

Calibration of the amount of TLAC required

1. Is a common Pillar 1 Minimum TLAC requirement that is set within the range of 16 – 20% of risk-weighted assets (RWAs), and at a minimum twice the Basel III leverage requirement, adequate in the light of experiences from past failures to support the recapitalisation and resolution objectives set out in this proposal? What other factors should be taken into account in calibrating the Pillar 1 Minimum TLAC requirement?

We believe that Pillar 1 minimum TLAC requirement should be set at 20% of RWAs and twice the Basel III leverage requirement.

2. Does the initial exclusion of G-SIBs headquartered in emerging market economies (EMEs) from meeting the Common Pillar 1 Minimum TLAC requirement appropriately reflect the different market conditions affecting those G-SIBs? Under what circumstances should the exclusion end?

We disagree that G-SIBs headquartered in emerging markets should be excluded from meeting minimum requirement initially. We believe that it is important that all G-SIBs should be required to have adequate loss-absorbing capacity to minimize any impact on financial stability and to achieve a level playing field internationally.

3. What factors or considerations should be taken into account in calibrating any additional Pillar 2 requirements?

Additional Pillar 2 requirement should be set under sole discretion of national regulators, who will set their own requirements based on factors such as economic cycle, size of its financial sector and other risks to financial stability.

Ensuring the availability of TLAC for loss absorption and recapitalization in the resolution of cross-border groups

4. Should TLAC generally be distributed from the resolution entity to material subsidiaries in proportion to the size and risk of their exposures? Is this an appropriate means of supporting resolution under different resolution strategies? Which subsidiaries should be regarded as material for this purpose?

Yes, we believe external TLAC of the resolution entity should be downstreamed proportionally and accordingly to material subsidiaries. eg tier 1 instruments raised on the resolution entity downstream as tier 1 of subsidiaries.

5. To what extent would pre-positioning of internal TLAC in material subsidiaries support the confidence of both home and host authorities that a G-SIB can be resolved in an orderly manner and diminish incentives to ring-fence assets? Is a requirement to pre-position internal TLAC in the range of 75 - 90% of the TLAC requirement that would be applicable on a stand-alone basis, as set out in the term sheet (Section 22), appropriate to satisfy the goals of the proposal and ensure that TLAC is readily and reliably available to recapitalize subsidiaries as necessary to support resolution? Can this pre-positioning be achieved through other means such as collateralized guarantees?

We agree that pre-positioning of internal TLAC is the best way to ensure they are readily available to recap subsidiaries as necessary. We suggest setting internal TLAC requirement as high as practical.

Determination of instruments eligible for inclusion in external TLAC

6. Are the eligibility criteria for TLAC as set out in the term sheet (Sections 8-17) appropriate?

Yes

7. What considerations bear on the desirability of an expectation that a certain proportion of the common minimum Pillar 1 TLAC requirement consists of (i) tier 1 and tier 2 capital instruments in the form of debt plus (ii) other eligible TLAC that is not regulatory capital?

We question the expectation that tier 1, tier 2 and other forms of TLAC debt should be equal to or greater than 33% of TLAC minimum requirement (therefore, regulatory capital can't be more than 2/3 of TLAC). We believe the common equity/regulatory capital is the best form of loss-absorbing capital. It should be preferred over other instruments such as tier 1 or tier 2 capital. Therefore, in an extreme case, if a G-SIB is willing to fulfill all of its TLAC requirement using common equity, it should be allowed.

8. Are the conditions specified in the term sheet (Section 8) under which pre-funded commitments from industry-financed resolution funds to provide resolution funding contribute to TLAC appropriate?

No, we disagree. We are concerned that there will be enough resources from industry-financed resolution fund when needed, as the European experience in 2010-12 shown.

9. Is the manner in which subordination of TLAC-eligible instruments to excluded liabilities is defined in the term sheet (Section 13) sufficient to provide certainty regarding the order in which creditors bear loss in resolution, and to avoid potentially successful legal challenges or compensation claims? Where there is scope for liabilities which are not subordinated to excluded liabilities to qualify for TLAC, are the transparency and disclosure requirements set out in section 13 and 24 sufficient to ensure that holders of these instruments would be aware of the risk that they will absorb losses prior to other equally ranking but excluded liabilities? If not, what additional requirements should be adopted?

Please clarify the order in which creditors bear loss in resolution, under the below scenario

The resolution entity is a Holding company that has tier 2 instruments (Holdco tier 2) and senior debt (Holdco senior). It has only one material operating subsidiary which issues tier 2 (Opco tier 2) and senior debt (Opco senior).

What is the order to bear loss in resolution among the four instruments: Holdco tier 2, Holdco senior, Opco tier 2 and Opco senior.

Interaction with regulatory capital requirements and consequence of breaches of TLAC

10. Do you agree that the TLAC requirement for G-SIBs should be integrated with Basel III such that the minimum TLAC requirement should be met first, and only after TLAC is met should any surplus common equity tier 1 (CET1) be available to meet the Basel III buffers?

Yes.

Transparency

11. What disclosures (in particular in terms of the amount, nature and maturity of liabilities within each rank of the insolvency creditor hierarchy) should be required by resolution entities and material subsidiaries to ensure that the order and quantum of loss absorption in insolvency and resolution is clear to investors and other market participants?

Agree with proposal in section 24

Limitation of contagion

12. What restrictions on the holdings of TLAC are appropriate to avoid the risk of contagion should those liabilities be exposed to loss in resolution?

Agree with proposal in section 18

Conformance period

13. Should G-SIBs be required to conform with these requirements from 1 January 2019? Why or why not? What, within the range of 12 to 36 months following the identification as a G-SIB, should be the conformance period for banks identified as G-SIBs at a future date?

Yes, initial conformation on 1 January 2019, which is in line with Basel 3 implementation timeline.

We think it is appropriate to set the conformance period for new identified G-SIBs at 12 months. The rationale is that potential new G-SIBs are most likely to be domestic-SIBs which are also required to hold certain level of TLAC, 12 months seems a sufficient period for new G-SIBs to fill the gap.

Market impact and other aspects

14. How far is the TLAC proposal, if implemented as proposed, likely to achieve the objective of providing sufficient loss-absorbing and recapitalization capacity to promote the orderly resolution of G-SIBs?

We believe that current TLAC proposal (if set at 20% of RWAs) is very likely to achieve the objective.

15. What will be the impact on G-SIB's overall funding costs of the adoption of a Pillar 1 Minimum TLAC requirement?

We feel the funding cost will go up for G-SIBs, however, we are looking forward to QIS results on the detailed impact analysis.

16. What will be the impact on the financial system and its ability to provide financing to the real economy?

In the short term (the initial transition period), certain financial systems might face constraints in terms of lending to economy due to higher funding cost and pressure of deleveraging. However, in the long run, we believe, the TLAC requirement will achieve its objective to improve financial stability and better facilitate financing to real economy.

17. Do you have any comments on any other aspects of the proposals?

No.

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