LC Paper No. CB(1)198/18-19(05)

The Bank of East Asia, Limited

Rules Prescribing Loss-Absorbing Capacity ("LAC") Requirements for Authorised Institutions in Hong Kong

- **Major Comments and Concerns**

The LAC Requirements	Comments and Concerns	BEA Proposals
The LAC Rules provides that any entity that is subject to a LAC requirement (external or internal) will be required to meet at least one-third of that requirement with LAC debt instruments. The Resolution Regime - Code of Practice Consultation further clarifies that such debt must be accounted for as a liability. *As such Additional Tier 1 ("AT1") instrument which is accounted for as equity will not be included in the debt component.*	• Loss absorbency should be based on legal form but not on accounting classification • AT1 instruments accounted for as equity are actually available for loss absorption during resolution	AT1 instruments though accounted for as equity should be included in the debt component for the one-third debt requirement
For non-GSIB authorised institutions, it is expected that the LAC requirements should be finalised during 2019 and compliance with the LAC Rules to occur by no later than 24 months (i.e. 1st January, 2022).	• It is generally concerned by the industry that the time line for meeting the LAC requirements is too tight in view that the authorised institutions may need to raise significant amount of LAC instruments in the market	The deadline for meeting the LAC requirements for individual authorised institution should be reviewed and considered according to its actual gap of LAC compliance for a smooth implementation.

16th November, 2018