Dear Ladies and Gentlemen,

thank you very much for the opportunity to comment on the Financial Stability Board's proposal on "Total Loss-Absorbing Capacity" (TLAC) that will apply to all Global Systemically Important Banks (G-SIBs).

I agree with the statement in the consultation document that by ensuring that losses incurred by a failing G-SIB are borne by creditors rather than taxpayers we should enhance the amount of market discipline that G-SIBs are exposed to and should reduce the extent of socially excessive risk-taking that these banks engage in. There is extensive academic evidence that systemically important banks enjoy funding costs that are artificially low and insensitive to risk due to perceptions that the banks will be bailed out if necessary (see e.g. here for a comprehensive study). To the extent that the TLAC standard makes resolution of G-SIBs a realistic option, the standard should reduce distortions in G-SIB's ex-ante risk-taking incentives.

Moreover, from an ex-post perspective, transferring money from taxpayers to bank creditors may be seen as unfair by policy makers.

However, I would like to draw your attention to a recent piece of research that highlights additional ex-post costs of bank bail-outs. In my paper '**Electoral Cycles in Savings Bank Lending**' (joint with Till Stowasser, see here) we show that banks that are subject to political influence systematically adjust lending policies in response to electoral cycles. These effects are economically meaningful and can lead to significant reductions in economic efficiency. To the extent that bail-outs result in public ownership of G-SIBs they may hence lead to additional distortions in the lending behaviour of banks that have not been identified so far.

In light of the various pieces of evidence on the economic costs of bail-outs I very much welcome the proposal and would favour a more robust calibration of the requirement.

Kind regards
Florian Englmaier
= =

Prof. Dr. Florian Englmaier
Professor for Organizational Economics
Department of Economics
University of Munich
Kaulbachstraße 45
D-80539 Munich
+49 89 2180 5642
englmaier@lmu.de