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TLAC – Executive Summary

On 9 November 2015, the Financial Stability Board issued the *Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution*. The issuance also included the *Total Loss-absorbing Capacity (TLAC) Term Sheet*, which sets out the TLAC standard. Select here to access the document. This Executive Summary will explain the what, where and how of the TLAC standard.

Objective of the TLAC standard

The TLAC standard requires **global systemically important banks (G-SIBs)** to have financial instruments available during resolution to absorb losses and enable them to be recapitalised to continue performing their critical functions while the resolution process is ongoing. The objective is to have an orderly resolution by making debt/equity holders absorb losses (enabling a "bail-in"), instead of using public funds (conducting a "bailout").

Application of the TLAC requirement

The TLAC requirement is applied to the **resolution entity** – the entity to which resolution measures are applied based on a G-SIB's resolution plan agreed by its home and key host authorities.

A G-SIB may have one or more resolution entities. G-SIBs that follow a single point of entry **(SPE)** resolution strategy (all resolution action applies at the top of the banking group) will have only one resolution entity. G-SIBs that follow a multiple point of entry **(MPE)** resolution strategy (resolution measures are implemented at various operating companies or subsidiaries) will have multiple resolution entities.

A resolution entity and its subsidiaries are collectively called a **resolution group**. A resolution entity's TLAC requirement will be based on the consolidated balance sheet of the resolution group.

Within a resolution group, there may be **material subgroups** located outside the jurisdiction of the resolution entity. Host authorities may require these material subgroups to issue "internal" TLAC (TLAC instruments to be issued to the parent resolution entity).

Composition and phasing-in of the TLAC requirement

TLAC requirements can be met by instruments that are eligible for the minimum regulatory capital requirement, plus debt liabilities that meet certain criteria. One of those criteria is that TLAC-eligible liabilities should be subordinated to TLAC-excluded liabilities, such as deposits and structured products. Subordination can be achieved in three ways: contractual, statutory and structural.

The TLAC requirement is defined as:

$$\frac{\textbf{TLAC instruments}}{\textbf{RWA}} \geq \textbf{X and } \frac{\textbf{TLAC instruments}}{\textbf{Leverage exposure measure}} \geq \textbf{Y, where X and Y are:}$$

- 16% and 6%, respectively, in January 2019 (Phase 1)
- 18% and 6.75%, respectively, in January 2022 (Phase 2)

Internal TLAC, on the other hand, should be between 75% and 90% of the TLAC requirement that would apply had the material subgroup been a resolution group. The actual level will be determined by the host authority of the material subgroup in consultation with the home authority of the resolution group.

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