquidity risk management strategies, policies and procedures; (ii) organise the liquidity risk management function, including assigning responsibilities among departments and ensuring that the bank has enough resources to manage its liquidity risks independently and effectively; (iii) communicate the liquidity risk appetite, liquidity risk management strategies, policies and procedures within the bank; (iv) establish a complete management information system to support the identification, measurement, monitoring and control of liquidity risks; and (v) fully understand and regularly assess the bank's liquidity risk level and management, including significant changes, and regularly report to the board of directors.

The board of directors of a commercial bank should examine and approve the bank's liquidity risk appetite, liquidity risk management strategies and major policies and procedures. Liquidity risk appetite should be discussed at least once a year and adjusted where necessary. The board of directors must also supervise the bank's senior management's performance in effectively managing and controlling liquidity risks.

Commercial banks must consider liquidity risk factors in internal pricing and performance evaluation, including incorporating the cost of liquidity risk in measures of risk-adjusted return for branches or main business lines. Commercial banks are also required to evaluate the impact on liquidity risks in assessing the feasibility of a new product, business or institution before launch. The department responsible for liquidity risk management must consent to any such new venture and may require improvements in corresponding risk management policies and procedures.

Measurement and management of liquidity risk – Principles 5–12

Detailed requirements for commercial banks to effective identify, measure, monitor and control their liquidity risks using liquidity risk management policies and procedures are set out in the Rules.

Commercial banks should establish a framework to measure and analyse cash flows to effectively measure, monitor and control future cash flow gaps under both normal and stress scenarios. This measurement and analysis should cover assets and liabilities, as well as potential cash flows from contingent assets and contingent liabilities and the impact of payment and settlement, agency and custodian business on cash flow.

Commercial banks must effectively identify, measure, monitor and control liquidity risks at the legal entity and group level, covering all subsidiaries, branches and business lines. Banks with overseas operations must comply with the laws, regulations and supervisory requirements of the jurisdictions where they are active, as well as consider the impact of liquidity risk transfer restrictions, differences in the degree of financial market development and other factors that might affect liquidity risk management on a consolidated basis. Banks must identify, measure, monitory and control liquidity risks in terms of a single currency (ie local and foreign currency in total) and by each significant currency.

Commercial banks should establish a funding strategy to improve the diversity and stability of funding sources. Funding management must: (i) analyse funding needs and sources at different future periods under both normal and stress scenarios; (ii) strengthen concentration management and establish moderate concentration limits; (iii) strengthen funding channel management, actively maintain relationships with major funding counterparties, keep an appropriate level of activity in the market, and regularly assess the ability of market funding and asset realisation; and (iv) closely monitor the changes in trading volume and price level of major financial markets, assessing the impact of market liquidity on commercial banks' funding capacity.

Commercial banks should strengthen intraday liquidity risk management and ensure that adequate intraday liquidity position and related funding arrangements are in place to meet payment and settlement obligations on a timely basis under both normal and stress scenarios.

A commercial bank should strengthen funding collateral management, distinguish encumbered assets and unencumbered assets, monitor and analyse the types, quantity, currencies, geographical locations, legal entities, specific custodial or bank accounts and the acceptance of central bank or financial market of unencumbered assets that can be used as collateral, regularly assess its asset value and funding capacity, and take into account the operational and time requirements of funding.

Commercial banks should establish a liquidity risk stress-testing system and analyse their capacity to bear short-term and medium- or long-term stress. Commercial banks should prudently and reasonably set and regularly examine stress scenarios, with a full consideration of the specific impact of the commercial bank, systemic shocks on the entire market and a combination of both scenarios, under mild, moderate and serious stress levels. Commercial banks should take stress test results into account when determining their liquidity risk appetite, liquidity risk management strategies, policies and procedures, as well as when formulating business development and financial plans. Also, on the basis of stress test results, commercial banks should develop liquidity risk contingency plans. Each bank's plan should take into account its business size, nature, degree of complexity, risk level, organisational framework and market influence to ensure emergency liquidity needs can be satisfied. The bank should test the contingency plan at least once a year and amend it when necessary. A liquidity risk contingency plan should: (i) set various scenarios that trigger contingency plans; (ii) list sources of emergency funding and ensure the reliability and sufficiency of those sources; (iii) specify contingency procedures and measures; and (iv) clarify the authority and responsibility of the board of directors, the senior management and relevant departments in implementing contingency procedures.

Commercial banks must hold sufficient high-quality liquid assets to ensure that liquidity needs can be satisfied in a timely manner under stress scenarios. High-quality liquid assets should be unencumbered assets.

Public disclosure – Principle 13

Commercial banks must regularly disclose relevant information on liquidity risk levels and management. Disclosures should include (but are not limited to): (i) the governance structure of liquidity risk management; (ii) liquidity risk management strategies and policies; (iii) the bank's main methods for identifying, measuring, monitoring and controlling liquidity risks; (iv) the main indicators for liquidity risk management and a brief analysis; (v) the main factors affecting liquidity risk; and (vi) stress test information.

The role of supervisors – Principles 14–17

According to Chapter 3 of the Rules, regulatory indicators for liquidity risk include the LCR and liquidity ratio. Monitoring metrics cover maturity mismatch between assets and liabilities, the diversification and stability of funding sources, unencumbered assets, liquidity risk by significant currencies and indicators of market liquidity. The Rules set out detailed requirements on commercial banks' liquidity risk management systems. The CBRC uses liquidity risk regulatory indicators and monitoring tools to supervise liquidity risk and its management in commercial banks (at both the legal entity and consolidated level) through off-site supervision, on-site inspection and discussion with commercial banks' directors and senior management.

The CBRC takes measures to cope with potential liquidity risks as soon as possible. Where a commercial bank fails to comply with the minimum regulatory standards for liquidity risk regulatory indicators (ie the LCR or the liquidity ratio) or has flaws in its liquidity risk management system, the CBRC requires the bank to take rectification measures within a prescribed time limit. It may also impose administrative penalties.

Commercial banks regularly submit data on liquidity risks to CBRC including financial accounting reports, statistical reports, external audit reports and liquidity risk stress test reports. Banks also report the events that may adversely affect the liquidity risk level and its management and the measures that they intend to take in response. The CBRC closely analyses and monitors the effects of changes in macroeconomic situation and financial markets on liquidity of the banking system, as well as the overall liquidity conditions of financial markets.

The CBRC has strengthened coordination and cooperation with the relevant domestic and overseas authorities, jointly building information communication mechanisms and mechanisms to address liquidity risks in an emergency. This contributes to the development of commercial banks' liquidity risk supervisory contingency plans. When significant liquidity events affecting a single bank or the whole market occurs, the CBRC will coordinate and cooperate with the relevant domestic and overseas authorities and start liquidity risk supervisory contingency plans in a timely manner to reduce the negative impact of these events on the financial system and macroeconomy.

Annex 9: Areas where Chinese LCR rules are stricter than the Basel standards

In some respects, the Chinese authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee, or have simplified or generalised an approach in a way that does not necessarily result in stricter requirements under all circumstances but never results in less rigorous requirements. These stricter rules have not been taken into account as a mitigant for the overall assessment of compliance.

- The Basel LCR standard allows assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the central bank or a PSE but have not been used to generate liquidity may be included in the stock. The Chinese law does not allow for this possibility.
- The Basel standard permits central bank reserves to be included in Level 1 HQLA, to the extent that the central bank policies allow them to be drawn down in times of stress. Chinese banks can use only excess central bank reserves (ie not those used to meet the PBoC's reserve requirements) as Level 1 HQLA. The CBRC's implementation is thus stricter than the Basel standard.
- The CBRC allows only qualified corporate debt securities to be included in Level 2B HQLA, excluding residential mortgage-backed securities (RMBS), common equity shares and restricted-use committed liquidity facilities.

Annex 10: Implementation of LCR elements subject to prudential judgment or discretion in China

The following tables provide information on elements of LCR implementation that are subject to prudential judgment and national discretion. The information provided helps the Basel Committee to identify implementation issues where clarifications and additional frequently asked questions could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on variation in risk-weighted assets for the risk-based capital standards.

Elements requiring judgment (non-exhaustive list) Table A.7

Basel paragraph	Description	Implementation by CBRC
24f	Treatment of the concept of "large, deep and active markets"	The concept of "large, deep and active markets" means the markets should be well known and active, and have a robust market infrastructure, involving a large and diverse number of market participants. The assets should have low volatility and market concentration, and there should be historical evidence of relative stability of market terms (eg prices and haircuts) and volumes during stressed periods.
50	Treatment of the concept of "reliable source of liquidity"	Whether or not the asset has large, deep and active markets is an important factor.
52	Treatment of the concept of "relevant period of significant liquidity stress"	CBRC considers "relative period of significant liquidity stress" should have similar characteristics to the 2008 Global Financial Crisis.
74–84	"Stable" and "less stable" retail deposits	CBRC divides retail deposits into stable deposits and less stable deposits. Stable deposits are the amount of the deposits that are fully insured by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection and where the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or the deposits are in transactional accounts (eg accounts where salaries are automatically deposited). Deposits that cannot meet stable deposits criteria are classified as less stable deposits. If a bank is not able to identify which retail deposits would qualify as "stable" according to the above definition, it should place the full amount in the "less stable" buckets.
83 (retail), 86 (wholesale)	Treatment of the possibility of early withdrawal of funding with maturity above 30 days	For retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days, if a bank allows a depositor to withdraw such deposits without applying the corresponding penalty, the entire category of these funds would then have to be treated as demand deposits. The wholesale funding included in the LCR is defined as all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon as well as funding with an undetermined maturity. Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included. For funding with options exercisable at the bank's discretion, where the market expects certain liabilities to be redeemed before their legal final maturity date, banks should assume such behaviour for the purpose of the LCR and include these liabilities as outflows.
90–91	Definition of small business customers	Small business customers are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts provided the total aggregated funding raised from one non-financial customer is less than CNY 8 million (on a consolidated basis

		where applicable). If a bank has any credit risk exposure to the customer, the customer should simultaneously satisfy the criteria for micro and small businesses in the CBRC's Capital Regulation Rules. The standards of micro and small business customers defined by the Capital Regulation Rules issued by CBRC are consistent with the relevant Basel capital standards.
94–103	Deposits subject to "operational" relationships	Operational deposits refer to deposits generated by clearing, custody and cash management activities provided by commercial banks to customers (other than natural persons and qualified small business customers). The standards of clearing, custody, cash management activities and related operational deposits defined by the CBRC are consistent with the Basel standards. Operational deposits that are identified by commercial banks should be recognised by the CBRC. If banks are unable to determine the amount of the excess balance, then the entire deposit should be assumed to be excess to requirements and, therefore, considered non-operational. The CBRC may choose not to permit banks to utilise the operational deposit runoff rates in cases where a significant portion of operational deposits are provided by a small proportion of customers (ie concentration risk).
131f	Definition of other financial institutions and other legal entities	"Other financial institutions" refers to all financial institutions other than banks which are subjected to prudential supervision, including securities firms, insurance companies, fiduciaries, beneficiaries etc. "Other legal entities" include special purpose entities, conduits, special purpose vehicles, hedge funds, money market funds etc.

Source: CBRC.

Elements left to national discretion (non-exhaustive list)

Table A.8

Basel paragraph	Description	Implementation by CBRC
5	Parameters with elements of national discretion should be transparent	Elements of national discretion are clearly defined in the *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*.
8	Use of phase-in options	The LCR of commercial banks shall reach 100% before the end of 2018. During the transition period, the LCR of commercial banks shall reach 60%, 70%, 80% and 90% before the end of 2014, 2015, 2016 and 2017, respectively. During the transition period, commercial banks shall be encouraged to reach the minimum standard in advance if qualified. Where a commercial bank's LCR has reached 100%, the CBRC will encourage banks to continuously maintain their LCR above 100%.
11	Supervisory guidance on HQLA usability; implementation schedule for countries receiving financial support for macroeconomic and structural reform purposes	Where a commercial bank's LCR has already fallen below the minimum regulatory standards, or appears likely to do so, the bank shall report to the CBRC immediately. Detailed instructions are given in the Part 4 under Annex 2 of the *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*.
50b	Eligibility of central bank reserves	Excess central bank reserves can be included in the Level 1 assets.
50c	Marketable securities assigned a 0% risk-weight under the Basel II standardised approach for credit risk	Regulations in China are consistent with the Basel III standards.
53–54	Eligible Level 2B assets	Eligible Level 2B assets in China include only qualified corporate debt securities. RMBS and common equity shares are not included.

54a	Provision relating to the use of restricted contractual committed liquidity facilities	Not applicable
68	Treatment of sharia-compliant banks	Not applicable
78	Treatment of deposit insurance	China's deposit insurance system is an effective deposit insurance scheme, but does not yet meet the additional criteria that would justify a 3% run-off rate under the Basel LCR standard. Subject to the Ordinances on Deposit Insurance, interbank deposits are not covered by deposit insurance.
79f	Categories and run-off rates for less stable deposits	All retail deposits that cannot meet the stable deposits criteria are classified as less stable deposits, including deposits that are not fully covered by an effective deposit insurance scheme, deposits that can be withdrawn quickly (eg internet deposits) and so on. If a bank is unable to identify which retail deposits would qualify as "stable" according to the above definition, it must place the full amount in the "less stable" buckets. The run-off rate for less stable deposits is 10%.
123	Market valuation changes on derivative transactions	Regulations in China are consistent with the Basel III standards.
134–140	Run-off rates for other contingent funding liabilities	- Unconditionally revocable "uncommitted" credit and liquidity facilities: 0% - Guarantees, letters of credit and other trade finance obligations: 2.5% - Non-contractual obligations: 2.5% - Outstanding debt securities having maturities of more than 30 calendar days (for issuers with an affiliated dealer or market maker): 2.5% - Non-contractual obligations where customer short positions are covered by other customers' collateral: 50%
160	Weight assigned to other contractual inflows	A 50% factor is given to other contractual cash inflows (excluding cash inflows related to non-financial revenues).
164–165	Scope of application of LCR and scope of consolidation of entities within a banking group	The LCR is applied to all commercial banks with assets of no less than CNY 200 billion, which includes all internationally active banks. The scope of consolidation is consistent with the capital regulation. As for investments that are not consolidated, if the banking group will be the main liquidity provider of such investment in times of stress or reputational concerns, such liquidity draws should be treated as "contingent funding obligations" and subject to cash outflow in a prudent manner as recognised by the CBRC.
168–170	Differences in home/host liquidity requirements	When calculating the LCR on a consolidated basis, a cross-border banking group should apply the liquidity parameters adopted in China to all legal entities being consolidated except for the treatment of retail/small business deposits that should follow the relevant parameters adopted in host jurisdictions in which the entities (branch or subsidiary) operate. Requirements by CBRC for retail and small business deposits should apply to the relevant legal entities (including branches of those entities) operating in host jurisdictions if: (i) there are no host requirements for retail and small business deposits in the particular jurisdictions; (ii) those entities operate in host jurisdictions that have not implemented the LCR; or (iii) requirements in China are stricter than the host requirements.

Source: CBRC.