At a glance: the TLAC concept

The FSB has been instructed by the G-20 to develop the total loss-absorbing capacity concept for global systemically important banks. A public consultation was launched in November 2014.

The total loss-absorbing capacity (TLAC) concept aims to facilitate the resolution of globally active banking groups without impairing financial stability or exposing taxpayers to loss. The FSB proposes that, in addition to the existing capital requirements for the going-concern scenario under the Basel III standard, G-SIBs be required to demonstrate sufficient loss-absorbing capacity at all times, corresponding to a Pillar 1 requirement. Subject to calibration once the impact assessment is complete, the TLAC is to be set at 16% to 20% of the capital requirement based on the risk-weighted assets and at 6% of the capital requirement based on the total exposure.

The chart shows the relationship between the TLAC and the capital requirements.

- The Basel III minimum of an 8% total capital ratio must be satisfied. Additional regulatory capital and debt instruments with a minimum remaining maturity of one year that are subordinated to all other creditor claims in insolvency (eligible debt instruments) can then be included in the TLAC.
- The various Basel III buffer requirements (capital preservation buffer, supplement for G-SIBs) must also be met.

The TLAC concept is scheduled for adoption by the FSB as a minimum standard at the end of 2015, with the new requirements coming into force no earlier than 2019.

Heightened requirements for the loss-bearing capacity of global systemically important banks