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By email: baselcommittee@bis.org

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sirs

**Consultation on Haircut Floors for Non-centrally Cleared Securities Financing Transactions**

We refer to the consultative document on Haircut Floors for Non-centrally Cleared Securities Financing Transactions issued by the Basel Committee on Banking Supervision (BCBS) on 5 November 2015.

On behalf of our members, we set out in the annex our detailed comments on the proposals in the consultative document.

We hope you find our comments useful. For any questions, please do not hesitate to contact Ms Emily Ngan of the Secretariat at (852) 2526 6080.

Yours faithfully

Doris Ma
Secretary

Enc.

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

**Haircut floors for non-centrally cleared securities financing transactions ("SFT") – consultative document**

We welcome the opportunity to respond to the Basel Committee on Banking Supervision (*"BCBS"*) Consultative Document on the Haircut floors for non-centrally cleared securities financing transactions.

The SFT market provides an efficient source of money market funding and securities borrowing for financial intermediaries, while providing a secure way for making liquid investments. An efficient repo/SFT market is pivotal to the liquidity of both primary and secondary debt markets, and for the management of collateral for other activities.

We are supportive of the objective of ensuring that there is appropriate transparency and credit risk mitigation of SFTs. We would like to provide a number of general comments and suggestion for the improvement of this framework.

*Entities subject to prudential requirements*
Paragraph 143(i) of the proposed rule text states that counterparties who are not supervised by a regulator that imposes prudential requirements consistent with international norms ("prudential regulator") are subject to haircut floors. We would suggest BCBS to include a clear definition of "prudential regulator" for banks in order to ensure SFTs are subject to haircut floors in a consistent manner across the industry.

In addition, we would suggest to have an explicit carve out for insurance companies and securities firms which, in many jurisdictions, are subject to prudential requirements agreed internationally (Solvency II for example). Further, it would be helpful if the BCBS would clarify that the reference to banks subject to capital and liquidity regulation on a consolidated basis should apply to all entities within the relevant consolidated group.

*Timelines for implementation*
Some firms may need to develop or enhance internal operations and systems to meet any new requirements and a transition period should be allowed. Finally, we would also expect that any transition period take into account the overall coordination among jurisdictions to ensure a level playing field over a consistent implementation time line.

*Calibration of a haircut floors*
We note that the calibration of a standardised floor proposed in the consultation paper appears to be very low and generally below market-standard for commercial/operational/risk haircuts. Notwithstanding the need to ensure a consistent application of the standards across jurisdictions, we would suggest the BCBS consider the possibility of outlining general principles for the calibration in addition to actual numbers in the document and providing some insight on the methodology of calculating haircuts, e.g. how the price volatility is used or is the haircut based on VaR.

The continuing engagement of the Financial Stability Board ("FSB") and BCBS with market participants on the haircut framework is greatly appreciated and has resulted in an approach that can meet the stated financial stability goals without harming beneficial market functioning.

On haircut floor applying to debt securities, we suggest BCBS to differentiate the quality of debt securities based on the 3-bucket categorisation by external rating as stated in Paragraph 151 "Standard supervisory haircuts" under BASEL II framework.

*Definition of government securities*

We would like to seek BCBS's clarification on whether municipal bonds, local government bonds or any bonds issued by a government agency are considered as government securities. The definition of government securities is stated in the footnote 11 of the report on Strengthening Oversight and Regulation of Shadow Banking – Regulatory framework for haircuts on non-centrally cleared securities financing transactions ("FSB 2014") published by FSB. We recommend BCBS to include the definition of government securities in the rule text for clarity.

*Capital treatment of exempted transaction*

We would like to seek BCBS's clarification on whether SFTs exempted from haircut floors would be subject to standard supervisory haircuts in the calculation of RWAs.

*Haircut floors on debt securities*

As the collateral haircut for debt securities are irrelevant to the rating of securities themselves, suggest the Securities haircut are divided into three level, according to rating categories in BASEL II supervisory.