Dear Financial Stability Board,

We have carefully studied the consultative document on the TLAC which was recently released by FSB and have some comments below for your reference.

I. About the initial exclusion of GSIFI headquartered in emerging market economies (EMEs) from meeting TLAC requirement.

We strongly agree with this term, mainly because of reasons below.

In terms of necessity, the liabilities of the banking sector of China are mainly dominated by deposits, while the share of interbank (wholesale) funding is relatively lower. Take ICBC as an example. The customer deposits account for about 80% of our total liabilities. The sources of the liabilities are relatively decentralized and stable. The liquidity risk is lower than that of the banks mainly focusing on wholesale funding. And the possibility of a major liquidity crisis suddenly triggering resolution is relatively low. We do not need to maintain such a high level of gone-concern loss absorbency capacity during daily business. In addition, the supervision of China's banking sector is very prudential. We understand that supervision authorities of China are intending to set relatively high resolution tiggers. The banks still hold considerable de facto capital when entering resolution. Therefore, the loss absorbency capacity required for resolution and restructure is relatively low, and so the TLAC demand is low.

In terms of the difficulty of implementing, as an emerging market economy, there are large differences between China and developed countries in the structure of capital market, and also in the level of development. Not only the total amount of subordinated debt already issued in China is limited, but the relevant laws and regulations are also lacking to issue qualified TLAC instruments. Currently there are no qualified TLAC liabilities in China meeting the requirements of FSB. In addition, the asset scale of the three G-SIBs, including the ICBC, the ABC and the BoC account for a high proportion of banking sector, and each bank's capital adequacy ratio has exceeded BASEL Ⅲ requirements, but is still far lower than the minimum TLAC requirements. Including the CCB, the total TLAC gap of the four biggest banks is estimated to be 2.8-4.4 trillion yuan. It will have tremendous impact on interbank market and capital market and may endanger China's financial and economic security if we issue TLAC instruments at the same time, which is contrary to the original purpose of issuing TLAC instruments that is to maintain financial stability. The reasons to support the above prediction are as follows. First, the capacity of China's bond market is limited. The total amount of bond financing in 2014 was only 10.49 trillion yuan, of which 7.42 trillion yuan is from interbank market. Issuing another 4.4 trillion yuan TLAC instruments is equivalent to expanding the market circulation by 60%, which will dramatically affect market supply and demand; second, currently in China, tier 2 capital instruments are issued in the interbank market, which is also expected to be the major market to release qualified TLAC instruments in the future. And investors in the interbank market are mainly financial institutions. The turnover and position of the four banks dominate the interbank market. If the four banks are not allowed to cross-hold the TLAC instruments, the issuing will be more difficult; third, even if TLAC instruments could be successfully issued, the risk is only be transferred from the big banks to other financial institutions, so the risk diversification effect will be weak, while the risk of contagion will be enhanced.

We recommend that the exclusion of GSIFI headquartered in emerging market economies from meeting the TLAC requirement should not end until below conditions are met: the capital market and bond market of emerging market economies become sufficiently developed; the financing structure and the liability structure of emerging market economies are basically the same with the developed markets; the asset balance of the bank accounts for over 50% in the developed market and so on.

II. Recommendations on Simplifying the Regulatory System on LAC

The regulatory system of FSB and BASEL on loss absorbency capacity including minimum capital adequacy requirements, capital buffers, counter-cyclical buffer, G-SIB surcharge, additional Pillar 2 requirements, and now proposed TLAC regulations. The system is too complicated to understand and execute. In addition, according to BASEL III, capital buffers, counter-cyclical capital, G-SIB surcharge, Pillar 2 requirements are also meet by core tier 1 capital such as high-quality equity. The quality of the capital is consistent with the quality of the capital to meet minimum capital requirements with no difference in loss absorbency capacity. Therefore, it is recommended to further simplify the regulatory system. Only minimum capital adequacy requirements and minimum TLAC adequacy requirements will be enough for the GSIFI. Capital buffer, counter-cyclical capital requirements, G-SIB surcharge, and Pillar 2 capital requirements can be incorporated in TLAC requirements. Meanwhile, in order to avoid too much impact on GSIFI and financial markets, the minimum TLAC requirements is recommended to be set at the bottom line of proposed range.

We recommend FSB not to publish the above two comments, as there are confidential market data on China’s banking sector.

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