

## RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: China

Status as of: 31 December 2017

With reference to RCAP report(s): Assessment of Basel III regulations – China (September 2013), LCR regulations – China (July 2017), and G-SIB framework – China (June 2016)

### Part A<sup>1</sup>

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
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<sup>1</sup> To be completed only for those findings where action has been initiated/taken. Any plans for addressing other findings may be indicated in Part B.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to LCR standards (RCAP-LCR)

Table B

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
39	Observation: The requirements are in line with the Basel LCR standards, but the position of the relevant provision could be confusing.	Annex 2(III-ii) of the Rules on Liquidity Risk Management of Commercial Banks (revised draft for comments)	Adjust the position of the relevant provision.
50(e)	Observation: The requirements on eligibility is clearly specified in the Chinese instructions for LCR reporting, though not in the main LCR regulation.	Annex 2(III-iii-1) of the Rules on Liquidity Risk Management of Commercial Banks (revised draft for comments)	Make clarification in the Rules.
50(c)	Observation: In the Chinese capital regulation, securities of all PSEs are assigned a 20% risk weight. PSEs are automatically included in Level 2 HQLA and cannot be included in Level 1 assets.	Annex 2(III-iii-1) of the Rules on Liquidity Risk Management of Commercial Banks (revised draft for comments)	A reference to Article 58 of the Capital Rules is included in the Rules where PSEs are mentioned.
52 and footnote 17	Observation: Paragraphs 50(d) and (e) of the Basel LCR standards may overlap with paragraph 52(a), in such a case, paragraph 50(d) or (e) can apply. The Chinese authorities interpret footnote 17 as a supplementary instruction and provide clarification to banks on this point as needed.	Annex 2(III-iii-2) of the Rules on Liquidity Risk Management of Commercial Banks (revised draft for comments)	In order to have clear guidance, a footnote is added to the Rules.

## Part B

### RCAP-Capital

Three follow-up issues were raised by the assessment team:

1. Credit risk SA: different approach to risk weighting of claims on domestic banks and PSEs, eligibility criteria for collateral and the treatment of past-due loans in relation to the Chinese provisioning rules;

We envisage a comprehensive amendment to credit risk SA following the finalisation of Basel III reform package published on 7, Dec. 2017. It is worth noting that the RW of claims on banks is a key area that will undergo fundamental change. Consideration will be assigned to enhance and rest it aligned with the forthcoming BIII standards.

2. Pillar 2: no requirement for supervisors to assess deviations from the reference definition of default;

To enhance Pillar 2 practices, the CBRC issues *Notice on enhancing supervisory review of capital adequacy under Pillar II*, in September 2016. The document reiterates the components of ICAAP and SRP and specifies requirements on review of coverage of credit risk, including the prudence and conservativeness of definition of default.

3. Pillar 3: missing requirements regarding detailed disclosure of relevant data about credit quality, securitisation and remuneration.

We plan to comprehensively enhance the disclosure requirements by incorporating the updated Pillar III standards.

### RCAP-GSIB

Two follow-up issues were raised by the assessment team:

1. Higher loss absorbency: the regulation does not prescribe minimum capital conservation ratios for different levels of shortfalls in the higher loss absorbency requirements.

The CBRC has the power to fully restrict distribution of any bank (including the G-SIB) whenever it breaches its capital buffers including the higher loss absorbency requirements. It appears that this regulatory measure is stricter than the Basel framework. The CBRC will consider any necessary adjustment to further clarify the relevant requirements within the whole package of the next round amendments to the Capital Rules.

2. Disclosure requirement: since the Chinese guidelines on disclosure express threshold requirement in Chinese yuan renminbi, the assessment team worried about the movements of exchange rate will be not aligned to the euro-based thresholds in the Basel framework.

The CBRC has been paying attention to the exchange rate. Since last assessment, the EUR to CNY exchange rate has now been increased to around 7.8 CNY per euro and the Chinese threshold (CNY 1,600 billion) is close to the Basel threshold of EUR 200 billion. If in the future, the exchange rate deviate to a large extent from the Basel threshold for a certain time period, the CBRC will adjust the threshold denominated in local currency.