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By email: baselcommittee@bis.org & post

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sirs

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

We are pleased to provide our response to the Basel Committee on Banking Supervision ("BCBS") on the captioned consultative document. While we agree that systemic risk is a critical component of the overall regulatory framework, we have concerns with the approach set out in the consultative document.

Specific comments from our members are as follows:

1. Creation of a Two-tier Banking System

The proposed categorization of global systemically important banks ("G-SIBs") would give rise to a non-level playing field, where the current implicit state support theoretically available to all banks regardless of their G-SIBs status is proposed to be replaced by a two-tier banking system consisting of G-SIBs and non-GSIBs.

2. Magnitude of additional loss absorbency

BCBS proposes to group G-SIBs into different categories of systemic importance based on the score produced by IBMA, with varying levels of additional loss absorbency requirements, e.g. 3.5%, 2.5% of common equity as percentage of RWAs.

While we query an additional 2.5%, or even 3.5% of Common Equity Tier 1 capital would have prevented the failures of the larger and more systemically important institutions that occurred in the global financial crisis, the combined effect of this new additional loss absorbency with the new buffer requirement under Basel III, Capital conservation and Countercyclical buffer, is still unknown.

Regarding the discussion on "Qualitative judgment" in Part II and "interaction with Pillar 2" in Part V, we expect regulators to set out a clearer directive on the justifiable overlay of SIFI identification and the additional capital buffers by bucket required by supervisory judgment.

Chairman Bank of China (Hong Kong) Ltd
Vice Chairmen The Hongkong and Shanghai Banking Corporation Ltd
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3. Effectiveness of assessment methodology

(a) Indicator-based measurement approach ("IBMA")

BCBS proposes an assessment methodology for systemic importance of G-SIBs based on an IBMA which focuses on five categories, namely (i) size, (ii) interconnectedness, (iii) lack of substitutability for products and services provided, (iv) global (cross-jurisdictional) activity and (v) complexity.

While this is a step towards tackling the issue, the approach of adopting the 12 individual indicators to identify a G-SIBs appears to be simplistic for attempting to measure systemic risk. Moreover, the IMBA calibration should be supported by more empirical evidence to provide clarity in the assessment of loss absorbency requirement.

(b) Supervisory judgement used in IBMA

The proposed approach does not provide a uniform standard among national regulators when using ancillary indicators as an overlay when the indicator-based measurement approach in assessing G-SIBs is insufficient by itself to make a definitive conclusion. We propose that such regulatory judgment would be exercised in a coordinated manner in a committee setting chaired by the lead regulator and a college of regulators in which our internationally active bank members carry out their business geographically. The assessment on G-SIBs would be more objective and balanced than otherwise.

Therefore, it is important that the BCBS sets out its timelines for further development of its approach to incorporate systemic risk from a national and regional perspective. It also needs to make clear how the global, regional and national approaches would apply to an internationally active bank.

We hope you would find the above comments useful and would welcome further engagement with the industry on this topic to adequately assess the impact of the proposal before they are being finalised.

Yours faithfully

Eva Wong
Secretary

c.c. Ms. Karen Kemp, Executive Director (Banking Policy), Hong Kong Monetary Authority