TAIWAN BUSINESS BANK

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26 May 2016

Mr Pat Brennan
General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
Level 26, 400 George Street
SYDNEY NSW 2000

Dear Mr Brennan,

RE: BASEL III LIQUIDITY — THE NET STABLE FUNDING RATIO AND THE LIQUID ASSETS REQUIREMENT FOR FOREIGN ADIs

We refer to APRA's consultation paper issued on 31 March 2016 regarding the matters mentioned above and would like to comment on the following issues:

1. The application of Net Stable Funding Ratio (NSFR)
2. Foreign ADIs Liquid Assets Requirement (FALAR)
3. Compliance cost impact on Taiwan Business Bank (TBB)

The Application of Net Stable Funding Ratio (NSFR)

We support and agree with APRA's proposal to apply the NSFR only to those locally-incorporated ADIs that are subject to the LCR, in line with the Basel III NSFR standard which states that the NSFR should be applied to internationally-active banks on a consolidated basis. For foreign ADIs like ourselves, we are operating just as a branch in Australia, therefore, calculating the NSFR or LCR on our own will not reflect the true funding ratio or liquid assets of our Head Office.

Foreign ADIs Liquid Assets Requirement (FALAR)

In terms of APRA's proposal for a new Foreign ADIs Liquid Assets Requirement (FALAR), we are in favour of APRA's proposal for the following reasons:

1. The FALAR is simpler to calculate than the LCR.
2. We have conducted trial calculations of FALAR for two weeks and found that the FALAR figures are more stable and do not fluctuate as much as the LCR figures.
3. The funding cost to keep the FALAR above the proposed level of 9% is lower than that of the funding cost to maintain the LCR above the current level of 40% for foreign ADIs.

However, we would like to seek APRA's clarification regarding the definition of "external liabilities". In the consultation paper APRA defined external liabilities as "liabilities to a third party (whether related or unrelated to the foreign ADI)". In this context we would like APRA to clearly clarify whether liabilities to "related third parties" include liabilities to our Head Office.

In our two weeks of trial FALAR calculations we did include liabilities to our Head Office as part of the "external liabilities" and we still achieved FALAR level of above 9%. If liabilities to our Head Office is excluded, our FALAR ratios would be further strengthened.

Compliance cost impact on Taiwan Business Bank (TBB)

There are two aspects to consider when assessing the compliance cost impact in implementing APRA's proposed FALAR:

1. Funding cost to maintain the FALAR ratio above 9%
2. System and human resource cost to implement the FALAR

As mention above the funding cost to maintain the FALAR above the proposed level of 9% is lower than that of the funding cost to maintain the LCR above the current level of 40% as we can include liquid assets other than HQLA such as bank bills, certificates of deposit (CDs) and debt securities issued by ADIs.

In terms of system and human resource to implement and monitor the FALAR, it would also be more cost effective for TBB as the calculation of FALAR is more simple compare to the LCR. Hence the amount of time and human resources required to amend our system and monitor the FALAR daily would be less than the time and effort required to monitor the LCR.

Given the issues discussed above, TBB is strongly in favour of the proposals set out by APRA in the liquidity consultation paper issued on 31 March 2016.

Thank you for your consideration of this submission and we look forward to your responses.

If you have any questions regarding this submission please do not hesitate to contact us.

Yours sincerely

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