

Total Loss-Absorbing Capacity (TLAC)

Alert: FSB Proposals As Expected: 0-3% Hit To Bank Earnings

TLAC Calibration – The FSB has today announced calibration proposals for TLAC for globally systemically important banks (G-SIBs). The consultation document outlines a minimum TLAC requirement of 16-20% of RWAs and at least 2x Basel leverage requirement, set as a pillar 1 requirement. These proposals are consistent with expectations – see [‘TLAC – A Global View’ \(10 Oct\)](#). The final calibration will take into accounts the results of the consultation, with responses due 2 Feb 2015, and the QIS and market survey, which is expected to be carried out in early-2015.

What Does This Mean? – A G-SIB with a 1% surcharge would need to maintain an overall TLAC of at least 19.5-23.5% of RWAs. A G-SIB with a 2.5% surcharge would need to maintain an overall TLAC of at least 21-25% of RWAs. In addition, all G-SIBs would be required to hold at least 6% of the leverage ratio denominator. Countercyclical buffers and pillar 2 requirements may possibly be added on top.

Eligible Instruments – The FSB term sheet outlines eligible Tier 1, Tier 2 and HoldCo Senior debt (with minimum maturity >1 year). OpCo Senior debt will only be eligible up to 2.5% of RWAs. Secured debt, insured deposits and any instruments which are preferred to normal senior unsecured creditors are not eligible.

Conformance – G-SIBs would be required to satisfy these TLAC requirements by 1 January 2019, at the earliest, although TLAC positions will be disclosed and monitored from an earlier date. If a TLAC requirement is breached automatic restrictions will apply for the duration of the breach, to include potential restrictions on payment of AT1 coupons, dividends and variable remuneration.

Most & Least Impacted – We estimate that the European G-SIBs which would be required to issue the most amount of new debt include BNP, Santander, SocGen, Deutsche, BBVA and Unicredit. Least impacted are Swiss and UK banks, which would benefit from existing HoldCo structures, from which they can issue senior.

Estimated Cost – Based on the average cost of existing AT1, T2 and senior debt instruments, we estimate that new required issuance to satisfy these proposed TLAC requirements could cost the European banks between c0-3% of 2016E profits. In reality banks may hold a management buffer above and beyond the minimum TLAC requirement in order to ensure that this is never breached, however the cost would still be manageable in our view and could be absorbed into the P&L.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Appendix A-1

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