

**Yinfa No.289 [2020], Notice of PBC and CBIRC on Issuing the
*Measures for the Assessment of Systemically Important Banks***

The Shanghai Head Office of the People's Bank of China (PBC), branches and operations offices of the PBC, central sub-branches of the PBC in capital cities of provinces (autonomous regions), and central sub-branches of the PBC in sub-provincial cities; local offices of the China Banking and Insurance Regulatory Commission (CBIRC); China Development Bank, policy banks, state-owned commercial banks, joint-stock commercial banks, and Postal Savings Bank of China:

To improve the regulatory framework for China's systemically important financial institutions and establish a system for assessing and identifying systemically important banks, the PBC and the CBIRC have formulated the *Measures for the Assessment of Systemically Important Banks* (hereinafter referred to as *the Measures*), which are hereby issued to you for implementation.

Branch offices of the PBC should forward *the Measures* to city commercial banks, rural commercial banks, and foreign banks within their jurisdictions.

Annex: Measures for the Assessment of Systemically Important Banks

The People's Bank of China

China Banking and Insurance Regulatory Commission

December 2, 2020

Annex:

Measures for the Assessment of Systemically Important Banks

The Measures was formulated in accordance with laws and regulations including the *Law of the People's Republic of China on the People's Bank of China*, *Law of the People's Republic of China on Banking Supervision*, and *Law of the People's Republic of China on Commercial Banks* as well as the *Guiding Opinions of PBC, CBIRC, and CSRC on Improving Regulation of Systemically Important Financial Institutions* (Yinfa No. 301 [2018]) to improve the regulatory framework for China's systemically important financial institutions ("SIFIs") and establish a system for assessing and identifying systemically important banks ("SIBs").

I. General Principles

1. Purpose of assessment. The purpose of assessing the systemic importance of participating banks is to identify China's SIBs. The list of these banks will be published on an annual basis, according to which differentiated supervision will be implemented, so as to reduce the likelihood of major risks incurred by these banks and to guard against systemic risks.

2. Scope of application. *The Measures* applies to commercial banks, development banks, and policy banks established in accordance with the law.

This assessment is based on consolidated financial statements of a group. The scope of consolidation is as supervised by the CBIRC.

3. Definition of systemic importance. In *the Measures*, "systemic importance" refers to the extent to which a financial institution may adversely impact the financial system or the real economy, if it becomes unviable as a going concern in case of a major risk event, due to its size, the complexity of its structure and business, its interconnectedness with other financial institutions, and/or its provision of irreplaceable services in the financial system.

II. Assessment Procedures and Methodology

4. Assessment procedures. SIBs are assessed once a year according to the following procedures:

(1) Determine the scope of participating banks.

(2) Collect the data needed for the assessment from the participating banks.

(3) Calculate the systemic importance scores of participating banks to form an initial list of SIBs.

(4) Make supervisory judgment based on the results of other quantitative and qualitative analyses and adjust the initial list accordingly.

(5) Determine and publish the final list of SIBs.

5. Assessment methodology. The systemic importance of a participating bank is comprehensively assessed by first calculating its systemic importance score based on quantitative assessment indicators and then making a supervisory judgment based on other quantitative and qualitative factors.

6. Scope of participating banks. A bank meeting either of the following two criteria is to be assessed for recognition as an SIB:

(1) The bank is among the top 30 of all banks in terms of the size of its adjusted on- and off-balance sheet assets, divided by its leverage ratio.

(2) The bank was identified as an SIB in the preceding year.

7. Data collection. The CBIRC prepares the data reporting template and instructions in accordance with these *Measures* each year. The data reporting instructions describe indicators of all major and minor categories, their definitions, and any changes in the template relative to the preceding year. Before the end of June each year, participating banks fill in and submit the data of the preceding fiscal year. After checking data quality and overseeing supplements and corrections, the CBIRC will share with the PBC the regulatory statements, reported data, and other relevant information of the participating banks.

8. Systemic importance score. After completing data collection, the CBIRC will calculate the systemic importance scores of the participating banks. Except for circumstances where alternative calculation methods specified in Part III apply, for each participating bank, its score for a particular indicator is expressed in basis points, equaling the bank's value for that indicator divided by the total value of all banks for that indicator and then multiplied by 10,000. The sum of the product of each indicator score and the corresponding weight is the systemic importance score of the participating bank.

9. Cut-off scores and buckets. Banks with a score of 100 or higher are to be included in the initial list of SIBs. Based on their systemic importance scores, these banks are assigned to one of five buckets for differentiated supervision. The cut-off scores for the buckets are:

Bucket 1: 100-299.

Bucket 2: 300-449.

Bucket 3: 450-749.

Bucket 4: 750-1,399.

Bucket 5: 1,400 or more.

Based on the annual calculation results, the CBIRC may subsequently adjust the cut-off scores and buckets following discussion with the PBC and approval of the Financial Stability and Development Committee (FSDC) under the State Council.

10. Supervisory judgment. The PBC and the CBIRC may, based on other quantitative or qualitative ancillary factors, make supervisory judgment-based recommendations of including

a participating bank with a systemic importance score of less than 100 into the list of SIBs. The list of such banks is submitted to the FSDC office together with the initial list of SIBs.

The bar for exercising this supervisory judgment is high, i.e., the initial list of SIBs as established by the systemic importance score should be adjusted in exceptional circumstances only.

11. Finalization and publication of the list. The initial list of SIBs, their reported data and systemic importance scores, and supervisory judgment-based recommendations and the basis therefor are submitted to the FSDC for review before the end of August each year. The final list of SIBs is jointly published by the PBC and the CBIRC after being determined by the FSDC.

12. Information reporting and disclosure. SIBs should implement the statistical systems for SIFIs established by the PBC and submit statistical data to the PBC as required. After being recognized as an SIB, a bank is required to disclose through public channels the indicators specified in Sections 15–18 of these *Measures* for the preceding fiscal year.

13. Review and adjustment of assessment procedures and methodology. The FSDC reviews the assessment procedures and methodology set out in these *Measures* every three years to make the necessary adjustment and improvement. If the industry undergoes significant changes and the existing procedures and methodology can no longer prevent systemic risks in an effective manner, the FSDC may conduct additional reviews.

III. Assessment Indicators

14. Tier-1 indicators. The PBC and the CBIRC assess the systemic importance of participating banks and any change thereof based on Tier-1 indicators, namely size, interconnectedness, substitutability, and complexity.

15. Size. The size of a participating bank is assessed using the size of its adjusted on- and off-balance sheet assets as the quantitative indicator.

The size of adjusted on- and off-balance sheet assets refers to the sum of adjusted on-balance sheet assets and adjusted off-balance sheet items, which are the denominator of the leverage ratio. It is calculated according to the rules set out in the *Leverage Ratio Rules for Commercial Banks* (Decree No. 1 [2015] of the former CBRC). This indicator has a weight of 25%.

16. Interconnectedness. Interconnectedness is assessed using the following quantitative indicators:

(1) Intra-financial system assets, referring to the size of assets of the bank created through transactions with other financial institutions. This indicator has a weight of 8.33%.

(2) Intra-financial system liabilities, referring to the size of liabilities of the bank created through transactions with other financial institutions. This indicator has a weight of 8.33%.

(3) Securities and other financing instruments issued, referring to the outstanding amount of stocks, bonds, and other financing instruments issued by the bank in the financial market. This indicator has a weight of 8.33%.

Interconnectedness indicators have a total weight of 25%.

17. Substitutability. Substitutability is assessed using the following quantitative indicators:

(1) The amount of outgoing payments settled through payment systems or correspondent banks, referring to the total amount of payments made by the bank as a member of the payment systems and settled through domestic and overseas large-value payment systems or correspondent banks in the preceding year, including the total amount of payments cleared for the bank itself and the total amount of payments cleared by the bank on behalf of other financial institutions. This indicator has a weight of 6.25%.

(2) Assets under custody, referring to the value of assets under the custody of the bank at the end of the preceding year. This indicator has a weight of 6.25%.

(3) Agency and underwriting activity, referring to the amount of bonds underwritten as well as trust plans, asset management schemes, insurance products, fund units, and precious metals distributed or sold by the bank over the year as an underwriter or agent. This indicator has a weight of 6.25%.

(4) Number of customers and domestic business organizations, referring to the number of corporate and retail customers of the bank and the total number of its licensed business organizations established domestically. This indicator has a weight of 6.25%.

Substitutability indicators have a total weight of 25%.

18. Complexity. Complexity is assessed using the following quantitative indicators:

(1) Derivatives, referring to the notional principal amount of financial derivative products held by the bank. This indicator has a weight of 5%.

(2) Securities at fair value, referring to the outstanding amount of securities measured at fair value and whose change in value thereof is recorded as gains or losses or as other comprehensive income. This indicator has a weight of 5%.

(3) Assets of non-bank affiliates, referring to the total assets of domestic and overseas non-bank financial institutions that are majority-owned or effectively controlled by the bank. This indicator has a weight of 5%.

(4) Wealth management activity, referring to the outstanding amount of non-principal-protected wealth management products issued by the bank. This indicator has a weight of 5%.

(5) Overseas claims and liabilities, referring to the sum of the bank's overseas claims and overseas liabilities. Overseas claims refer to the final value of overseas claims held by the bank derived by deducting its repatriated risk exposure from its direct claims on the governments, central banks, public sector entities, financial institutions, non-financial institutions, and individuals of other jurisdictions. Overseas liabilities refer to the debts of the

bank to the governments, central banks, public sector entities, financial institutions, non-financial institutions, and individuals of other jurisdictions. This indicator has a weight of 5%.

Complexity indicators have a total weight of 25%.

IV. Implementation

19. The PBC and the CBIRC reserve the right to interpret these *Measures*.

20. These *Measures* take effect on January 1, 2021.