FSB FINANCIAL STABILITY BOARD

Deployment of Unallocated Total Loss-Absorbing Capacity (uTLAC)

Considerations for Crisis Management Groups (CMGs)

26 July 2023

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Table of Contents

Introduction 1
1. Form and location of uTLAC assets 2
    1.1. Assets at, or directly available to, the resolution entity 2
    1.2. Alternatives to assets at the resolution entity 4
2. Approaches and mechanisms for deploying assets 5
3. Governance and decision-making 6
4. CMG considerations on the challenges to deployment 7
    4.1. Regulatory / supervisory 7
    4.2. Legal / contractual 7
    4.3. Operational 10
    4.4. Timing and governance 11
Annex: Summary of the 2019 Technical Guidelines used for CMG Road Tests on Unallocated TLAC ("uTLAC") 14

Introduction

Following the publication of the Total Loss-Absorbing Capacity (TLAC) standard[1] and Guiding Principles on the Internal TLAC of G-SIBs ('Guiding Principles')[2], the FSB has conducted further technical work on TLAC resources that are not distributed to material sub-groups in excess of those needed to cover risks on the resolution entity's solo balance sheet, known as unallocated TLAC ('uTLAC')[3,4]

The goal of uTLAC is to recapitalise any direct or indirect subsidiary of the resolution entity as necessary to support the execution of the resolution strategy. uTLAC resources could provide a pool of readily available and fungible resources of the resolution entity[5] that can be used in a flexible manner to address capital shortfalls at the level of (i) the resolution entity; (ii) material sub-groups (MSGs) beyond what can be covered by internal TLAC; and/or (iii) any other direct or indirect subsidiary in line with the resolution strategy.

To assist effective coordination among authorities and implementation of the preferred resolution strategy, home and host authorities need to gain comfort that uTLAC resources are readily available and deployable in resolution.[6] **The objective of this report is to be transparent in relation to a set of considerations that have been developed for crisis management groups (CMGs)[7] and to assist home and host authorities in their discussions on the possible form, location and approaches to deployment of uTLAC resources in resolution planning and in the run-up to and during resolution.** The report focuses on the identification of corresponding assets in which uTLAC is held ('assets corresponding to uTLAC'), as well as the analysis of their deployment, in particular in a cross-border context, and identifies potential legal, regulatory and operational challenges that may arise. **Challenges may vary depending on the form and location in which assets corresponding to the amount of uTLAC resources may be held, as well as the type of mechanisms used to deploy them.**

This work follows from the FSB's initial work in 2020 on uTLAC. The Resolution Steering Group's bank Cross-Border Crisis Management group (ReSG bankCBCM) developed technical guidelines to gain a better understanding of measurement approaches for the assessment of uTLAC resources within G-SIBs, and CMGs conducted a "road test" in 2020-2021 of those

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1 FSB (2015), *Total Loss-Absorbing Capacity (TLAC) Principles and Term Sheet*, November.

2 FSB (2017), *Guiding Principles on the Internal Total Loss-Absorbing Capacity of G-SIBs ('Internal TLAC')*, July.

3 Previously known as 'surplus TLAC.' Guiding Principle 7 of the 2017 FSB report states that TLAC that is not distributed to material sub-groups in excess of that required to cover risks on the resolution entity's solo balance sheet should be readily available to the resolution entity to recapitalise any direct or indirect subsidiary. Home authorities should consider the characteristics of the corresponding assets in which such uTLAC is held to ensure that it is readily available to recapitalise any direct or indirect subsidiary, as required by Section 18 of the TLAC Term Sheet. Authorities should ensure that there are no legal and operational barriers to recapitalisation.

4 FSB (2021), *Glass half-full or still half-empty? Resolution report 2021*, December, p.10, and FSB (2022), *Completing the agenda and sustaining progress. Resolution report 2022*, December, p.14.

5 Resolution entity as defined in point 3 of the TLAC Term Sheet (cf. fn. 1). In some cases, assets could be held in a funding intermediate holding company directly below the resolution entity; such assets would also be available to subsidiaries in resolution. For clarity, references to "assets at the resolution entity" throughout the document also include assets that are at a funding intermediate holding company but directly available to the resolution entity.

6 FSB (2022), *Completing the agenda and sustaining progress. Resolution report 2022*, December.

7 FSB (2014), *Key attributes of effective resolution regimes for financial institutions*, October, esp. section 8.

guidelines. Observations from the road test have been discussed among the authorities and a summary of that work is included in Annex 1.

The considerations contained in this report are explicitly not guidance or guidelines for G-SIBs, do not propose any preferred approach for CMGs, and do not alter or supersede the FSB's TLAC Principles and Term Sheet ('TLAC Term Sheet') or Guiding Principles in any way. **The purpose of this report is to help facilitate CMG discussions on uTLAC resources as part of resolution planning for G-SIBs, while maintaining flexibility for CMGs to prioritise and discuss topics as pertinent. It also aims to inform the public and build understanding of the FSB's work on uTLAC.** In 2023 and 2024, CMGs are being asked to inform the FSB of their experiences with discussions based on the set of considerations described in this report.

1. Form and location of uTLAC assets

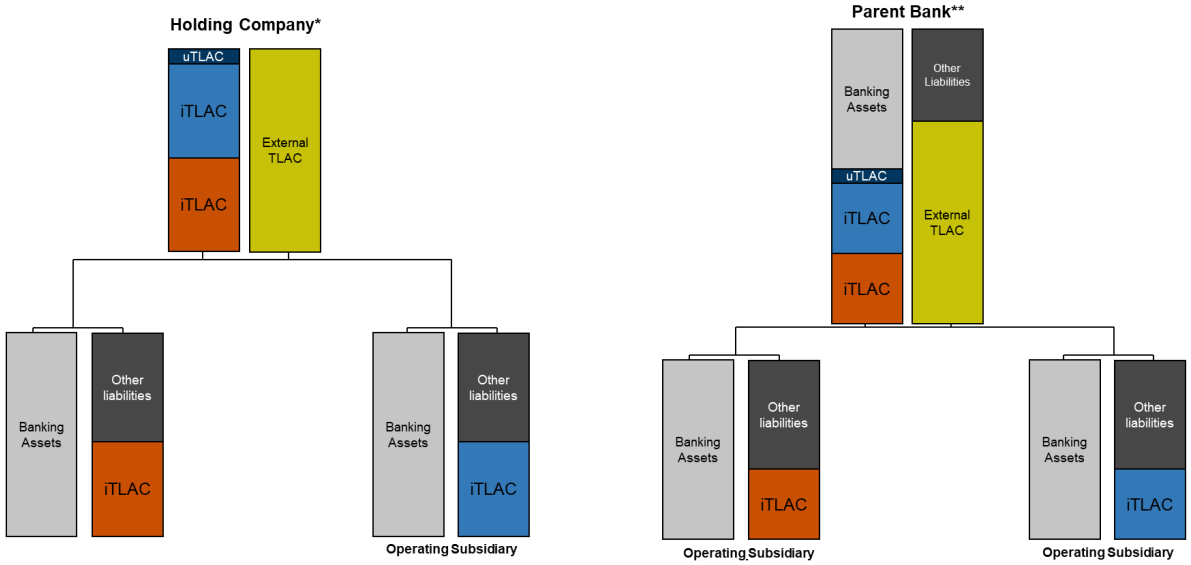
To ensure that uTLAC is readily available to the resolution entity to recapitalise any direct or indirect subsidiaries[8], a firm may hold various forms of assets corresponding to uTLAC. These are likely to vary in terms of quality and location depending on, amongst other things, the firm's allocation choices, business lines, and structure. CMGs may consider the likely form and location of assets potentially available to offer cross-group support in resolution at their firms.

1.1. Assets at, or directly available to, the resolution entity

Firms may hold and maintain assets corresponding to uTLAC at the resolution entity or at an entity formed for the purpose of holding such assets.

8 See Guiding Principle 7 of above report, as stated in footnote 3.

Figure 1: Indicative group structure: simplified illustration of assets corresponding to uTLAC held and maintained at the resolution entity



*Stylised group structure. In some HoldCo structures, uTLAC may be maintained at an IHC that sits below the resolution entity.

**Stylised group structure: This shows a 'Parent Bank' as resolution entity. In these cases, Banking Assets at the Parent Bank mean that part of the external TLAC is held to cover the Parent Bank's 'solo risks'. Some Parent Bank structures will also ultimately have a Holding Company resolution entity.

CMGs may consider how the form or type of these assets corresponding to uTLAC held and maintained at the resolution entity may affect the timely deployment of these resources to recapitalise subsidiaries in resolution. For parent bank structures (where the resolution entity itself operates as a bank), this identification of assets directly corresponding to uTLAC may be more difficult given the existence of other banking assets on the balance sheet of the parent bank (see figure 1 above). Therefore, CMGs may wish to also consider which assets maintained at the parent bank may be available to support subsidiaries in need through resolution.

CMGs may consider the extent to which it is likely that liquid assets remain available to the resolution entity to support subsidiaries in resolution. Factors that may affect the availability of liquid assets to the resolution entity to support subsidiaries in resolution may include, but are not limited to:

- Potential firm management incentives against holding liquid assets at a holding company in business as usual (BAU);
- Liquid assets held and maintained at the resolution entity may be deployed to offer liquidity or capital support to subsidiaries prior to resolution, perhaps as a recovery action;
- Liquid assets held and maintained at the resolution entity may be required to meet other regulatory or corporate obligations (for example, managing group-wide liquidity).

CMGs may also consider the amount of liquid assets held by the resolution entity in BAU, and the extent to which this may be sufficient to support subsidiaries in resolution.

Firms may also hold and maintain less liquid assets corresponding to uTLAC at the resolution entity (e.g. credit claims). CMGs may consider whether holding assets in such a form could

create challenges for the deployment of this resource. In this respect, CMGs may wish to consider, among other things, how:

- For less liquid assets, the time required to mobilise such assets may increase. There may also be increased legal frictions arising from the transfer of less liquid assets;
- There may be jurisdictional differences in the risk weighted asset (RWA) density of an asset at its initial location and its eventual destination upon transfer. This may have implications for CET1 ratios after the transfer of the asset.

CMGs may also wish to consider the extent to which it is likely that, similar to liquid assets, such less liquid assets would remain available to the resolution entity to support subsidiaries in resolution. These resources may, for example, be liquidated or posted as collateral to support liquidity provision around a firm during stress.

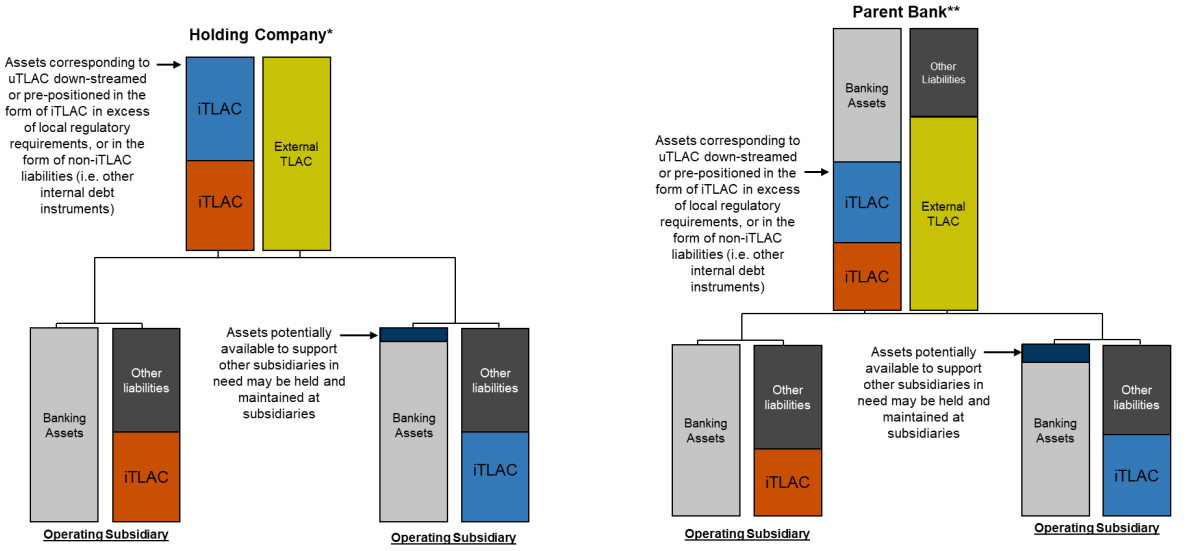
CMGs may also explore how intragroup financial arrangements (e.g. pooling assets via trust or structured finance arrangements) may allow for the creation of fungible assets corresponding to uTLAC that could be maintained at the resolution entity or relevant intermediate holding company.

1.2. Alternatives to assets at the resolution entity

For a firm without 'sum of the parts'[9] issues, assets held corresponding to uTLAC may be 'down-streamed' to, or 'pre-positioned' at, subsidiaries, and discussed by the home and host authorities within the CMG. These may be down-streamed in the form of internal TLAC (iTLAC) in excess of local regulatory requirements, or in the form of non-iTLAC eligible liabilities (i.e. other internal debt instruments), and may be used to fund some form of investment on the asset side of the subsidiary balance sheet. CMGs may consider the extent to which down-streamed assets of a firm remain potentially available to support other subsidiaries in need, as necessary to support the resolution strategy.

9 A 'sum-of-the-parts" issue arises when the sum of local loss absorbency requirements at subsidiary level exceed a firm's consolidated group external TLAC requirement. In these cases, resources may not be available to offer recapitalisation support to direct or indirect subsidiaries of the group in resolution. For firms without sum-of-the-parts issues, if loss absorbing requirements are met across the group in terms of external TLAC and internal TLAC, external TLAC sufficient to meet group consolidated requirements may create the capacity to maintain assets corresponding to uTLAC.

Figure 2: Indicative group structure where uTLAC in the form of readily available assets may not exist at the resolution entity



*Stylised group structure. In some HoldCo structures, uTLAC may be maintained at an IHC that sits below the resolution entity.

**Stylised group structure: This shows a 'Parent Bank' as resolution entity. In these cases, Banking Assets at the Parent Bank mean that part of the external TLAC is held to cover the Parent Bank's 'solo risks'. Some Parent Bank structures will also ultimately have a Holding Company resolution entity.

CMGs may wish to consider the extent to which assets not located at the resolution entity could be deployed as group support. This may include deployment mechanisms that involve the transfer of resources from one subsidiary to the resolution entity for further onward deployment of resources to support other subsidiaries in resolution, or the direct mobilisation of resources from subsidiary to subsidiary. To the extent relevant to the firm, CMGs may consider that the deployment of these assets would be challenging and may entail greater home and host coordination (see section 2).

2. Approaches and mechanisms for deploying assets

The approaches and mechanisms for deploying assets may vary from firm to firm and from jurisdiction to jurisdiction. As discussed above, the assets corresponding to uTLAC may be deployed from the resolution entity to a direct or indirect subsidiary, consistent with the home authority's requirements and the firm's preferred resolution strategy.

In BAU, CMGs could consider the availability and quantum of uTLAC resources at the resolution entity and review those held at subsidiaries where there are loss absorbing resources in excess of requirements or where there are other internal debt instruments that are not iTLAC eligible, as needed, taking into account the firm's characteristics and structure.

Similarly, CMGs could consider, in line with the firm's preferred resolution strategy, firms' approaches for deploying uTLAC resources across the firm and discuss viable firm-specific options for purposes of resolution planning, taking into account the types of assets and lead times necessary to execute such actions.

Such considerations could also contemplate different crisis scenarios (e.g. liquidity or capital shortfalls) at different subsidiaries to aid CMGs in their planning for optionality, as needed.

Alternatively, where the firm has in place a contractual arrangement for the deployment of uTLAC or otherwise contributable resources to support subsidiaries in the lead up to resolution, the CMG could consider relevant aspects of the arrangement, as needed. This could include, for example, the entities subject to such arrangements, the scope of the arrangement, capabilities to support the arrangement, and the firm's underlying triggers, governance and deployment mechanisms prior to resolution.

If relevant, CMGs could also consider to what extent a firm's existing contractual support arrangement continues to apply between entities in resolution. CMGs could also, as appropriate, consider whether uTLAC resources located in foreign branches of the resolution entity will be readily available for deployment in times of stress.

3. Governance and decision-making

Governance and decision-making with regard to use of uTLAC resources is linked to the specific mechanism envisaged for the deployment of those resources, and the timing of the use of such resources. This section considers the relevant governance and decision-making in different timeframes, as well as how this may interact with the different legal bases for deploying uTLAC resources.

The allocation of resources may be led by authorities or driven by contractual arrangements or a combination of both approaches. Within authority-led approaches, a resolution authority may use its statutory powers under its jurisdiction's legal resolution framework to direct a statutory transfer. By contrast, a contractual approach would base the transfer of uTLAC resources on the contractual provisions of an intra-group agreement. This would create a contractual obligation for the parent to support the subsidiaries under certain conditions, which would be defined within the contractual arrangements.

Where group entities have agreed bilateral or multilateral contracts for support between themselves, those contracts may not remain in force after a certain trigger occurs (e.g. the point of non-viability of a group entity or of the parent, or other measures taken by the relevant authority). If the contract does remain in force, the resolution authority may need to take the contractual provisions into account as it exercises its powers. CMGs could consider whether this would be the case for a given firm and if so, any potential implications for authorities' actions.

Assets corresponding to uTLAC may be partially or entirely distributed within a group in BAU or as a recovery action to ensure that subsidiaries remain a going concern.

When a firm is placed in resolution, authorities are likely to have greater control over the distribution of resources, consistent with their legal powers and subject to the facts and circumstances of the case. The application of an open or closed bank bail-in strategy could also have implications for the approach taken, and would need to be accounted for in discussions at CMGs.[10]

[10] FSB (2018), *Principles on bail-in execution*, June, p.5.

Authorities may also plan for the subsequent transfer of additional resources, for example if a capital need is identified in a subsidiary at a later stage of the resolution. The approach taken and timing may depend on whether an open or closed bank bail-in is under consideration. For example, under an open bank bail-in, certain authorities may consider such transfers by potentially retaining some control of the firm during a post-resolution restructuring phase, before the management of resources would eventually return to the private control of the firm.

4. CMG considerations on the challenges to deployment

4.1. Regulatory / supervisory

- The timely deployment of assets corresponding to uTLAC in resolution to support subsidiaries may be challenging for various regulatory and supervisory reasons. CMGs may wish to consider how local regulatory or supervisory rules may create challenges for deployment, which may include:

- Potential divergence in cross-border regulatory frameworks (including RWA treatment between jurisdictions), which may have implications for the transfer of assets corresponding to uTLAC to offer recapitalisation support to subsidiaries;

- Local liquidity transfer restrictions or 'large exposure limits', which may restrict certain group entities from transferring their liquid assets across the group, including liquid assets to support subsidiaries.

4.1.1. CMG considerations on the challenges

- Clarity between home and host authorities ex-ante around the form, timing, and mechanism for deployment, which may allow authorities to overcome some of these regulatory and supervisory challenges.

4.2. Legal / contractual

- CMGs may consider legal constraints to deployment of uTLAC related to parent-to-subsidiary, subsidiary-to-subsidiary, and subsidiary-to-parent deployment mechanisms. For example, CMGs may wish to discuss the extent to which the firm's legal entity structure or fiduciary duties of boards across the corporate group may pose a challenge in management's deployment of resources. It may also be helpful for CMGs to engage with individual firms about these topics, as part of confidential planning discussions.

4.2.1. Specific challenges for contractual approaches

- A contractual approach to deployment of uTLAC may include a legally enforceable agreement among firm entities for the provision of resources from the parent entity (or other support entity) to subsidiaries. Among other objectives, such an approach would be intended to provide assurance to subsidiaries (and those entities' local authorities)

that resources would be provided, to the extent the parent has sufficient resources to do so. Broadly speaking, the firm's resource allocation decisions are made in accordance with the provisions of the respective agreement, which provides transparency to all entities party to the agreement. A contractual approach may be particularly beneficial for the firm's allocation of resources prior to the point at which authorities may take allocation decisions.

- A potential challenge to this contractual approach for CMGs to consider is that the firm alone establishes the contractual provisions, and the firm alone takes allocation decisions in accordance with the contract.

- Contractual provisions and related decisions are determined with regulatory requirements in mind. Therefore, CMGs may consider the extent to which those requirements support an orderly cross-border resolution.

- CMGs may consider the extent to which any contractual provisions continue into the resolution period, as well as circumstances in which provisions would not continue into resolution. CMGs may then consider the resulting implications of these considerations, in terms of the impact on the deployment of resources in resolution.

4.2.2. Specific challenges for statutory approaches

Where deployment of uTLAC resources depends on statutory approaches, key issues for CMGs to consider may include:

- Dependent on the triggers for use of the statutory powers, it may be likely that the powers would only be available at the point of resolution, meaning that prior to that point a transfer of resources might only be available subject to management discretion.

- Statutory safeguards would be applicable in this context and, dependent on the legal regime, may be constraining around the actions of the authorities (see below on specific challenges for resolution scenarios).

- If resources are located in a subsidiary or branch in a different jurisdiction, then it may be necessary to rely on BAU operations, relevant contractual arrangements, or potential action by the relevant authority hosting the subsidiary or branch for the transfer of those resources. Challenges in this context might arise where assets corresponding to uTLAC are available within the group, but located within sound subsidiaries, as the respective authorities may have limited powers vis-à-vis the subsidiaries' going concern.

- Given that the use of statutory tools requires a decision by authorities, a clear basis for decision making would be needed. For example, adequate data may be needed for valuations to provide a basis for the CMG to understand how resources could be distributed across subsidiaries. Authorities within the CMG may also play a key role in ensuring the home authority has relevant information.

- Implications for authority-led capital transfers on liquidity needs: resolution authorities may wish to articulate any distinction between the resources directed to be transferred

in order to restore capital and resources for liquidity, given this could have a material impact on both the scale and form of resources to be provided.

4.2.3. Specific challenges for resolution scenarios

- Applicable resolution safeguards: use of resolution powers to manage the transfer of resources may mean that the full set of resolution safeguards would be applicable, including no-creditor-worse-off-than-in-liquidation (NCWO) safeguards. CMGs may wish to consider the extent to which the NCWO safeguard could limit the transfer of uTLAC resources in practice, which would depend on the facts and circumstances of any given case. In that context, CMGs may discuss whether the extent of franchise value damage for the parent (which would bring down the value generated in liquidation, and hence the valuation of the liquidation counterfactual) from allowing a subsidiary to fail without providing additional resources may outweigh the overall cost of the additional resources transferred.

- Availability of resources: Furthermore if, prior to resolution, firms have either specific contractual arrangements in place, or where management makes transfers to support the continued operation of the group, this may mean that only limited assets are readily available to be deployed in a short period to support subsidiaries at the point of resolution.

4.2.4. CMG considerations on the challenges

- Any pre-agreed contractual arrangements set out by firms: the ready availability of resources in resolution may depend on the prior application of such contractual arrangements and point of non-viability (PONV) triggers resulting in resources being deployed prior to resolution.

Further items for CMGs to consider depending on applicability and relevance:

- Ex-ante discussion to assist authorities' common understanding of the basis for decision-making on uTLAC deployment and the related information that might be needed.

- Where statutory powers would be used, the approach to deployment if assets were located in a different jurisdiction, and the timelines and conditions for the application of any relevant powers, or whether such transfers would depend on the use of corporate law and any existing contractual arrangements.

- The extent to which the NCWO safeguard could practically limit the transfer of uTLAC resources, including, for example, a common methodology to assess a potential need for NCWO compensation.

- The possible use of resources corresponding to uTLAC prior to resolution versus availability of those resources for authorities to deploy in resolution.

4.3. Operational

- Challenges relating to operational issues may arise, in particular with regard to more complex transfers. Where assets corresponding to uTLAC are located in subsidiaries or foreign branches, or uTLAC primarily correspond to assets with relatively complex valuations, this may increase the operational challenge in making transfers. In particular, challenges may relate to:

- Where resources are available at the level of the resolution entity, transfer may be simpler operationally. By contrast assets corresponding to uTLAC located at the subsidiary level may be more challenging to transfer, dependent on the approach taken to such a transfer (i.e. if resources were first moved to the parent, and then transferred down to the subsidiary). Dependent on the exact mechanism for transfer of resources, this could increase the group's complexity following a transfer. Conversely, it may be operationally efficient to hold resources at the level of the subsidiary providing the intra-group funding function in BAU if the holding company does not have such function.

- Assets not held on the balance sheet at fair value may need to be revalued when transferred. Dependent on the management information systems, and quality of information available on the assets, this could present operational challenges to produce timely and robust valuation of these assets.

- If transferred assets are of a lower quality, in particular if liquid assets have already been liquidated, posted as collateral or otherwise exhausted by the point of the transfer, then revaluation could lead to material losses reducing the value of assets provided to the subsidiary or even resulting in insufficient uTLAC when the loss-absorption and recapitalisation needs arise in a crisis scenario.

- If, instead of third-party assets, claims transferred are internal claims or loans, then the value of such assets may be linked to the credit quality of the group.

- There could be potential issues that may reduce feasibility and timeliness of cross-border transfer of assets corresponding to uTLAC in times of crisis.

- Availability of unencumbered assets may prove challenging given that firms typically become more dependent on secured financing in the run-up to resolution. As such, it may become more challenging to identify resources that are available for transfer at the point of resolution.

4.3.1. CMG considerations on the challenges

- The liquidity of assets corresponding to uTLAC and extent to which such assets are likely to retain sufficient value in times of market-wide stress, as well as the firm's ability to rapidly value less liquid uTLAC assets during a time of stress.

- Possible identification of a pool of assets that would be easier to transfer and that are likely to retain sufficient value in time of market-wide stress.

- The cost and benefit of maintaining assets corresponding to uTLAC resources at the resolution entity level versus operating subsidiary level.

- BAU discussions of the sufficiency of uTLAC resources among CMG members, supported by regular and robust monitoring and reporting, which could help provide host resolution authorities with the information they may need to evaluate the availability of uTLAC to address the loss-absorption and recapitalisation needs of subsidiaries, in line with the preferred resolution strategy. It is important to provide host authorities with the confidence that sufficient uTLAC would be readily available, which could be a consideration among other factors for host authorities when determining the scaling of iTLAC requirements within the 75% -90% range as set out in the TLAC Term Sheet.

- BAU discussions on ways to address potential issues that could arise in crisis scenarios and that could impede the feasibility and timeliness of cross-border transfer of assets corresponding to uTLAC.

4.4. Timing and governance

Challenges relating to timing and governance may arise, dependent on the point at which decisions are being taken and the mechanism used to effect a transfer, including whether the transfer would be authority-led. The below issues are broken down by the different timeframes, and possible topics for discussion at CMGs are noted.

4.4.1. Prior to resolution

Prior to resolution, the transfer of resources may be subject to certain conditions (e.g. that this support does not lead to the failure of the group or of the parent) and may require the consent of the relevant authorities. Typically, the authorities' control over the distribution of uTLAC is likely to be limited prior to resolution and decision-making would likely be under firm management's control, unless the contractual/statutory mechanisms give the authorities such powers or if they have the ability under their respective regimes to appoint a temporary administrator as a supervisory measure.

As a firm enters a stress, authorities are likely to be in intensive communication with the firm. In any case, prior to resolution, the firm management may use uTLAC resources to support subsidiaries (albeit with implications for the amount of uTLAC available in resolution).

Where contractual arrangements place obligations on the firm to provide support to subsidiaries at specific thresholds (even if for a limited amount, and under certain conditions or permissions) this would provide more predictability, but at the same time the deployment of uTLAC resources according to the contractual arrangements before resolution may reduce the amount of resources available to the authorities to deploy in resolution. While use of uTLAC resources remains a recovery action in such a scenario, the firm's discretion over the use of uTLAC resources would be dependent on the jurisdiction and the extent to which the contractual arrangements are binding on the firm.

The CMG could have discussions about the distribution of uTLAC and potential implications for the resolution strategy. CMGs may also consider the mechanism through which resources could

be transferred, the possible thresholds for activation of any relevant support arrangements, potential impacts on the implementation of the preferred resolution strategy, and opportunities for engagement among CMG authorities.

4.4.2. In resolution

When the firm is in resolution, the resolution authority would be able to exercise its resolution powers and, dependent on the approach taken, it could direct the firm on the transfer of resources (or appoint a special manager/administrator to manage the resources of the firm as needed). The tool or power that might be applied would be specific to the legal regime of each jurisdiction, but could be considered and discussed ex-ante at the CMG, including in the context of the broader approach to the firm's resolution, for example as part of a discussion of the authorities' playbooks.

As noted in the section on contractual approaches, CMGs may wish to discuss whether contractual mechanisms would support and guide decision-making relating to resolution tools and transfer of resources in resolution. Authorities' discretion could be limited by any pre-existing contractual arrangements which might require the distribution of resources to particular subsidiaries; possibly subject to predefined conditions.

To support CMG discussions on the home-host coordination in relation to transfer of uTLAC, CMG members may take note of and discuss the importance of valuations, both for the broader decision-making of the authorities and for reviewing allocations of resources across subsidiaries. Principle 5 of the principles on bail-in execution[11] could be considered in these discussions.

An important question for consideration at CMGs in BAU would relate to the information/coordination needed by the authorities for the decision-making to work effectively. Discussion would also be useful around what the trigger would be for an entity to benefit from the deployment of assets corresponding to uTLAC.

4.4.3. Post-resolution

Where the authorities plan around the transfer of resources post-resolution, it would be important for the CMG to consider the feasibility of such additional transfer of resources (including the basis and mechanism for such transfers and use of open or closed bank bail-in), and any relevant timeframes. Dependent on the timeframe/legal regime, the authorities may no longer have access to the resolution tools, and so transfer of resources post-resolution would be dependent on the decisions of firm management.

4.4.4. CMG considerations on the challenges

- Discussion and information sharing at CMGs (along the lines noted above) to assist the authorities in understanding the various different approaches.

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[11] FSB (2018), *Principles on Bail-in Execution*, June.

- Ex ante discussions among CMG members regarding their approach to resolving a firm (e.g. as part of authorities' playbook discussions, where appropriate), decision-making and home-host coordination in moving assets corresponding to uTLAC to support the preferred resolution strategy, could all be helpful.

- Resolution readiness testing activities among authorities, including dry-runs and simulation exercises, in order to test the coordination arrangements related to deployment of uTLAC resources.[12]

[12] This is mentioned as an example of CMG discussions on home-host coordination arrangements in FSB (2021), *Good Practices for Crisis Management Groups*, November.

Annex: Summary of the 2019 Technical Guidelines used for CMG Road Tests on Unallocated TLAC ("uTLAC")

In order to assist home and host authorities in CMGs to have a common basis for assessing and understanding firms' uTLAC amount, two calculations on uTLAC were developed in 2019. The calculations were meant to help start CMG discussions on uTLAC and are not intended to set a new quantitative requirement or provide a one-size-fits-all assessment approach. The calculations were "road tested" in CMGs in 2020 to gain a better understanding of measurement approaches for the assessment of uTLAC resources within G-SIBs.[13]

The two theoretical calculations were both based on liability components:

- One calculation focused on "expected resources", based on the difference between (i) the jurisdictional firm-specific external TLAC requirement and (ii) the sum of internal TLAC requirements of the entities in the resolution group and the expectation to cover risks of the solo resolution entity[14]; indicatively resulting in the quantum of existing TLAC requirements allocated neither to the resolution entity nor to the subsidiaries. The components of this calculation were based on requirements and expectations set by authorities that banks have to meet at all times, up to the point of resolution.[15]

- Another calculation focused on "available resources", based on the difference between (i) total available external TLAC resources and (ii) the sum of internal TLAC resources prepositioned or committed to entities of the resolution group and the expectation to cover risks of the solo resolution entity; indicatively resulting in the quantum of resources neither allocated to the resolution entity nor prepositioned or committed to subsidiaries and that may be available at a given point in time at the resolution entity to be deployed in group entities as needed.

Observations of the road tests and limitations of the calculations are set out below. The CMGs' road tests underscored that the sufficiency and availability of uTLAC resources depend on a range of jurisdiction-specific and bank-specific factors.

- Overall, the road test exercises helped to further CMG members' understanding of uTLAC by providing a common basis for discussing and assessing unallocated resources at a particular point of time.

- Both calculations were found to be complementary, each serving a different purpose and together they served to inform firm-specific discussions at CMGs.

- A significant limitation was that the approach was based on the liabilities and hence the calculations do not speak to which assets constitute the uTLAC resources, nor how readily such assets could be liquidated or (re-)deployed.

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13 Participation in the road test included G-SIBs from Canada, the European Banking Union, Japan, Switzerland, UK and US.

14 The expectation to cover risks of the solo resolution entity is deducted to ensure, for resolution groups where the resolution entity is an operating bank or entity with a similar function in the financial group, that resources which are covering third party exposure risks of the solo operating company resolution entity are not counted towards uTLAC resources.

15 Normally, banks' breaches of TLAC requirements are subject to penalties (and replenishment).

- The results varied by firm, no calculation provided a consistently “greater” or “lesser” result.
- The road tests confirmed that the variation in results was driven by firm-specific factors, such as their business and funding models, group structures, legal entity and geographic footprints, and internal methodologies for positioning of resources within the group.
- Given the firm-specific factors, the possibility to compare results across firms was limited.

Members confirmed the expected limitations to the liability-based approach to the calculations, in that the calculations do not address, for example, the extent to which the calculated uTLAC amount is readily available (i.e., liquid and deployable).

Following this discussion among members about the observations of the road test, work on deployability of uTLAC resources was launched, culminating in a set of considerations for CMGs on this topic.