中国银行业协会
CHINA BANKING ASSOCIATION

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Basel Committee on Banking Supervision

Bank for International Settlements

CH-4002 Basel, Switzerland

May 12, 2017

Re: BCBS Consultation on Identification and Management of Step-in Risk

Dear Sir/Madam,

China Banking Association ("CBA") appreciates the opportunity to comment on the Basel Committee on Banking Supervision Consultative Document: **Identification and Management of Step-in Risk** 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 Guidelines on Identification and Management of Step-in Risk, as well as the opportunities you have provided to solicit the industry's comments on it.

On this important topic, we therefore have solicited 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

Specific Comments

1. The Overall Advice

1.1 Differentiation in Implementation

Considering the great differences in the maturity of financial markets, legal and regulatory environment, and definition of shadow banks of different countries, the difficulty and necessity of identifying and managing "step-in risk" diversify from country to country. It is suggested that the Basel Committee give certain autonomy to regulators of different countries, and let regulators make specified standards or requirements in accordance with their own conditions. Also, the Basel Committee is suggested to propose differentiated or phased management requirements on step-in risk according to the financial markets' maturity in different countries, such as setting different transition periods.

1.2 Further Clarify the Indicators and Methods

The current identification indicator system basically covers many situations related to step-in risks, but in practice the banks fill the report by their own subjective judgment. It is difficult to maintain the consistency of standards. It's suggested to further clarify the quantitative criteria for the indicators. At the same time, the importance and possibility leading to step-in risk of each indicator are different, so it is suggested to rank or give different weights on indicators. Besides, more examples (including positive and negative ones) are appreciated and helpful for judgment, so it's suggested to provide as many different examples as possible.

2. Specific Advice on Different Terms

2.1 It's suggested to specify the scope of "Entities". In the consultative document, "entities" are generally defined as shadow banking entities, and in Annex 2, the examples listed include asset securitization products, money market funds, asset management companies, both at the institutional level and at the product level. As the definition of "product" is broad and will lead to greater difficulties in practice, it is suggested to specify the "entity" within the institutional level.

2.2 It's suggested to further clarify the concept of "sponsor". The consultative document is beyond the concept of "control" in accounting standard. The concept of "sponsor" is put forward, which is derived from the initiator of asset securitization business, and extends to shadow banking business and institutions in the consultative document. Practically speaking, there would be ambiguity in defining sponsor.

2.3 For a subsidiary (which is already consolidated) controlled by a banking group, it should be defined whether funds initiated or managed by the subsidiary apply to step-in risk.

2.4 In Template 1, it's suggested to clarify the standards for the specific divisions between "immaterial", "material but step-in risk was not significant" and "material and step-in risk was significant".

2.5 Step-in risk and reputational risk. Indicators of step-in risk include "reputational risk with branding and cross-selling", while reputation risk has already been in the second pillar. If an entity has only "reputational risk with branding and cross-selling", does the entity still need to be incorporated into the step-in risk in statistical scope? (Article 58)

2.6 Availability of information. Since different entities may face limits such as information disclosure etc., it's not easy to obtain enough information on the entities in time.

2.7 Proposals on the revision of Article 89: In order to avoid market participants to form the false expectation that the bank will bear the risk of related entities, and thus produce moral risk, it is advised that banks could only submit the report of the step-in risk management to regulators instead of public disclosure.

2.8 In the consultative document, the applicable scope of step-in risk is too wide. For instance, asset securitization has been set up a firewall, which is still required to be included in the assessment and management of the step-in risk. It is suggested that non-consolidated entities with explicit firewall requirements be excluded from the scope of the step-in risk assessment.