

Financial Stability Board  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland  
fsb@fsb.org

Montrouge February 10, 2017

Dear Sir/Madam:

**Re: Response to FSB consultation paper, “Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs (‘Internal TLAC’)”**

Crédit Agricole welcomes the opportunity to comment on the guidance for home and host authorities to implement internal TLAC and supports efforts to enhance regulatory co-operation. Before answering the consultations questions, we would like to state a few general comments of importance:

- The balance between home and authorities power is paramount. We believe that the proposed guidelines result in excessive power given to the host authorities. They actually encourage ring-fencing and undermine fair competition.
- Internal TLAC requirements should be set in accordance with the overall requirements at group level not the other way round. The TLAC requirements are primarily based on the overall RWAs/leverage. TLAC allocated at entity level should not be grossed up by the external TLAC requirements and should remain consistent with similar requirements applicable to non-GSIB entities.
- The allocation and the design of Internal TLAC instruments should remain flexible, taking into consideration the financial situation (capital, liquidity, tax, etc.) of the various involved entities and the group structure (operating or non-operating parent company, support arrangements of mutual banks). We believe that guarantees are probably the most flexible Internal TLAC tools and should not be unduly penalized.

We have provided more specific answers to the consultation questions below.

**1. What factors should the relevant authorities take into account when determining the composition of material sub-groups and the distribution of internal TLAC between the entities that form the material sub-group (guiding principle 2)?**

Material sub-groups should be identified by the Crisis Management Group (CMG) and be consistent with the overall resolution entity. When doing so, the host authority should keep the lead role.

We reluctant to allocate internal TLAC to a material sub-group whose host authority has not implemented a resolution regime. This would hamper fair competition between entities that are not part of a GSIB and other local competitors.

Siège social : 12 place des Etats-Unis – 92127 MONTRouGE CEDEX  
Tél. 01 43 23 52 02

Etablissement de crédit soumis aux articles L 225-1 et suivants du Code de commerce et aux articles L 512-47 et suivants du Code monétaire et financier - 784 608 416 RCS Nanterre - FR 77 784 608 416 - Capital 8.538.313.578 euros.



Avec Ecofolio  
tous les papiers  
se recyclent.

We must remind that entities that are within the scope of a cooperative mutual solidarity system that protects the solvency and liquidity of the affiliated cooperative banks and institutions should not be targeted by internal TLAC. Indeed, cooperative mutual solidarity systems are already mentioned in the TLAC term sheet and consistency should be ensured all the way through the consequences on entities within the perimeter of a solidarity system which secures even more solvency than internal TLAC.

**2. What are your views on the treatment of regulated or unregulated non-bank entities as set out in guiding principle 4? If such entities were included within a material sub-group, how should the relevant authorities calculate an internal TLAC requirement?**

Business continuity is the primary goal. In some instances, capital is not the adequate solution for an unregulated entity, notably companies providing ancillary services (e.g. IT).

When there is a specific resolution regime (e.g. insurance companies), those entities should be excluded from a TLAC requirement.

Since TLAC is contingent capital, it should be eventually calibrated on the potential losses that the non-bank entities may incur.

**3. Do you agree with the roles of home and host authorities in relation to the host authority's determination of the size of the internal TLAC requirement, as set out in guiding principles 5 and 6? What additional factors, if any, should the host authority take into account when setting the internal TLAC requirement?**

As stated in the opening remarks, the determination of the internal TLAC:

- Should be consistent with requirements applicable to other similar entities under the same resolution regime;
- Should take into account the general group support and the benefit of diversification of risks amongst the group;
- Should leave some leeway to accommodate capital mobility within the Group.

Should the sum of internal TLAC be in excess of the external TLAC, we see no reason why the external TLAC be adjusted upwards, unless the risks assessment at group level happens to be flawed.

**4. How should TLAC at the resolution entity that is not distributed to material sub-groups ('surplus TLAC') be maintained to ensure that it is readily available to recapitalise any direct or indirect subsidiary, as required by the TLAC term sheet (guiding principle 7)?**

We advocate flexibility with respect to the management of the TLAC surplus. As example, the surplus of the proceeds of the TLAC issuances may be more efficiently used to fund (on a non internal TLAC basis) an operating entity with significant liquidity needs than used to maintain a pool of safe but unprofitable assets at the resolution entity.

**5. What are your views on the composition of internal TLAC, as set out in guiding principle 8? In particular, should there be an expectation of the inclusion within internal TLAC of debt liabilities accounting for an amount equal to, or greater than, 33% of the material sub-group's internal TLAC?**

Again, we advocate flexibility. The 33% requirement is too prescriptive. A beneficiary entity may already have liquidity and this requirement would probably result in higher leverage, reduced profitability and potentially tax drawbacks.

We take this opportunity to remind that guarantees are probably the most flexible tools and we believe the current proposals are too stringent:

- In particular, the collateral maturity requirement should be construed economically. What matters is not the maturity of a given instrument used as collateral at a given point in time but the maturity of the collateral arrangement. Short-term instruments are actually better instrument since i) they are less price-sensitive and ii) end up in collateralised cash if they are not substituted before their maturity.

**6. What are your views on the potential benefits or drawbacks of different approaches to the issuance of internal TLAC instruments as set out in guiding principle 10, and what steps could be taken to mitigate the drawbacks that you have identified?**

The different approaches set out in Principle 10 are good examples but do not encompass the broader variety of situations arising from:

- The group structure. Mutual groups largely differ from the pyramidal scheme assumptions that underpin Principle 10;
- The operating role of the resolution entity. In some groups, the resolution entity carries out significant business;
- The various tax constraints;
- The various regulatory constraints, notably deductions and large exposures;
- The resolution strategy (SPE or MPE).

**7. Should the FSB conduct further work on the need for a deduction mechanism for internal TLAC, as proposed in guiding principle 10?**

We support the FSB conducting further work on deduction mechanisms.

**8. Do you agree with the obstacles to the implementation of internal TLAC mechanisms set out in guiding principle 12? How should G-SIBs and authorities address those obstacles and what additional obstacles, if any, might arise?**

We support internal TLAC being excluded from large exposure limits.

**9. Do you agree with the key features of contractual trigger language for internal TLAC, as set out in guiding principle 13 and in Annex 2? Should authorities consider the use of contractual triggers for internal TLAC in the form of regulatory capital instruments, including in cases where statutory point of non-viability powers exist in relation to such instruments?**

We are not in favour of TLAC-specific contractual triggers unless they materially help mitigate litigation risks. We believe that the host authority's general powers are sufficient.

Additionally, we believe that triggers actually weaken the creditor hierarchy and therefore loss-absorbency by minority stakeholders.

**10. Do you agree with the process for triggering internal TLAC in Section V? In particular, what are your views on the timeframe for the home authority to decide whether to consent to the write-down and/or conversion into equity of internal TLAC?**

Triggering Internal TLAC is indeed a last resort solution, the consequences of which must be carefully weighted, notably market impacts.

Communication between host and home authorities is paramount and the 48 hours timeframe should only be regarded as indicative and considered within a broader perspective (market situation, week-end or business weeks, etc.).

**11. Are there any other actions that should be taken by G-SIBs and authorities to support the implementation of the internal TLAC requirement, consistent with the TLAC term sheet?**

The specific situation of mutual groups, operating resolution entities and group subject to SPE strategy should probably deserve further study.

We hope these answers will help the Financial Stability Board better understand the industry's concerns and more specifically the issues specific to co-operative and mutual banks.

Sincerely yours,

Olivier Bélorgey  
Directeur de la Gestion Financière