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Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel, Switzerland

June 30, 2017

Re: BCBS Consultation on Global systemically important banks - revised assessment framework

Dear Sir/Madam,

China Banking Association ("CBA") appreciates the opportunity to comment on the Basel Committee on Banking Supervision Consultative Document: **Consultation on Global Systemically Important Banks - revised assessment framework** dated March 2017.

China Banking Association (CBA) is a nationwide non-profit self-discipline organization of China's banking sector. CBA serves for the common interest of its members through the functions of self-discipline, rights protection, coordination and service so as to safeguard lawful rights and maintain market order of the banking sector, and promote the healthy and sustainable development of the industry. By April 2017, CBA has 620 members and 35 observers.

We greatly appreciate the great endeavors you have made to review and improve Global systemically important banks - revised assessment framework, as well as the opportunities you have provided to solicit the industry's comments on it.

On this important topic, we therefore have summarized member banks' main comments as below for your reference, which we hope can be helpful. And we sincerely appreciate the great endeavors you have made in the global financial regulatory reforms.

Yours sincerely,

Pan Guangwei

Chief Executive Officer

China Banking Association

1. Suggestions on Consultative Document

1.1 It’s suggested that “central bank and central government obligations” and “subnational governments and other public sector entity obligations” in the newly added indicators of trading volume should be treated in the same approach and both be excluded from trading volume indicators.

Reasons: Firstly, similar to the central bank and the central government obligations, the subnational governments and other public sector entity obligations also serve as monetary policy or fiscal policy tools in many countries, which is the most important reason why the trading volume of central bank and the central government obligations were deducted from the indicator in the consultative document. To ensure consistency in implementation, it is suggested that the two types of securities mentioned above should be treated in the same way. Secondly, the principle of setting a new indicator should be in line with the overall Basel regulatory framework. Similar to central bank and central governmental obligations, subnational governments and other public sector entity obligations are also defined as high-quality liquid assets (HQLA) under the LCR standards. Thirdly, the subnational governments and other public sector entity obligations were deducted from trading and available-for-sale securities in the G-SIBs indicators, therefore the treatment of the same assets in the same assessment framework should be consistent. Fourthly, it is mentioned in the consultative document that "the regulatory treatment of which is being reviewed elsewhere in the Basel framework", i.e. waiting for related results from TFSE. As far as we know, TFSE did not make a unified option for the treatment of the above assets, so it is suggested to give “central bank and central government obligations trading volume” and “subnational governments and other public sector entity obligations trading volume” the same treatment in the G-SIB assessment framework.

1.2 It’s suggested not including a new indicator of short-term wholesale funding (STWF).

Reasons: Firstly, the STWF indicator is an indicator reflecting liquidity risk, which mainly affects the possibility of "bankruptcy" of commercial banks, namely, probability of default (PD). In the consultative document, it explained how STWF may affect the loss-given-default (LGD), but that depends on other indicators in the G-SIB assessment framework, such as size and interconnectedness, etc. Suppose, when the size, interconnectedness and other indicators of a bank are very small, even if PD increases due to the relatively high STWF level, it will not have a significant impact on its systemic LGD. Secondly, the current calculation approach of the STWF indicator is not reasonable. The STWF indicator only distinguishes short-term wholesale funding in terms of maturity, i.e. wholesale funding within 6 months, and doesn’t differentiate the sources of funds. STWF from various sources would be different in terms of stability, which is also reflected in the setting of ASF in the Net Stable Funding Ratio (NSFR) by applying different ASF factor. In the NSFR calculation, for short-term wholesale funding within 6 months, deposits from small business customers are the most stable, and the ASF factors of 95% and 90% were given respectively depending on whether they were stable deposits; deposits from non-financial enterprise customers, sovereign, public sector entities, multilateral and national development banks, as well as business relationship deposits are less stable and the ASF factor is 50%; and the ASF given to funding from central bank and financial institutions financing is 0%. Therefore, the indicators should take the variety of stability of different sources of funds into consideration, so that it could achieve the purpose of objectively reflecting the stability of funding. If the indicator design is unreasonable, the measurement results and conclusions based on this method would not be reliable.

1.3 It’s suggested incorporating insurance subsidiaries exposure into all the five categories of indicators,

The impacts that insurance subsidiaries bring to bank parent companies are not limited to size, interconnectedness, and complexity indicators. Since cross-jurisdictional activities conducted by insurance subsidiaries would also have impacts on the bank parent companies, so we suggest include insurance subsidiaries into the category of "cross-jurisdictional activity". Furthermore, if trading volume would be added into the substitutability indicators, the trading volume of the insurance subsidiary will also affect that of the bank parent company. Therefore, it is suggested that the exposure of the insurance subsidiary should be included into all the five categories of indicators.

1.4 Considering the feasibility of postponing disclosure to August.

It's suggested disclosing the indicators in August every year, after the data is verified and confirmed. If the disclosure is required at the year beginning., the possible differences between the disclosed data and the data submitted to the BCBS for G-SIB assessment will impose reputational risks for banks.

2. Other Suggestions

2.1 It's suggested setting a cap on the size indicator score or reducing the weight of size indicator.

Reasons: Firstly, indicators such as interconnectedness, substitutability, complexity, cross-border activity all reflect the size of a bank to certain extent, which may lead to double-counting problem regarding the size indicators. Secondly, compared with developed economies, many emerging economies are undergoing a rapid economic growth with blooming demands for financing. Meanwhile the channels for financing are limited in emerging economies, with indirect financing channels such as bank loans still accounting for high percentage. Thus, the development of real economy in emerging economies still needs moderate expansion of banking assets. In spite of the relatively faster increase in scale of banking asset in emerging economies, the systemic importance of these banks will not necessarily increase proportionally, since their business is relatively traditional and simple. It's suggested that Basel Committee may take the characteristics of emerging economies into considerations in designing financial regulation policy. Thirdly, in the assessment framework of Global Systemically Important Insurers (G-SII), the weights of five large categories indicators are not equally distributed. The weight for size indicator is only 5%, far lower than that of "interconnectedness" (40%) and "non-traditional insurance business and non-insurance business" (45%). G-SIB assessment framework could refer to this approach and adjust the treatment of size indicators.

2.2 It's suggested removing the level 3 assets indicator or decreasing its weight.

Reasons: Among the 12 G-SIBs assessment indicators, the denominator of level 3 assets is the smallest (585.97 billion Euros at the end of 2015), only accounting for 18% of the second smallest denominator (trading and AFS indicator, 3.25 trillion Euros), 0.2% of the average value of all the 12 denominators, and it is still decreasing. Firstly, due to the small scale, the score banks gained from this indicator is fluctuating. While its weight is still relatively high (6.67%), it would pose a large influence on the G-SIB scores of banks and therefore affect the stability of the assessment approach. Secondly, due to the small scale, the real contribution of level 3 assets to the systemic importance of banks is limited, and there are few countries using level 3 assets indicators to measure complexity in the D-SIB framework. Thirdly, in practice, different jurisdictions might have quite different coverage of level 3 assets, thus it is very difficult to maintain the consistency of calculation of the level 3 asset indicator in practice. Considering the small scale of the denominator, such a difference may have a huge influence on the final score.

2.3 For the interconnectedness indicators, it's suggested giving different weights to the domestic part and cross-jurisdictional part of a financial institution's assets and liabilities, and lower the weight of domestic part properly.

Reasons: The G-SIB assessment methodology is to identify financial institutions that will have a systematic impact on the international financial markets. Interconnectedness is an important indicator to measure this type of influence, but interbank businesses in domestic markets are much less influential in the global financial market than the cross-jurisdictional parts. Thus, it is suggested differentiating these two parts, and giving the domestic interbank business a lower weight.