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Dear Sir/Madam

FSB Consultative Document：Adequacy of loss-absorbing capacity of global systemically important banks in resolution（TLAC）

We are writing to you as China Banking Association representing the China's largest banks on the subject of Adequacy of loss-absorbing capacity of global systemically important banks in resolution（TLAC）. 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 July 2014, CBA has 373 members and 4 observers.

We sincerely appreciate the great endeavour FSB has made in the field of enhancing international financial regulatory reforms and ending "too big to fail" for G-SIBs. Theoretically, TLAC requirements introduced by FSB in this consultative document, may contribute to enhancing effective resolution regimes, without the use of public funds, and promoting robust management of financial institutions and stability of global financial system. However, in practice, the design and implementation of TLAC requirements should take into consideration the realities and practical issues in emerging economies. We therefore wish to share the following observations with you from our perspectives as China Banking Association representing the China's largest banks, which we hope can be helpful.

First, we agree with the initial exclusion of G-SIBs headquartered in emerging market economies (EMEs) from meeting the Common Pillar 1 minimum TLAC requirement.

The financial markets in emerging economies and developed countries have very different characteristics. On one hand, commercial banks in emerging economies, including China, are subject to more restrict and prudential supervision, compared to those in developed countries, because these banks carry out most of' social funding functions in their countries and play a critical role in promoting

economic development and financial stability. G-SIBs in emerging economies have relatively simple asset/liability structure in their balance sheets, for example, bank assets mostly come from loans and deposits constitute the predominant part of bank funding. It is in this way these business models prove to be comparably prudent and the markets have strong confidence over the banking industry. Three large commercial banks of China have been listed in G-SIBs mainly because of their large asset size, but in fact they are still less active in global markets and their overseas business account for a rather small part in their total risk weighted assets.

On the other hand, the bond market in emerging economies is less developed. Due to imperfect market mechanisms and the market width, depth, and sophistication of institutional investors being at an early stage of development, it is difficult for G-SIBs in emerging economies to issue complex structural TLAC debt instruments, possibly resulting in competition disadvantage for them.

Regarding under what circumstances should the exclusion end, we suggest that at least two factors should be taken into account: (I) the evolution of the liability structures of these banks, especially the share of deposit as a percentage of total liabilities; (II) the development of bond market to ensure that such structural TLAC instruments can be widely understood and accepted.

Second, we suggest that when introducing TLAC requirements FSB should ensure the logical consistency within international regulatory standards.

The newly introduced liquidity standard of NSFR by the Basel Committee provides stronger incentives for commercial banks to widen their stable deposit-funding sources and mitigate liquidity risks. However, with the introduction of TLAC requirements, banks in emerging economies, which traditionally rely on deposit-based funding, will be forced to take on their balance sheet large volume of wholesale funding and complex structural debt products, thus increasing their liquidity risks. That is not consistent with the spirit of the above-mentioned liquidity reforms. In this regard, we suggest that FSB take into full consideration this factor in the QIS and market survey and impact assessments when conducting calibration of TLAC requirements.

Yours faithfully,

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Executive Vice President
China Banking Association