

Saudi Arabian Monetary Agency

BANKING CONTROL



November 2016

From : Saudi Arabian Monetary Agency
To : All Domestic Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **TLAC Holdings Standard**

In November 2015, the Financial Stability Board (FSB) published an international standard for Global Systemically Important Banks (G-SIBs) on loss-absorption and recapitalisation capacity in a bank's resolution. This standard was developed in consultation with the Basel Committee on Banking Supervision in response to a call from the G20 Leaders. The standard comprises a set of principles and a Term Sheet that implements these principles by setting a minimum requirement for Total Loss-Absorbing Capacity (TLAC) instruments.

The TLAC Holdings Standard deals with the regulatory capital treatment of banks' investments in instruments that comprise Total Loss-Absorbing Capacity (TLAC) for Global Systemically Important Banks (G-SIBs). The standard aims to reduce the risk of contagion within the financial system should a G-SIB enter into resolution. It applies to both G-SIBs and non-G-SIBs along with specifying how G-SIBs must take account of the TLAC requirement when calculating their regulatory capital buffers. The main elements of the prudential treatment are as follows:

- **Tier 2 deduction:** banks (both G-SIBs and non-G-SIBs) must deduct their holdings of TLAC instruments issued by other G-SIBs that do not otherwise qualify as regulatory capital from their own Tier 2 capital.
- **Threshold below which no deduction is required:** TLAC holdings should be included within the existing 10% threshold that applies to holdings of regulatory capital instruments. There is an additional 5% threshold that may be used for non-regulatory capital TLAC holdings being measured on a gross long basis.
- **Instruments ranking pari passu with subordinated forms of TLAC** must also be deducted subject to proportionate deduction approach.

The Banks should access the BCBS document from BIS website www.bis.org. These rules are applicable from 1 January 2019 as specified in the Basel document.

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