

**Initial response to the FSB's Consultative Document on 'Adequacy of loss-absorbing capacity of global systemically important banks in resolution'**

The FSB has today published its consultative document on the adequacy of loss-absorbing capacity of global systemically important banks in resolution. The proposals in the document to boost the readily-loss-absorbing capacity of globally systemically-important banks are of great importance and most welcome. They have much in common with the UK recommendations on primary loss-absorbing capacity made by the Independent Commission on Banking (ICB).

It is however unfortunate that the FSB has stated its proposals in terms of *total* loss-absorbing capacity (TLAC). By contrast, in its 4 April 2014 update to G20 Finance Ministers and Central Bank Governors, the FSB spoke of *gone-concern* loss-absorbing capacity.

To count as TLAC, liabilities must be capable of being effectively written down or converted into equity during resolution of a G-SIB without disrupting the provision of critical functions or giving rise to material risk of successful legal challenge or compensation claims. But if such liabilities are *total* loss-absorbing capacity, all other liabilities could seem by implication to be immune from ever having to absorb loss.

This cannot be the intended implication, especially in a document about too-big-to-fail, and indeed on pages 7 and 10 it is recognized that losses in resolution may exceed a G-SIB's TLAC, so that "liabilities that are not eligible as TLAC will still be subject to potential exposure to loss in resolution, in accordance with the applicable resolution law".

Non-TLAC liabilities could be as much as 94% of all liabilities. It was to avoid any suggestion that they were immune from loss that the ICB used the language of *primary* loss-absorbing capacity for the liabilities capable of being effectively written down or converted into equity during resolution.

If TLAC-eligible liabilities really were total loss-absorbing capacity, then far more than the document proposes should be called for.

I hope that the FSB will clarify this important point as a matter of urgency, and change the name from TLAC.

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