Financial Stability Institute | BIS

Unallocated TLAC – Executive Summary

The Financial Stability Board (FSB) Key Attributes of Effective Resolution Regimes for Financial Institutions aim to ensure that the failure of financial institutions can be managed in an orderly manner without losses to taxpayers. Central to this outcome are resolution tools that enable authorities to impose losses on shareholders and creditors of a failing financial institution while maintaining its economically important functions.

The FSB total loss-absorbing capacity (TLAC) standard[1] supports the resolution of global systemically important banks (G-SIBs). It requires such banks to have sufficient resources in the form of capital and other suitable debt instruments that can be written down in resolution to absorb losses, recapitalise the parts of the business that will continue and fund post-stabilisation restructuring measures.

G-SIBs operate in multiple countries and are expected to be resolved at group level. A key purpose of the TLAC standard is to provide confidence to a G-SIB's home and host authorities that there will be sufficient resources to finance its group resolution strategy and maintain its economically important activities.

External and internal TLAC

The TLAC framework distinguishes between external TLAC and internal TLAC.

External TLAC is issued to third parties by the entities within a G-SIB group that are expected to be put into resolution under the group resolution strategy ("resolution entities"). External TLAC will be written down in resolution through the use of resolution tools. The amount of external TLAC required must be sufficient to provide loss-absorbing resources to the resolution entity and its subsidiaries (the "resolution group").

Internal TLAC (iTLAC)[2] consists of capital instruments or other liabilities issued directly or indirectly to a resolution entity by its material subsidiaries. iTLAC is the mechanism by which the losses and recapitalisation needs of those subsidiaries are passed to the resolution entity. iTLAC is referred to as "pre-positioned" because it ensures that resources created by writing down external TLAC will be downstreamed to the subsidiaries that have issued iTLAC to the resolution entity.

What is unallocated TLAC?

Unallocated TLAC (uTLAC) refers to TLAC resources held at the resolution entity that exceed those needed to absorb the entity's balance sheet risks and are not pre-positioned in specific subsidiaries through iTLAC.

In the event of a resolution, these resources could be deployed flexibly to support the resolution strategy. This means that such unallocated resources could be used to absorb losses or meet capital shortfalls as needed at the resolution entity or its subsidiaries where iTLAC, if any, is insufficient for that purpose. uTLAC should therefore be held in a form that is sufficiently liquid to provide a readily accessible and fungible pool of resources for use in resolution.

The FSB has published considerations on the deployment of uTLAC for use by home and host authorities of G-SIBs when discussing the form, location and potential use of uTLAC resources in Crisis Management Groups.

[1] See the TLAC – Executive Summary for more detail.

[2] See the Internal TLAC – Executive Summary for more detail.

Form and location of uTLAC assets

Assets corresponding to uTLAC should be readily available to recapitalise any subsidiaries that require it. The form or location of those assets may affect their timely deployment in resolution. Several considerations are relevant in this regard.

Location – it may be challenging to identify assets directly corresponding to uTLAC if the resolution entity is an operating bank and there are other banking assets on its balance sheet. This is unlikely to be a problem if the resolution entity is a holding company or an entity formed for the purposes of holding TLAC assets.

Availability – assets corresponding to uTLAC should remain available to the resolution entity during the resolution process. For instance, if liquid assets have already been used for capital or liquidity support prior to a resolution, as part of recovery, they will not be available during resolution. The transfer of liquid assets may also be restricted if they are required to meet other regulatory requirements or corporate obligations.

Liquidity of the asset – the time needed to mobilise less liquid assets may increase due to certain legal, market and operational barriers.

Mechanisms for deploying uTLAC assets

The way that uTLAC assets are deployed varies between G-SIBs and jurisdictions, depending on the home authority's TLAC requirements and the preferred resolution strategy. Assets held at the resolution entity may be deployed to its direct and indirect subsidiaries. Assets held in subsidiaries may be mobilised directly between subsidiaries or indirectly via the resolution entity.

Deployment of assets between subsidiaries may be more operationally challenging and require greater coordination between home and host authorities. The time required to execute asset transfers may also vary.

Governance and decision-making

The governance and decision-making process for the use of uTLAC resources depends on the approach, mechanism and timing of their deployment. This could be led by authorities, or the G-SIB in line with its uTLAC contractual arrangements, or by a combination of both.

Where authorities decide where uTLAC resources should be deployed, an authority may use its statutory resolution powers to direct a transfer of those assets. If the firm has an intragroup support arrangement in place that creates a contractual obligation for the parent to support subsidiaries, a transfer of uTLAC resources may be based on those contractual provisions.

Advance discussion between a G-SIB's home and host authorities about decision-making and coordination in the deployment of uTLAC resources and the impact of any contractual arrangements is recommended.

This Executive Summary and related tutorials are also available in FSI Connect, the online learning tool of the Bank for International Settlements.