

**Comments on the Financial Institutions (Resolution)
(Loss-absorbing Capacity Requirements – Banking Sector) Rules**

With reference to the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (the “Rules”), **CMB Wing Lung Bank** would like to provide the following comments.

In general, we have no objection on the basic principle that resolution entities and material subsidiaries should be required to meet Loss-absorbing Capacity (“LAC”) requirements in order to facilitate the orderly resolution of non-viable Authorized Institutions (AIs). However we would like to express our views on certain areas:

1. Such LAC requirements should only be applicable to those systemically-important banks, but not to those small banks in Hong Kong

Under section 2.6 of the draft Code of Practice on “LAC-1: Resolution Planning - LAC Requirements”, the HKMA considers that the non-viability of any locally-incorporated AIs with total consolidated assets of more than **HKD150 billion** would be likely to pose a risk to the stability and effective working of the financial system of Hong Kong. That means, almost all local banks will be classified as resolution entities and accordingly be subject to LAC requirements.

The proposed threshold of HKD150 billion is only 0.6% of the total assets of all AIs in Hong Kong, which is considered very small. AIs with such insignificant market share would be small in size and simple in operation, and should not be regarded as systemically important and its non-viability would not pose a risk to financial stability in Hong Kong, including to the continued performance of critical financial functions. Small banks have already been required to incur significantly increased compliance cost as a result of the imposition of Basel III regulations. Imposing LAC requirements on small banks would further increase their compliance cost as they are required to issue higher cost LAC debt instruments, which will undermine their profitability and weaken their competitiveness in the market. Therefore such smaller banks should not be classified as resolution entities or material subsidiaries, and should not be subject to LAC requirements.

To be in line with the approach of setting systemically important banks, it is more appropriate to set the LAC requirements to cover globally systemically-important banks (“G-SIBs”) or domestic systemically-important banks (“D-SIBs”) only. If the HKMA would like to cover certain non-G-SIBs and non-D-SIBs in a wider group, it is suggested to

increase the threshold to **HKD600 billion**, which is only about 2.5% of the total assets of all AIs in Hong Kong. AIs with this size would not be likely to pose a risk to the stability and effective working of the financial system of Hong Kong. This can also avoid weakening the competition for small AIs.

2. Timeline for meeting LAC requirement should be in line with other countries in the region and the parent's home regulator.

We note that the present intention is to classify resolution entities or material subsidiaries of non-Emerging Market Economy ("non-EME") G-SIBs in 2019. The other relevant entities are expected to be classified as resolution entities and material subsidiaries by 1 January 2020, and so will need to meet their respective LAC requirements by 1 January 2022.

The implementation schedule seems quite fast when comparing with other countries in the region. Australia just issued a discussion paper and it is estimated to implement TLAC in 2023. Mainland has not yet fixed their implementation time schedule. Certain countries are still pending on the imposition of TLAC requirements eg Singapore. Imposing a LAC requirement in Hong Kong when others in the region are planning to do so on a slower timetable, could put banks in Hong Kong at a competitive disadvantage.

In addition, the implementation should be kept in line with the parent's home regulator as far as possible. As for our Chinese banks, the LAC debt instruments issued by the Hong Kong subsidiaries will most likely be subscribed by our parent in the Mainland, this will then require our parent bank to issue in parallel similar LAC debt instruments to avoid capital deduction at its Solo level. However Mainland has not yet announced the time schedule for implementing such LAC requirement and the treatment of holding of such instruments, it is estimated that it is most likely to implement after 2025. Therefore it is expected that the HKMA should kindly consider this factor to bring forward LAC requirement to Chinese banks to keep in line with the timeline of their parent's home regulator.

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