JBA JAPANESE BANKERS ASSOCIATION

中国银行业协会
CHINA BANKING ASSOCIATION

13 April, 2018

Roberto Gualtieri MEP, Chairman of the Economic and Monetary Affairs Committee
VladislavGoranov, Minister for Finance, Bulgaria
Vice President Valdis Dombrovskis, European Commission

Dear Chairman Gualtieri,
Dear Mr Goranov,
Dear Vice President Dombrovskis,

Introduction

- We represent the Chinese and Japanese banks, including those designated as G-SIBs, having presence in the EU.
- Ourmember banks, despite havinglimited size and systemic relevance in the EU, provide animportant source of credit to European corporates as well as infrastructureprojects in the EU,while contributingto the economic growth and the creation of jobs in the EU.

Our concerns

- Further strengthening of the Banking Union is a positive development and we generally welcome the European Commission's proposals to enhance the EU regulatory framework. However, as our members operate on a global basis, we always hope that such proposals are in line with the internationally agreed standards.
- There is a certain element in the Risk Reduction Measures package that, in our view, is not proportionate given the size and complexity of our EU operations, namely the intermediate parent undertaking ("IPU") requirement.
- The IPU requirement (article 21b of the CRD), as originally proposed, would require all G-SIIs (G-SIBs) or non-EU institutions with more than EUR 30 billionassets, to establish an IPU and consolidate all EU entities.
- The IPU requirement,as proposed, could result in multi-million one-off reorganisation coststogether with significant ongoing costs. Such costs would significantly increase the on-going cost base of our relatively smallEU operations. As a result, the IPU requirementpotentially makes our business model in the EU unsustainable,and could affect our fundamental capabilities to provide financial services to EU clients. In short, the IPU proposal makes the EU a less attractive place for us to deploy our capital and to do business.
- The proposal may be appropriate, in the context of supervision and resolution planning, for non-EU groups with a significant systemic relevance in the EU, but none of our member banks are in such aposition.

- While the European Commission explains one of the rationales of the IPU proposal is "to facilitate the implementation of the internationally agreed standard on internal loss-absorbing capacity for non-EU G-SIIs in the Union law"[1], none of our member banks exceed the quantitative criteria in the context of internal TLAC/MRELrequirement (more than 5% of RWA, operating income or leverage ratio exposures), due to the relative size of our EU27 operations.
- Accordingly, we suggest the IPU proposal to be amendedto apply the requirement in a proportionate manner – i.e., applied only to banks that are significantly systemically relevant in the EU and could pose a material threat to the EU in a crisis situation.
- We would also propose that given the progress in the Brexit negotiations (including the recent political agreement on the transition period), UK assets and operations should be completely and explicitly out of the IPU scope.We note that the latest Council of the EUtextslead to require the UK assets be included when calculating a firm's asset size for the EUR 40 billion threshold test (originally EUR 30 billion). We do not believe that this is justified and we strongly urge the EU policy makers to make appropriate amendments.

Suggested changes to the proposal (suggested amendment attached)

- We suggest the following targeted amendments to be reflected in the final CRD texts:
  - the automatic application of the IPU requirement to all non-EU G-SIIs (G-SIBs)should be removed–i.e. apply the requirement according to the threshold to all financial institutions, including non-EU G-SIIs,
  - the threshold should be EUR 50 billion(not EUR 30 billion),
  - assets of third country branches in the EU should be excluded from the threshold calculation for the IPU requirement– i.e. only the assets of EU subsidiaries of non-EU banks should be taken into account,
  - assets both of third country branches and subsidiaries in the UK should be excluded from the threshold calculation considering the plannedUK's withdrawal from the EU(it can be achieved by moving the "calculation date" after the Brexit Transition period),
  - sufficientperiod forimplementation to be installed–4 years from CRD application date,as proposed in the latest Council of the EUtexts.
- While we believe a higher threshold of EUR 50 billion mentioned abovemakes the requirement more proportionate and appropriate, an alternative option worth considering is to apply the IPU requirement only if the EU 27 subsidiaries on a consolidated basis are considered "material" in the context of internal TLAC/MREL as defined in the proposed CRR article 4 (134) and article 92b (more than 5% of RWA,operating income or leverage ratio exposures).

[1] European Commission, CRD proposal "Explanatory Memorandum" page 12, 23 November 2016

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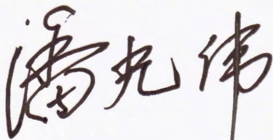
Treatment of third country branches

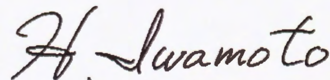
- We support the original proposalwhereby the branches of third country banks in the EU were not required to be consolidated under an IPU.EU branches of third country banks are subject to home authorities' regulation and supervision. We do not think the "subsidiarisation" of branches is appropriate as it would create an un-level playing field between non-EU financial groups and EU financial groups.
- In addition, we do not believe that such a significant change in EU regulation that could have an impact on the global movement of capital should be considered without thorough analysis being conducted in conjunction with the industry and other global regulatory bodies such as the FSB.

Conclusion

- The EU is an important strategic partner for China and Japan, and we hope to further contribute to growth of the EU economy.
- We strongly believe both EU and non-EU financial groups should be treated in a proportionate way– treat the financial group of comparable asset size and activities and posing comparable level of systemic risk within the EU in a non-discriminatory way, and securealevel playing field for all market participants while avoiding further regulatory fragmentation.
- We sincerely hope the EU policy makers would consider the proportionality of requirements to preventunintended withdrawal of non-EU financial service providers from markets and thereby impacting the real economy of the region.

Yours sincerely,





Guangwei PAN
Chief Executive Officer
China Banking Association

Hideharu IWAMOTO
Vice Chairman and Senior Executive Director
Japanese Bankers Association

Suggested amendments
(marked against European Commission's original proposal)

Article 21b Intermediate EU parent undertaking

1. Member States shall require that two or more institutions in the Union, which are part of the same third country group, have an intermediate EU parent undertaking that is established in the Union.

2. Member States shall require an intermediate EU parent undertaking in the Union to obtain authorisation as an institution in accordance with Article 8, or as a financial holding company or mixed financial holding company in accordance with Article 21a.

3. Paragraphs 1 and 2 shall not apply where either (1) the total value of assets in the Union of the third country group is lower than EUR ~~30~~ 50billion,[or(2) ~~none of~~ the EU subsidiaries of the third country group do not meet one of ~~one of~~ the material subsidiary thresholds[1]]~~, unless the third country group is a non-EU G-SII~~.

4. For the purposes of this Article, the total value of assets in the Union of the third country group shall ~~include the following:~~

~~(a)~~ be the sum of the total assets of each institution in the Union of the third country group, as resulting from their consolidated balance sheet~~; and~~

~~(b) the total assets of each branch of the third country group authorised in the Union~~.

5. Competent authorities shall notify to the EBA every authorisation granted pursuant to paragraph 2.

6. EBA shall publish on its website the list of all intermediate EU parent undertakings that have been granted authorisation in the Union. Competent authorities shall ensure that there is a single intermediate EU parent undertaking for all institutions that are part of the same third country group.

7. Third country groups operating through more than oneinstitution in the Union, and with total value of assets exceeding EUR 50 billion [or meet one of the material subsidiary thresholds] on [date ofentry into force of this Directive + two years] shall have an intermediate EU parent undertaking by [date ofapplication of Directive + four years].

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[1] As defined in the proposed CRR Article 4 (134)