FINANCIAL STABILITY BOARD

Press release

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Ref no: 76/2014

10 November 2014

FSB consults on proposal for a common international standard on total loss-absorbing capacity (TLAC) for global systemic banks

The Financial Stability Board (FSB) has today issued for public consultation policy proposals consisting of a set of principles and a detailed term sheet on the adequacy of loss-absorbing and recapitalisation capacity of global systemically important banks (G-SIBs).

The proposals respond to the call by G20 Leaders at the 2013 St. Petersburg Summit to develop proposals by end-2014. They were developed by the FSB in consultation with the Basel Committee on Banking Supervision (BCBS) and will, once finalised, form a new minimum standard for “total loss-absorbing capacity” (TLAC). The new TLAC standard should provide home and host authorities with confidence that G-SIBs have sufficient capacity to absorb losses, both before and during resolution, and enable resolution authorities to implement a resolution strategy that minimises any impact on financial stability and ensures the continuity of critical economic functions.

By strengthening the credibility of authorities’ commitments to resolve G-SIBs without exposing taxpayers to loss, TLAC in conjunction with other measures should act to remove the implicit public subsidy from which G-SIBs currently benefit when they issue debt and incentivise creditors to better monitor G-SIBs’ risk-taking. It should also help achieve a level playing field internationally, reducing G-SIBs’ funding cost advantage and ensuring they compete on a more equal footing within their home and foreign markets.

TLAC adequacy will need to take account of individual G-SIBs’ recovery and resolution plans, their systemic footprints, business models, risk profiles and organisational structures. The principles and term sheet therefore provide guidance for home and host authorities on how to determine a firm-specific Pillar 2 TLAC requirement in addition to the common Pillar 1 TLAC minimum. The calibration and composition of firm-specific TLAC requirements should be determined in consultation with Crisis Management Groups and subject to review in the FSB’s Resolvability Assessment Process (RAP).

In early 2015, the FSB will, with the participation of the BCBS and the Bank for International Settlements (BIS), undertake comprehensive impact assessment studies to inform the calibration of the Pillar 1 element of the TLAC requirement for all G-SIBs. The TLAC proposals will be finalised by the time of the next G20 Leaders' Summit in 2015 taking account of the results of this consultation and of the impact assessments.

Mark Carney, Chair of the FSB, said: "Agreement on proposals for a common international standard on total loss-absorbing capacity for G-SIBs is a watershed in ending "too big to fail" for banks. Once implemented, these agreements will play important roles in enabling globally systemic banks to be resolved without recourse to public subsidy and without disruption to the wider financial system."

Comments on the consultative document

The FSB welcomes comments and responses to the questions set out in the consultative document by **Monday, 2 February 2015**. Responses should be sent to fsb@bis.org. Responses will be published on the FSB website unless respondents expressly request otherwise.

Notes to editors

At the Seoul Summit in 2010, the G20 Leaders endorsed the FSB policy framework for reducing the moral hazard of SIFIs which set out the FSB's agenda for addressing the risks arising from global systemically-important financial institutions (G-SIFIs). It consisted of requirements for assessing the systemic importance of institutions, for additional going-concern loss absorbency, for increased supervisory intensity, for more effective resolution and for stronger financial market infrastructure.

The FSB's report to the G20 on Progress and Next Steps Towards "Ending Too Big To Fail" of September 2013 set out the further actions required from the G20, the FSB and other international bodies to complete the policy initiative to end "too-big-to-fail". It identified the need to develop a proposal on the adequacy of loss-absorbing capacity in resolution as one of the important outstanding issues to be addressed in the initiative.

The FSB was established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.