Financial Stability Board January 29, 2015

By e-mail: fsb@bis.org

Dear Sirs,

Re: Feedback on TLAC proposal term sheet

We refer to your Consultative Document dated November 10, 2014 regarding the "Adequacy of loss-absorbing capacity of global systemically important banks in resolution" and provide the following response.

I. Certain markets should not be initially subject to TLAC

To ensure an orderly transition, we believe that there should be an initial waiver for G-SIBs headquartered in certain markets, such as China and Canada (in anticipation that the nation may have G-SIB in future), which have the following common characteristics:

Liability structure: A certain amount of financing in the European and US banking sector comes from the wholesale market while the financing of certain markets mainly comes from customer deposits. According to the Big-5 Canadian bank's data as of November 2014, 70% of their total debt was contributed by deposits. Also, the deposits of the three Chinese G-SIBs make up 80% of their total debt. Therefore, the new TLAC regulation will lead to a comprehensive and costly restructuring of the liability structure of such banks.

Inactive or Immature Market: The bond markets in countries like China and Canada are subject to limited depth and complexity of products – resulting in its capacity being quite limited. Canada and China's domestic bond market would have difficulty absorbing the TLAC funding demand if their banks raise TLAC eligible debts simultaneously.

Limited Globalization: SIBs in some countries are less globalized / involved in derivatives and trading activities; thus leading to a limited contagion effect during a potential crisis. Hence, the incremental systemic risk reduction from initial inclusion of G-SIBs headquartered in those countries will be limited.

中国银行(加拿大)
BANK OF CHINA (CANADA)

II. Transitional period

We suggest that the exact TLAC timetable should not be set for those countries until conditions are ready. The conditions include: active and mature debt market, overseas assets in excess of 50%, etc.

III. Macroeconomic Impact

SIBs in countries of the abovementioned characteristics are almost exclusively funded by deposits rather than by debt. European and US banks can meet the supervisory authority's requirements for "bail-in debts" by changing their bond financing structure while these markets need to issue "bail-in debts" to meet supervisory requirements.

Such an impact is likely to further spread in the domestic economy and even the global economy, as the Big-5 Canadian banks and the three PRC incorporated G-SIBs make up a substantial part of the local banking system - which serves as the primary driver of the economy and a major receiver of domestic savings.

In summary and based on the above, it is Bank of China (Canada)'s opinion that without the initial waiver for G-SIBs headquartered in those countries, there would be an impact on the operational expenditures of the institutions and ultimately obtaining affordable financing within the respective economies will be an issue. Further, if the development of the economy in these countries becomes restrained, it will have an unfavorable impact on the global economy and potentially its financial strength.

Yours very truly,

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