



COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

“TLAC Holdings”

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY
12 February 2016)

I. Introduction

On November 9, 2015, the Financial Stability Board (FSB) finalized its Principles on Loss-absorbing and Recapitalization Capacity of G-SIBs in Resolution, including the Total Loss-absorbing Capacity (TLAC) Term Sheet (the Term Sheet).

The above by a G20 Leaders' Mandate to the FSB in 2013, aimed to evaluate and develop proposals on the adequacy of global systemically important financial institutions' (G-SIBs) loss-absorbing capacity when they fail.

According to the TLAC Principles, the G-SIBs must have “sufficient loss-absorbing and recapitalisation capacity available in resolution to implement an orderly resolution that minimises any impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers (that is, public funds) to loss.”

II. Purpose of the revision

In this document, the Basel Committee sets out for consultation its proposed deduction treatment for banks' investments in TLAC, and its proposals on the extent to which instruments ranking *pari passu* (i.e. the under same conditions) with TLAC should be subject to the same deduction treatment. The Basel Committee's proposal changes the calculation of regulatory capital for all internationally active banks (for G-SIBs, as it was originally proposed, but also extends treatment to non-G-SIBs).

Following are the comments made by some members of the Association of Supervisors of Banks of the Americas (ASBA).

I. General Comments

In general terms, TLAC requirements will have an impact on both the holding structure and business models of regional financial institutions. The above, since TLAC proposal under this consultative document tends to be easily adaptable by certain banking models, such as investment banks and institutions following a centralized model of organization. On the contrary, it could imply an impact on the business model of banks that have a decentralized holding structure and/or banks that depend more on retail deposits, as it is the case of most banks operating in the region.

Additionally, within the general framework of the proposed TLAC, it is important to mention the following:

1. The approach considered in the consultative document (that all banks are required to treat their holdings of TLAC as investments in Tier 2 capital for the deduction rules) is appropriate. The alternative of extending the Basel III corresponding deduction approach to holdings of TLAC - requiring G-SIBs to deduct their investments in TLAC from their TLAC resources - would have been fine for G-SIBs but not for non-G-SIBs, because they may not have sufficient TLAC resources from which to apply deductions.



COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

“TLAC Holdings”

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY 12 February 2016)

2. The Basel Committee could provide greater detail on the TLAC qualitative requirements linked to the Pillar 2 of Basel II. The FSB's Principles on Loss-absorbing and Recapitalization Capacity of G-SIBs in Resolution & TLAC Term Sheet, only mention that amongst the requirements to be considered are the specific risks for each particular company.

II. Specific Comments

1. It should be emphasized the need to assess lowering the threshold of 10% of common shares used for deducting capital which according to Basel III is adequate for investment deductions under TLAC. The above since the QIS reveals that only a small group of banks with a relevant international activity maintain financial instruments issued by a G-SIB, thus, there is the possibility that such restriction may not be limiting any entity in practice.

(Cf. Section 2. Proposed Tier 2 deduction approach on Page 2).

2. It would be worth to assess, for non-G-SIBs with international activity, whether or not Tier 2 capital investments in TLAC are adequate. Perhaps a valid alternative would be to consider deductions when a bank is considered as G-SIB, and to impose limits on exposures to those non G-SIBs with an international presence.

In this regard, it would be advisable to develop a specific methodology to determine the threshold to consider a bank as internationally active.

(Cf. Cf. Section 2. Proposed Tier 2 deduction approach on Page 2 and Section 3.3. Large Exposure Limits).

3. The proposal seems to be biased in favor of banks with a certain type of holding structure or business model: (i) banks with a centralized model of organization are allowed to have a reduction in TLAC requirements at a group level; (ii) investment banks have a more leveraged structure, thus is easier for them the issuance of corporate debt. In these two cases it is easier for these banks to comply with TLAC requirements.

In contrast, for less-centralized holding structures that rely mainly in retail deposits, which is the structure and business model most common in the region, the proposed TLAC requirements will force them to change such holding structure and business model, thus incurring in additional costs because of the restructuring process.

In this respect, the proposal grants a unique exception to banks whose holdings are located in emerging countries but does not do so for branches in emerging countries whose holdings are located in developed markets. Therefore, it may be questioned that the TLAC is forcing such branches to raise artificially their leverage through the issuance of senior debt in foreign markets, which may lead to balance mismatches and an increased risk of contagion.

These elements will make more difficult for regional banks to adequate their capital and liquidity standards to the TLAC regime.

To conclude, it is probable that the new regime gives a less favorable treatment to banks that follow a non-centralized business model, such as banks in Latin America which, according to



COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

“TLAC Holdings”

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY
12 February 2016)

the assessment of international organizations, remained sounder and with a lower risk of contagion during the crisis.

(Cf. third paragraph, 2nd bullet, page 5, Section 4. What constitutes a TLAC holding).