Milan, 30 January 2015

Feedback to Consultative Document of 10 November 2014 on Adequacy of loss-absorbing capacity of global systemically important banks in resolution：

The document issued by the Financial Stability Board in the month of November 2014 brings great changes and challenges to the banking environment, especially for those institutions which take part in the group of systemic banks "too big to fail". The FSB asked to provide some opinions about the implementation of the new rules.

Bank of China Milan Branch, despite not being directly impacted as a structure that holds a very small part of the total assets of the group, hereby intends to explain some considerations to describe what may be the implications and scope of the new legislation in respect of both the Branch and both the group BOC itself and the negative effects on the real economy.

- At least 1% G-SIB subcharge

The first point to make is the fact that so-called systemically important banks are already subject to a stricter requirement of capital, following the introduction of Basel III. The same European regulations (and in our case also the national authority, Bank of Italy) have already confirmed the approach of the BIS, which provides an additional buffer (ranging from 1% to 2.5%) to be computed with elements of tier 1 capital (Common Equity Tier 1). It is therefore considered that a further buffer (which is much more stringent) is nothing but a repetition of the same principle.

- Not suitable to all business sectors

The second point, the TLAC does not put particular emphasis on the difference between commercial banks and investment banks. This likely will result in a credit crunch, just at a period requiring instead that the transmission mechanism between finance and real economy is free from blocks and restrictions.

- Not applicable to emerging countries

Finally it should be emphasized the importance of the non-application of the rule if the bank is incorporated in emerging countries. In these economies, the degree of development of the banking industry is still far behind the Anglo-Saxon countries or more developed ones in general.

The banking channel is also, in the absence of an adequate capital market, still the main mechanism of development both for families and for corporates, which would be affected most.

For example FSB is giving the possibilities to use subordinated debt instrument to cover this capital, bringing a big advantage for banks incorporated in countries with highly developed bond market.

Conclusion

The TLAC is too rigid and is not suitable as a universal tool for all economies. It creates unfair competitive environment and burden the economy growth. Especially, it is not suitable for emerging countries.