



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

Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC')

(ISSUED BY THE FINANCIAL STABILITY BOARD FOR COMMENTS BY 10 February 2017)

I. Purpose of the revision

In December of 2016, the Financial Stability Board (FSB) issued the consultative document "Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC')" which proposes a set of principles to support the implementation of the internal TLAC requirement consistent with the TLAC standard.¹

The internal TLAC requires the identification of material sub-groups and their compositions. The identification process is on the principles of the consultative document. Also, other principles include the establishment of home and host authorities' roles, the trigger mechanism for internal TLAC along with the characteristics of the cooperation and coordination between entities and some considerations regarding the issuance and composition of the internal TLAC.

The points presented in the consultative document properly describe the application of the TLAC regulation regarding material sub-groups; nonetheless, ASBA members have provided opinions based on the specific questions asked in the consultative document. These remarks are presented in the following sections.

II. General Comments

The TLAC regime introduces a relevant mechanism of crisis prevention. Under this new regulation, G-SIBs must have sufficient loss absorption capacity; thus, avoiding the need for fiscal support or the financial markets' exposure to undue risks. Although not all ASBA members have either G-SIBs or material sub-groups, the principles of the TLAC regulation will be considered at time of issuing regulation to avoid systemic risk in the local markets.

Albeit, the above mentioned, it is a matter of concern that the internal TLAC may not be fully adopted and applied in some relevant markets. The latter brings about the need for analyzing the potential drawbacks of a partial or non-adoption of the framework in these markets in other markets connected to them.

¹ Financial Stability Board, *Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC')*, (Financial Stability Board, 2016).



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III. Specific Comments

1. What factors should the relevant authorities take into account when determining the composition of material sub-groups and the distribution of internal TLAC between the entities that form the material sub-group (guiding principle 2)?

The consultative document’s factors consider the general aspects to determine the importance of entities inside sub-groups. Nonetheless, the existence of affiliates may represent a major factor of contagion risk, depending on the sector and their impact on the revenue of the sub-groups. Thus, it is suggested to include language recommending to assess the interconnection between affiliates and sub-groups by the supervisory entities in their assessments.

Also, some variables to take into account when determining the distribution of internal TLAC between entities that are part of a material sub-group could be: risk weighted assets, leverage, and total operating income, which are used to determine if a group is considered a material sub-group.

2. What are your views on the treatment of regulated or unregulated non-bank entities as set out in guiding principle 4? If such entities were included within a material sub-group, how should the relevant authorities calculate an internal TLAC requirement?

Regarding the treatment of regulated or unregulated non-bank entities, in addition to the criteria specified in the consultative document, a relevant factor at time of determining their inclusion in a material sub-group is their degree of vertical integration with banks.

If such entities are included within a material sub-group, the TLAC requirement could be calculated using the Basel III framework. In the case of nonregulated entities, their TLAC requirement could be determined using an accounting criteria and weighting all their risk assets at 100%.

3. Do you agree with the roles of home and host authorities in relation to the host authority’s determination of the size of the internal TLAC requirement, as set out in guiding principles 5 and 6? What additional factors, if any, should the host authority take into account when setting the internal TLAC requirement?

The roles of home and host authorities established in the consultative document seem appropriate. However, regarding the second question, the conditions that would allow for the transfer of resources to recapitalise any affiliate need to be appropriately and clearly outlined between home and host authorities.



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4. How should TLAC at the resolution entity that is not distributed to material sub-groups ('surplus TLAC') be maintained to ensure that it is readily available to recapitalise any direct or indirect affiliate, as required by the TLAC term sheet (guiding principle 7)?

In order to maintain surplus TLAC ready available to capitalize any affiliate; thus, this surplus shall fall within the definition of a high liquid asset.

7. Should the FSB conduct further work on the need for a deduction mechanism for internal TLAC, as proposed in guiding principle 10?

Conducting further work on the need for a deduction mechanism for internal TLAC is encouraged. The reasons for this are the implementation problems that may arise due to the different regulatory frameworks that conform a resolution entity.

8. Do you agree with the obstacles to the implementation of internal TLAC mechanisms set out in guiding principle 12? How should G-SIBs and authorities address those obstacles and what additional obstacles, if any, might arise?

In addition to the obstacles identified, the fact that debt issued by material sub-groups to G-SIBs must be convertible to capital raises a particular concern. This may imply that tax authorities may classify these instruments as capital, which would prevent the entities to deduct the interest payments for this debt. Should this not be clearly laid out, the price of debt issuance for the material sub-group would be unnecessarily increased.