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China’s biggest banks launch first sales of special loss-absorbing debt

TLAC bonds are part of push from international regulators to shore up balance sheets

China’s banking sector, the world’s largest by assets, has five institutions designated as globally systemically important © Alex Plavevski/EPA-EFE

Thomas Hale in Shanghai and **Cheng Leng** in Hong Kong 9 HOURS AGO

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China’s biggest banks have launched their first-ever sales of a special kind of loss-absorbing debt, moving closer to meeting international requirements designed to avoid repeats of the 2008 financial crisis.

Industrial and Commercial Bank of China is selling Rmb40bn ($5.5bn) of so-called total-loss absorbing capacity bonds this week, according to a filing. Bank of China also launched pricing for its own Rmb30bn sale on Thursday.

The bonds are part of a long-term push from international regulators to shore up bank balance sheets by making them issue instruments that are exposed to losses ahead of other highly sensitive bank liabilities, especially deposits.

China’s banking sector, the world’s largest by assets, has five institutions out of 30 around the world designated as globally systemically important by the Financial Stability Board, an international regulatory body based in Basel.

The banks need total loss-absorbing capacity equivalent to 16 per cent of risk-weighted assets by the start of 2025, according to FSB requirements. TLAC bonds are distinct from capital instruments such as additional tier 1 debt that are similarly designed to take losses.

Fitch Ratings estimated last month that TLAC and other capital requirements for the five banks in China could amount to Rmb1.6bn by the start of 2025, but the total amount banks need to issue could be reduced if the Chinese regulator allows deposit insurance funds to count towards the total.

Vivian Xue, a director in the financial institutions group at Fitch Ratings in Shanghai, said China's pilot issuance of TLAC was likely to have been delayed by Covid-19 disruptions as well as "market conditions".

She added that since 2017 most bank capital issuance from China had been within the mainland rather than internationally.

China's financial system during the pandemic became more closed off from the rest of the world, with cross-border activity declining sharply as relations with the US deteriorated. A prolonged property slowdown has also raised concerns about the wider Chinese economy.

International banks have struggled to remain active in the mainland, where domestic securities houses and brokerages dominate financial markets.

Out of the 18 underwriters on Bank of China's bond, none are international financial institutions, according to a bond offering circular. ICBC's offering also lists no international groups.

China's five biggest banks all posted profits in their quarterly results last month, as well as flat non-performing loan ratios, though their margins showed signs of pressure.

In Europe, losses on AT1 bonds during the failure of Credit Suisse last year led to scrutiny of the regulatory regime and its implications for fixed-income investors.

The bank was removed from the FSB's list of global systemically important financial institutions. China's Bank of Communications was added in November.
