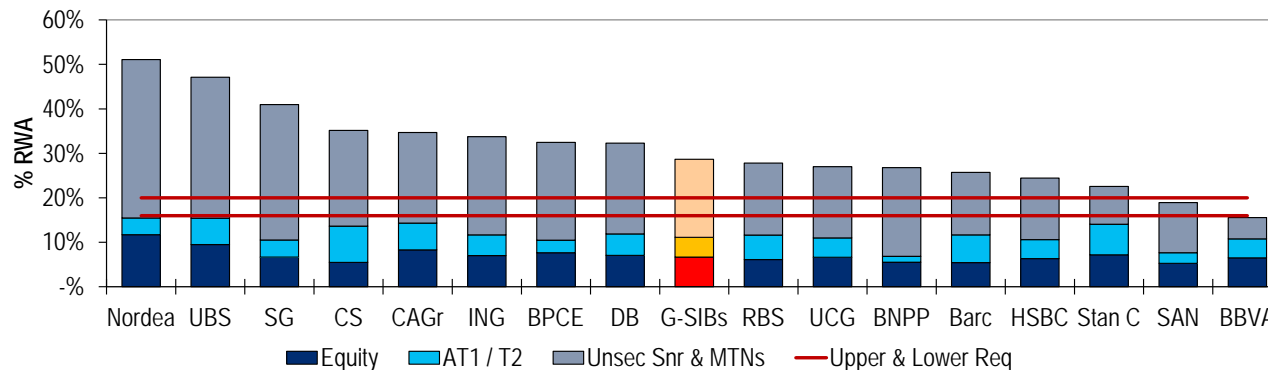


# Raising The Bar On TLAC

## Tougher Bail-In Proposal Into November G20 Meeting

- **Raising The Bar** — In [Introducing TLAC](#) we discussed potential new TLAC requirements & raised key questions incl: how much equity is included and what features do senior bail-in instruments need for eligibility? A more recent Bloomberg article suggests that TLAC may potentially exclude capital requirements for both capital conservation (2.5%) and G-SIB (1-2.5%) buffers, to avoid double-counting “other regulatory capital” buffers. In effect, this raises a 16-20% requirement to 21-25%. The article also suggested that liabilities “preferred to normal senior unsecured creditors under the relevant insolvency law” or arising from derivatives will not be eligible, nor will debt with a remaining maturity of less than one year.
- **How Are European G-SIBs Placed?** — Our updated analysis shows most banks should meet TLAC. As always, the devil is in the detail and we look to further disclosure from the G20 Brisbane summit (15-16 Nov) as well as from the banks to derive a clearer picture. We also expect a long phase-in period; the rule would fully apply in 2019 at the earliest.

Figure 1. TLAC For European G-SIBs – Excl. 5% CET1 – vs. Lower (16%) And Upper (20%) Potential Requirements (1H14)



Notes: 1. senior unsecured and MTN data – used due to lack of info on TLAC – is sourced from Dealogic 2. CET1 excludes 2.5% Capital Conservation Buffer and 1-2.5% G-SIB Buffer. Source: Company Reports, Dealogic, and Citi Research

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Measure: Jurisdiction:		PLAC UK	MREL EU	TLAC Global (G-SIBs)
Qualifying Items	CET1 Capital Requirement	✓	✓ Excl. 5.125% PONV	✓ Excl. 2.5% CCB and 1-2.5% G-SIB
	AT1	✓	✓	[✓]
	High Trigger Low Trigger	✓	✓	✓
	T2	✓	✓	✓
	Senior Unsecured (>1yr)	✓	✓	✓ May be subject to contractual bail-in feature (or structural (holdco) subordination?)
Other		[✓] Clearly identified as subject to bail-in	[✓] Corporate deposits >1 year	[?]
Calculation Basis		% RWA	% Total Liabilities (including counterparty netted derivatives)	TBD (% RWA and/or % Total Liabilities)
Amount		Up to 17% (scaled down for smaller banks, may be higher for specified larger banks)	TBD Set individually for each bank [Speculation on 8% remaining from PONV; equivalent to 10+% initial level for most banks]	TBD [16-20% RWA and/or ≥6% Leverage Ratio]
Applicable Entity		<ul style="list-style-type: none"> <li>UK headquartered G-SIBs <ul style="list-style-type: none"> <li>Including UK/EEA operations</li> <li>Excluding non-EEA where regional resolution strategy applies</li> </ul> </li> <li>Ringfenced banks / other D-SIBs</li> </ul>	Solo & Consolidated	TBD Should reflect resolution strategy for each bank
Timing		<ul style="list-style-type: none"> <li>On hold, pending GLAC discussions</li> </ul>	From Jan 2016 (although requirement could be built-up over time)	Consultation to follow G-20 in Nov 2014

Figure 2. Companies Mentioned

Companies	RIC	Price	Target	Rating
Banco Santander	SAN.MC	7.5	7.5	2
Barclays	BARC.L	2.3	2.3	1
BBVA	BBVA.MC	9.4	9.4	2
BNP Paribas	BNPP.PA	51.2	51.2	1
Credit Agricole	CAGR.PA	11.6	11.6	1
Credit Suisse	CSGN.VX	26.7	26.7	1
Deutsche Bank	DBKGn.DE	27.4	27.4	1
HSBC	HSBA.L	6.3	6.3	2
ING	ING.AS	11.4	11.4	1
Nordea	NDA.ST	92.7	92.7	1
RBS	RBS.L	3.7	3.7	3H
Societe Generale	SOGN.PA	40.0	40.0	1
Standard Chartered	STAN.L	11.3	11.3	1
UBS	UBSN.VX	16.3	16.3	1
UniCredit	CRDI.MI	6.1	6.1	1

Source: Citi Research.

Note: Prices as of 6 Oct 2014

# Appendix A-1

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