Comments

Basel Committee:

We, Bank of Communications, as the fifth largest commercial bank in China, are providing the following comments towards your consultative document, namely, *Global systematically import banks: Assessment methodology and the additional loss absorbency requirement*.

1. The proposed methodology is not fair for banks based mainly in the emerging markets. The reasons are as follows:

First, since emerging markets don't have enough financial media, banks usually have comparatively larger size than their counterparties in the developed markets, which, under the proposed methodology, may more or less exaggerate their importance to the global financial stability.
Second, the currencies in the emerging markets are appreciating against the US dollars, which together with the first point decrease the exactness of pinpointing those important banks.
Third, with the deepening of financial markets, banks in the emerging markets may undertake more trading activities to fulfill the requirements of their clients.
Last but not the least, major banks in the emerging markets are practicing the internationalization and synthesization strategy, and thus global activities are likely to experience sharply increase in the future.
As a result, the assessment methodology should take more consideration towards the banks in the emerging markets. Ratios indicating the global activities are recommended to be used as a filtering mechanism before banks are assessed under the proposed scheme.

2. Paragraph 16
The five categories are weighted equally, and this, in our views, cannot differentiate the importance of banks on a reasonable basis.

3. Paragraph 33 and 34
What constitute retail deposit and retail customers are not clear. Countries throughout the world may have different definitions and therefore wholesale funding ratio calculation can be easily distorted.

4.
Besides the global systematically important banks(G-SIB), local regulators may choose regional systematically important banks(R-SIB). If a bank is measured to be a G-SIB, will it be exempted from the R-SIB assessment? We recommend your proposal of further guidelines on R-SIB regulation to smooth the transition between the above two categories.

5.

The assessment is confined to banks only. However, we recommend the inclusion of other non-bank financial institutions, the influences over global markets of which have been obviously proved in the case of AIG group in the financial crisis.

6.
Besides, three details about exposure need to be clarified:

Firstly, should "netting" be used in calculation? If yes, what kind of exposure can be netted?

Secondly, for derivatives, notional amount is used in the proposed scheme, but add-on factor method may better represent the potential loss and is widely accepted by large banks. So why don't use add-on factor method? (Paragraph 44)

Thirdly, according to the scheme, total foreign liabilities are aggregated for "all local offices", and this description seems to be a little misleading within the context. (Paragraph 26)

If you have any further questions concerning the above comments, please don't hesitate to contact with us:

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