Feedback on

Adequacy of Loss-absorbing Capability of Global Systemically Important Banks in Resolution

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After carefully study of FSB consultative document, we perceive that the TLAC can strengthen the supervision of large banks and limit the contagion effect if crisis occurred by capital restructure. Although we agree with FSB on the regulatory concept and the overall framework of TLAC, in order to enhance its global suitability, we strongly propose that, first of all, calibrate the minimum TLAC requirement from 10% to 20%, other than 16%-20%, caterring to the density of deposits for deposit-funded banks, secondly, the initial exclusion of emerging market should be implemented. Our views on TLAC are accordingly as follows.

1. Implement distinctive policies for deposit-funded banks, considering different business model.

First, The TLAC requirement does not quite fit for deposit-funded financial institutions. The share of funding that comes from debt for most banks in developed countries accounts for 50%-60% of total liability, less than 50% from deposits. On the contrary, for most major banks in EMEs e.g. In China, the share of deposits dominates among total liability, reaching at 90%. The distinctive composition of funding sources determine that Chinese deposit-funded banks are relatively stable with abundant source of funds. Therefore, it's unnecessary to add extra source of funds on a large scale as TLAC required.

Second, banks like ABC in EMEs, are different in asset structure as well as risk exposure from G-SIBs of developed countries. The structure of assets heavily relies on loans and non-derivative financial assets, with credit RWA possessing 90% of the total. Therefore, the functioning of macro-economy and entity economy could be perceived to determined the quantity and quality of banks, more than the operation and risk management. Accordingly, more attention should be paid to the growth and stability of economy than to the focus on loss absorbency capacity of banks in EMEs, in light of orderly resolution and financial stability. As for the banks heavily relying on debt issue, usually have lower leverage ratio and more complex derivative assets, with more exposure to systemic risk especially market risk. Thereby, it's necessary to set different TLAC requirement for deposit-funded banks and debt-funded banks.

Third, We perceive that size is the major driver for banks in EMEs selected into G-SIBs. However, G-SIBs from EMEs are relatively not that important and active reference to oversee transaction, contagion effect, and especially complexity. Thereby, they are comparatively of less influence than the counterparts from developed countries, to global financial system, positioning at the fifth group of G-SIBs. Therefore, we suggest that TLAC set lower minimum requirement e.g.10-12% other than 16%. Take Agricultural Bank of China for example. Its total score was 132. Each category scores： size 58, contagion effect 23, substitutability 16, complexity 31, and oversee transaction 4, respectively accounting for 44%, 18%, 12%, 23% and 3% of total score.

Finally, in light of contagion effect, banks in EMEs aren't as systemically important as its counterparts G-SIBs from developed countries, e.g. ABC with its oversee assets only accountting for 0.1% of the total. So it is not necessary to implement such high TLAC requirement as 16%-20% on banks in EMEs with small portion of overseas business.

From above, we suggest FSB to come up with a different policy for deposit-funded banks, e.g. apply different TLAC requirement with reference to density of deposit in order to be more adaptable to various G-SIBs globally. For instance, referring to density of deposit, banks, with more than 90%, apply 10%-12% TLAC requirement; more than 80%, apply 12%-14% TLAC requirement; with more than 70% , apply 14%-16% TLAC requirement; with less than 70%, apply 16%-20% TLAC requirement. In light of the fact that G-SIBs from EMEs, like ABC and BOC and ICBC, have relatively minor global influence, the lower TLAC requirement should be applied.

2. Postpone the implementation of TLAC requirement in EMEs.

China is essentially an emerging market economy with the following attributes:

First of all, the bond market in china is still at an early stage both in size and quality compared with those of developed countries. In 2014, total debt including capital instrument issued by all Chinese commercial banks only amounted to 71.9 billion Dollar. Whereas according to preliminary calculation, the total amount of capital instrument issued by all G-SIBs in China would reaches 444 to 716 billion US Dollar, almost ten times of domestic market capacity, with CAR rising from around 13% to 19.5%-23.5% to meet the TLAC requirement.

Second, assets and risk exposure of the G-SIBs from emerging market like China are domestic focused, which have minor contagion effect. Hereby, should the emerging market G-SIBs failed and entered into resolution, there would be much more impact on domestic financial stability than international systemic stability.

Therefore, 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 G-SIBs from China should be included in the exclusion list. We propose that FSB shouldn't implement TLAC to the G-SIBs from China till the following two conditions satisfied:
first, financial market , in particular, bond market grows strong and mature enough to afford the large funding activities of G-SIBs; second, the international and systemic influence equals to their counterparts from developed counties. Take ABC for example, the TLAC should be implemented when its proportion of oversee asset to its total assets reached more than 50%.