Press release

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FSB issues final Total Loss-Absorbing Capacity standard for global systemically important banks

The Financial Stability Board (FSB) today issued the final Total Loss-Absorbing Capacity (TLAC) standard for global systemically important banks (G-SIBs).

The TLAC standard has been designed so that failing G-SIBs will have sufficient loss-absorbing and recapitalisation capacity available in resolution for authorities to implement an orderly resolution that minimises impacts on financial stability, maintains the continuity of critical functions, and avoids exposing public funds to loss.

The TLAC standard defines a minimum requirement for the instruments and liabilities that should be readily available for bail-in within resolution at G-SIBs, but does not limit authorities' powers under the applicable resolution law to expose other liabilities to loss through bail-in or the application of other resolution tools.

The FSB released for consultation a proposed standard on TLAC in November 2014 in consultation with the Basel Committee on Banking Supervision (BCBS). The final standard reflects changes made following the public consultation and comprehensive impact assessment studies. The results of the impact assessment studies are published today alongside the final TLAC standard, and the BCBS has today separately released a consultative document on TLAC holdings.

Mark Carney, Chair of the FSB said "The FSB has agreed a robust global standard so that G-SIBs can fail without placing the rest of the financial system or public funds at risk of loss. This new standard, which will be implemented in all FSB jurisdictions, is an essential element for ending too-big-to-fail for banks. The economic impact assessments conducted as part of the detailed policy work shows that the economic benefits of the final standard far outweigh the costs."

G-SIBs will be required to meet the TLAC requirement alongside the minimum regulatory requirements set out in the Basel III framework. Specifically, they will be required to meet a Minimum TLAC requirement of at least 16% of the resolution group's risk-weighted assets (TLAC RWA Minimum) as from 1 January 2019 and at least 18% as from 1 January 2022. Minimum TLAC must also be at least 6% of the Basel III leverage ratio denominator (TLAC Leverage Ratio Exposure (LRE) Minimum) as from 1 January 2019, and at least 6.75% as from 1 January 2022.

G-SIBs headquartered in emerging market economies will be required to meet the 16% RWA and 6% LRE Minimum TLAC requirement no later than 1 January 2025, and the 18% RWA and 6.75% LRE Minimum TLAC requirement no later than 1 January 2028. This conformance period will be accelerated if, in the next five years, corporate debt markets in these economies reach 55% of the emerging market economy's GDP. The FSB will monitor implementation of the TLAC standard and will undertake a review of the technical implementation by the end of 2019.

The findings of the impact assessment studies conducted by experts at the FSB, BCBS and Bank for International Settlements (BIS) are published alongside the final TLAC standard in the form of the following reports:

- Overview report summarising the findings of the TLAC impact assessment studies;
- Quantitative Impact Study report conducted by the BCBS;
- Economic Impact Assessment report conducted by a group of experts chaired by the BIS; and
- Historical Losses and Recapitalisation Needs findings report.

The impact assessment studies found that the micro- and macroeconomic costs of TLAC are relatively contained. The estimated costs for G-SIBs of meeting the minimum TLAC requirement are found to translate into increases in lending rates for the average borrower that range from 2.2 to 3.2 basis points, while the median long-run annual output costs are estimated at 2 to 2.8 basis points of GDP. The benefits of TLAC arise from the reduced likelihood and cost of crises and exceed these costs, with even the most conservative assumptions yielding estimated benefits of between 15 and 20 basis points of annual GDP.

The FSB also published today a *Resolution progress report* which provides an update on the findings from the first Resolvability Assessment Process for G-SIBs and the further work undertaken to address the identified remaining obstacles to the resolvability of G-SIBs. The TLAC standard is an important element of this work. The report also covers progress in reforms of resolution regimes consistent with the *Key Attributes* and the work underway in the non-bank sector covering the resolvability of systemic insurers and central counterparties.

The FSB published the 2015 update of the G-SIB list on 3 November.

Notes to editors

The FSB has been 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 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.fsb.org