



August 5, 2016

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for international Settlements
CH-4002 Basel
Switzerland

Follow-up Comments on TLAC Holdings

Dear Mr. Coen:

This letter supplements the IIF/GFMA letter of February 12, 2016, which provided extensive commentary on the Committee's TLAC holdings consultation. A copy is attached for your convenience.

These additional observations are intended to highlight some of the points made in that letter in light of subsequent discussions. The February 12 industry comments remain pertinent and we wish to reiterate the importance of introducing a regime that takes into account the need for substantial market capacity in a proportionate manner. Members also wish to underscore the importance of the industry's TLAC holdings comments at a time when the attention of both the Committee and the industry is focused on the very important questions related to the pending revisions of the Basel III accord.

One of the associations' main points was to stress the importance of reconsidering the definition of the deduction threshold for TLAC holdings in order to permit appropriate but limited levels of investment in TLAC by banks and to create adequate provision for market-making. The associations offer these additional comments in hopes of contributing to an optimal outcome of the discussion of TLAC holdings.

As discussed in the February 12 letter, a 10% additional allowance for TLAC holdings would help meet the concerns the industry raised about the need for market-making and leeway for investment and would not create uncontrolled contagion risks, while also going significantly further than the original proposal to sustain development of the very large and deep market for TLAC that will be necessary to sustain the FSB approach to resolution and thus to end Too Big To Fail.

The additional 10% allowance should be available for both purposes and calculated on the like-for-like basis set out in detail in the February 12 letter.

Three important considerations about the additional 10% allowance need to be stressed at this stage in order to reach appropriate definition of the TLAC holdings rules:

- The success of TLAC is essential to the success of the FSB's global resolution reform project. That success in turn is dependent on creating deep and liquid markets for the very large amounts of TLAC that have to be issued. Sufficient market-making capacity is critical and will have to come from banks. Recent experience suggests that market-making capacity will be especially important in periods of market stress involving a given market, a given bank or a given group of banks, in order to maintain the viability of the TLAC market for banks generally. Current assessments of certain members suggest that anything less than the proposed additional 10% allowance would be problematic. As suggested in the February 12 letter, the calibration could be monitored through a transitional period and adjusted if it proved necessary to do so, on the basis of experience after a reasonable trial. This should also help assure that the TLAC holdings regime is proportionate and takes into account the need for depth and liquidity of the TLAC market as it evolves.
- Similarly, many banks are increasingly concerned about the ability of the banking sector itself to make investments in TLAC instruments of other banks, within appropriate and conservative but not overly-conservative bounds. The extent of such investment varies across markets but this aspect is important both to those banks that count on investment in bank paper to provide reasonable returns (and may face limited other investment opportunities) and banks that will need to sell their TLAC to banks as well as other investors. As discussed in the February 12 paper, appropriate limitations can easily be built into the TLAC holdings rules to minimize contagion risk while allowing the sector to absorb a modest part of the overall offer of TLAC. Again, anything less than the 10% proposed additional allowance (or the equivalent achieved via large-exposure rules, as discussed in the prior letter) may be problematic.
- Although the GHOS and the FSB have committed that there should be no significant increase of capital from the pending Basel III revisions, it needs to be kept in mind that any increase in RWAs (regardless of how "significant" may be defined) will flow through to TLAC requirements and thus increase the amount of TLAC that needs to be digested by the market. An appropriate allowance for TLAC cross-holdings is thus essential to the coherence of the Basel and resolution frameworks.

For avoidance of doubt, please note that the industry's proposal in the February 12 letter of a specific dealer exemption for market-making stands alongside and in addition to the proposal for an additional 10% allowance for TLAC holdings without restriction as to purpose.

Finally, allow us to reiterate the plea made for phased-in implementation date of no earlier than January 1, 2022. Further experience and analysis of the market for TLAC since February makes it all the more clear that phased-in implementation will be necessary to allow both firms and the market to adjust to TLAC requirements and for banks to roll over debt in an orderly and appropriate way.

Should you have questions or wish to pursue any aspect of these comments, please contact David Schraa (dschraa@iif.com) or Thilo Schweizer (tschweizer@iif.com) or Oliver Moullin (oliver.moullin@afme.eu).

Very truly yours,

A handwritten signature in black ink that reads "David Schraa". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

David Schraa
Regulatory Counsel
IIF

A handwritten signature in black ink that reads "David Strongin". The signature is cursive and stylized, with a prominent loop at the end.

David Strongin
Executive Director
GFMA