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Comparison of TLAC Deduction Standards

	2016 Basel Committee Standard	2015 Federal Reserve Proposal	2019 U.S. Interagency Proposal
Applicability (investor)	Internationally active banks.	Federal Reserve-regulated banking organizations of all sizes.	Advanced approaches banking organizations.
Applicability (issuer)	Any G-SIB resolution entity.	Domestic G-SIB bank holding companies only.	Domestic G-SIB bank holding companies, foreign G-SIB U.S. intermediate holding companies, and certain other foreign G-SIB entities that have issued instruments for loss absorption in resolution.
Instruments subject to deduction	Any instrument that is eligible to be recognized as external TLAC but does not otherwise qualify as regulatory capital, and *pari passu* instruments other than excluded liabilities.	Any unsecured debt security that does not qualify as Tier 2 capital.	Any eligible debt security under the TLAC rule that does not qualify as Tier 2 capital, and any instrument *pari passu* with or subordinated to such security, including excluded liabilities.
Capital base from which investment is deducted	Tier 2 capital, and if none remains, additional Tier 1 capital followed by common equity Tier 1 capital (this waterfall is known as the “corresponding deduction approach”).		
Deduction thresholds	For a **non-significant investment** in the issuer (*i.e.*, the investor owns no more than 10 percent of the issuer’s common stock), deductions of TLAC debt holdings are required to the extent: • the value of the investor’s aggregate non-significant investments in banks – counting capital instruments and TLAC debt – exceeds 10 percent of the investor’s own common equity Tier 1 capital; ***and*** • the value of the investor’s aggregate non-significant investments in TLAC debt that does not qualify as regulatory capital exceeds 5 percent of the investor’s own common equity Tier 1 capital.	For a **non-significant investment** in the issuer (*i.e.*, the investor owns no more than 10 percent of the issuer’s common stock), deductions of TLAC debt holdings are required to the extent the value of the investor’s aggregate non-significant investments in unconsolidated financial institutions – counting capital instruments and TLAC debt – exceeds 10 percent of the investor’s own common equity Tier 1 capital. For a **significant investment** in the issuer (*i.e.*, the investor owns more than 10 percent of the issuer’s common stock), deductions of TLAC debt holdings are required in full.	For a **non-significant investment** in the issuer (*i.e.*, the investor owns no more than 10 percent of the issuer’s common stock), deductions of TLAC debt holdings would be required to the extent: • the value of the investor’s aggregate non-significant investments in unconsolidated financial institutions – counting capital instruments and TLAC debt – exceeds 10 percent of the investor’s own common equity Tier 1 capital; ***and*** • the value of the investor’s aggregate non-significant investments in TLAC debt that does not qualify as regulatory capital exceeds 5 percent of the investor’s own common equity Tier 1 capital.

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	However, where the investor is itself a G-SIB, the 5 percent threshold applies only to holdings of TLAC debt in the investor's trading book that are sold within 30 business days. For a **significant investment** in the issuer (*i.e.*, the investor owns more than 10 percent of the issuer's common stock), deductions of TLAC debt holdings are required in full.		However, where the investor is itself a G-SIB, the 5 percent threshold would apply only to TLAC debt held for the purpose of short-term resale or with the intent of benefiting from actual or expected short-term price movements, or to lock in arbitrage profits, and sold within 30 business days. For a **significant investment** in the issuer (*i.e.*, the investor owns more than 10 percent of the issuer's common stock), deductions of TLAC debt holdings would be required in full.
Investment in own TLAC debt	The issuer's investment in its own TLAC debt must be deducted in full, but only from the issuer's TLAC resources.	The issuer's investment in its own TLAC debt must be deducted in full (using the corresponding deduction approach).	
Reciprocal cross-holdings	Reciprocal cross-holdings designed to artificially inflate the TLAC position of G-SIBs must be deducted in full.	Reciprocal cross-holdings resulting from a formal or informal arrangement to swap, exchange, or otherwise intend to hold each other's TLAC debt must be deducted in full.	
Underwriting exclusion	Exclusion for underwriting positions held for up to 5 business days.		
Reporting requirements (investor)	Basel Committee Pillar 3 templates require reporting of deductions of TLAC debt holdings.	Not discussed.	Call reports and FR Y-9C forms to require specific reporting of deductions of TLAC debt holdings.
Reporting requirements (issuer)	Basel Committee Pillar 3 templates require reporting of TLAC and related ratios.	Under consideration, but not actually proposed.	FR Y-9C forms to require reporting of TLAC and related ratios.

If you have any questions, please contact the following members of Covington's Financial Services practice:

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