Comments on the *Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement (Consultative Document)*

Basel Committee on Banking Supervision:

On 19 July, your committee published a press release on the website, seeking comments on the Assessment methodology and the additional loss absorbency requirement for global systemically important banks (G-SIBs). As a state-owned commercial bank, Bank of China studied and discussed relevant policies and documents in a timely manner. Through earnest study, and taking current national economic and policy environment of an emerging market into consideration, Bank of China herein makes the following comments concerning the Global Systemically Important Bank*s: Assessment Methodology and the Additional Loss Absorbency Requirement (Consultative Document)* (hereinafter the "Consultative Document"):

I. Expand the scope of application of contingent capital instrument

Paragraph 73 of the Consultative Document indicates that the magnitude of additional loss absorbency is to be met with Common Equity Tier 1. Whereas the Basel III significantly increases the banking capital requirement and strengthens the leading position of common equity in tier-1 capital, another increase of additional capital requirement met by Common Equity Tier 1 will further intensify the financing pressure upon the capital market. Recently, some international banks have tried to issue new capital instruments such as contingent capital to meet the regulatory capital requirement. It is suggested that the scope of application of contingent capital instrument to meet additional capital requirement for G-SIBs be expanded on the basis of regulations in the existing document.

II. Define the relationship between additional capital requirement and Pillars 1 & 2

Paragraph 94 of the Consultative Document summarizes that the additional capital requirement for G-SIBs is close to Pillars 1 & 2 and stresses that the possible simultaneous coexistence of additional capital requirement for G-SIBs and Pillar 2 requirement in some countries or regions should be avoided. However, in fact, as for additional capital requirement and relevant capital requirements under Pillars 1 & 2, one may incorporate the elements of the other two to certain extent. Therefore, it is suggested that the aforesaid relationship be explained in details, in order to define the policy positioning of additional capital requirement for G-SIBs in future regulatory framework.

III. Define the coordination mechanism for cross-border supervisory policies and set the adjustment scope of supervisory judgment

Due to the volume of cross-border businesses, the influence of G-SIBs upon global financial markets cannot be neglected. According to the Consultative Document, assessment methodology for G-SIBs comprises of quantitative assessment and supervisory judgment. The more developed G-SIBs in terms of cross-border businesses, the more the supervisory discrepancies of their native countries and hosts cannot be ignored. In this sense, the coordination and communication concerning supervisory judgment will be more important. To make supervisory adjustment

consistent in cognitive standard, it is suggested that how the native countries of G-SIBs to make decision together with supervisory authorities of other major hosts as well as the specific content of regulatory coordination and decision-making mechanism should be defined. Besides, because supervisory judgement is based on quantitative and qualitative measurement, consideration may be given to define the scope of adjustment of assessment on G-SIBs by supervisory authorities of each country, in order to avoid subjective assessment conclusions to the biggest extent possible and make the scores of each bank more comparable.

IV. Properly adjust information collection frequency of assessment on G-SIBs

The assessment on G-SIBs needs to collect lots of quantitative data and qualitative information to obtain quantified assessment and regulatory judgment conclusions, which requires national regulatory authorities and G-SIBs to collect and process a large quantity of data, especially the data on relevant overseas businesses of G-SIBs with complicated institutional system. It is suggested that your committee fully consider whether there is the difficulty of frequent collecting and submitting data in the quantitative assessment on G-SIBs, and give national regulatory authorities and G-SIBs sufficient time to complete data and information collection and analysis, so as to ensure reasonable and proper assessment conclusions and reduce the regulatory cost. It is also suggested that the central assessment database established by the Basel Committee be disclosed at proper time to improve openness and transparency of the assessment on G-SIBs.

The aforesaid suggestions are for reference only. BOC is willing to maintain close communication with Chinese supervisory authorities and the Basel Committee with respect to relevant matters.

Bank of China Limited · China

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