Bank of China (UK)'s Feedback on TLAC proposal

As the head office of Bank of China (UK) is located in China, one of the emerging market countries, we have feedbacks on TLAC (Total Loss Absorbency Capacity) proposal as follow:

1. We support that the TLAC requirements should be waived initially for G-SIBs located in emerging market countries.

   First of all, the G-SIBs in emerging markets have different liability structures compared with those in Europe and America. The financing of emerging markets mainly comes from customer deposits rather than the wholesale market. For example, 80% of the total debts of three G-SIBs in China are customer deposits.

   Secondly, for Chinese G-SIBs including Bank of China, Chinese supervisory authorities have set up the trigger point of the resolution as when core tier-1 capital falls to 5%, and then considering the tier-2 capital and buffers. As a result, the bank will have capital available for absorbing losses even if it enters the resolution stage.

   Thirdly, emerging markets, like China, have limited bond products and immature bond market. Debt market scale of China is small, with government debt taking the main part in debt market, and very limited credit debt market.

2. We support the transition period to be extended for G-SIBs located in emerging market countries.
   Due to the immature debt market and relatively small share of overseas assets, we support the initial exemption of TLAC for emerging market countries. If the implementation of TLAC is FSB's final decision, we support the implementation to be delayed to the completion of Tier 2 capital debt replacement.

In summary, the requirements of TLAC-eligible debt and leverage ratio are set at such a high level that isn't realistic to fulfil for G-SIBs in emerging market. We support the implementation should be delayed and the transition period should be extended for emerging market countries. At the same time, the Pillar 1 Minimum TLAC requirement could be set at 16% of risk-weighted assets (RWAs); any additional Pillar 2 TLAC requirements would be removed; the request, that debt capital instruments are equal to or greater than 33% of the Minimum Pillar 1 TLAC requirement, should be relaxed to certain level; the leverage ratio requirement could be consistent with the Basel 3.

As to BOC (UK), as a UK subsidiary, total assets and debt market scale of BOC (UK) are relatively small compared with other European and American Banks. Therefore, the TLAC regulations are still difficult for BOC (UK) to implement.