afme/ Finance for Europe **Association for Financial Markets in Europe**

Member Briefing Call On TLAC (Total Loss Absorbing Capacity)

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Outline

1. **What is the FSB proposal for TLAC?**

2. **How does TLAC interact with the BRRD's MREL requirement?**

Origins

- **FSB Key Attributes of Effective Resolution Regimes (2011)**
  - **Guidance on Developing Effective Resolution Strategies (2013)**
- **2014 G20 Brisbane summit:**
  - **“watershed”**
  - **“GSIBs resolvable”**
  - **“The job is now substantially complete”**

Purpose

- Effective resolution requires having effective resolution tools and strategies
- Bail-in is central to SPE or MPE
- Crucial element is availability of LAC in sufficient amounts and in the right location of the group
- Must ensure continuity of critical functions and promote market confidence
- Internationally agreed standard for G-SIBs
  - Minimum standard

GFMA key messages

- GFMA response
- Key messages
  - Industry is supportive of TLAC as a key element to solving TBTF
  - Welcome the QIS and market survey which are very important in determining the final calibration
  - Low end of the proposed range would have been sufficient to address crisis level losses
  - Structured notes shouldn't be arbitrarily excluded

- **Pillar 1**
  - **Minimum common amount of TLAC**
  - **16 - 20% RWA and 2x Basel III leverage ratio**
- **Pillar 2**
  - **Firm-specific**
  - **Home authorities set in CMGs**
  - **Incentivise home/host cooperation**
- **Excludes buffers**

Quantum - 2

- Low end of 16-20% range should be sufficient
  - Historic losses
  - Totality of reform package
  - Purpose – critical functions, market confidence

- 2x leverage ratio
  - Disproportionate impact on deposit funded banks
  - Backstop or main driver?

- QIS → leverage ratio
- No pillar 2

EME exemption

- **Doesn’t apply to G-SIBs headquartered in Emerging Market Economies (EME) eg China**
- **Unlevel international playing field**
- **Phase out**
- **Should apply to foreign banks operating in EME and to subs of EME banks in non-EME**

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- **TLAC proposal requires TLAC to absorb losses prior to excluded liabilities**
- **Subordination can be structural, contractual or statutory**
- **Exception: up to 2.5% RWAs where discretion not to bail in excluded liabilities, provided that:**
  - **No material risk of successful legal challenge or valid compensation claims.**

Structured notes

- **Proposal excludes structured notes due to concerns over valuation and practicality of bail-in**
- **GFMA proposal they should be eligible provided they satisfy general eligibility criteria and:**
  - **appropriate preparations are put in place to identify and value claims and to manage rebalancing of hedging positions; and**
  - **they are held through a securities settlement system.**

Market capacity

- **Will the capital markets be able to absorb banks' TLAC needs globally?**
  - **S&P estimates $500bn - $1tn issuance required**
- **How feasible is it to issue large quantities of TLAC in less developed markets?**
- **How broad is the investor base likely to be?**

Other issues

- **Impact of breach**
- **Disclosure**
- **Restriction on holdings**

EU requirements: MREL

- **BRRD: minimum requirement for own funds and eligible liabilities (MREL)**
  - **No harmonised minimum: bank by bank**
  - **Applies to all banks in EU from 1 January 2016**
  - **Some differences in eligibility criteria**

- **Interrelationship with TLAC?**
  - **EBA RTS on criteria for setting MREL**
  - **Amendments to BRRD?**
  - **EBA report in 2016**

TLAC: next steps

- **QIS and market survey underway: completion by April 2015**
- **Macro- and microeconomic impact analysis**
- **Historical loss analysis**
- **Expected finalisation of standard: November 2015**
- **Implementation: not before 1 January 2019**

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Offices

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