



## A Closer Look at the Final TLAC Rule's Requirements for IHCs

On December 15, 2016, the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”) issued final rules requiring global systemically important banks (“**G-SIBs**”) in the United States, including bank holding companies of U.S. G-SIBs (“**covered BHCs**”) as well as top-tier U.S. intermediate holding companies of foreign G-SIBs (“**covered IHCs**”), to maintain a minimum amount of total loss absorbing capacity (“**TLAC**”) and long-term debt (“**LTD**”) instruments (the “**Final TLAC Rule**”).<sup>1</sup> While we previously briefly summarized the key differences between the Final TLAC Rule and the Federal Reserve’s originally proposed TLAC rule for G-SIBs in the United States (the “**TLAC Proposal**”),<sup>2</sup> the differences between the requirements established under the Final TLAC Rule for covered BHCs and covered IHCs deserve further examination.

### SPOE and MPOE Resolution Approaches

Since the single point of entry (“**SPOE**”) resolution approach was described by the Federal Deposit Insurance Corporation (the “**FDIC**”) and the Bank of England in a joint White Paper in December 2012,<sup>3</sup> “the concept has migrated and become the principal bankruptcy plan under . . . [the Dodd-Frank Wall Street Reform and Consumer Protection Act] (the “**Dodd-Frank Act**”) for all but two of eight [U.S.] G-SIBs.”<sup>4</sup> Nevertheless, there are reasons for some to prefer a multiple point of entry (“**MPOE**”) resolution approach. For international G-SIBs, an SPOE approach most likely establishes the home country as responsible for the resolution of the top-tier entity, while its subsidiaries in other countries are preserved intact. Under an MPOE approach, particularly where the jurisdiction requires the establishment of an IHC for non-branch assets (as is required in the United States), resolution can take place at the IHC level. The SPOE approach places most of the resolution burden on the home country supervisors, while the MPOE approach may disperse the burden among the home and host country supervisors. The TLAC Proposal, which would have required a covered IHC to issue internal LTD to its foreign parent, seemingly contemplated that foreign G-SIBs, and their foreign supervisors, might be forced into an SPOE resolution approach. The Final TLAC Rule has been modified to more readily support a covered IHC’s decision to adopt either an SPOE or MPOE resolution approach and, thus, provides greater flexibility to foreign G-SIBs and their home country supervisors.

**Overview of the SPOE Approach.** Under the SPOE resolution approach, the top-tier BHC of a banking organization would enter a resolution proceeding within a single jurisdiction and be placed in receivership. The

<sup>1</sup> See *Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations*, RIN 7100-AE37 (Dec. 15, 2016), available at <https://www.federalreserve.gov/newsevents/press/bcreg/bcreg20161215a1.pdf>.

<sup>2</sup> Please see *Morrison & Foerster LLP*, “TLAC’s Back! Sifting Through the Federal Reserve’s Final TLAC Rule” (Dec. 15, 2016), available at <https://media2.mofo.com/documents/161215-federal-reserve-final-tlac-rule.pdf>.

<sup>3</sup> See FDIC and Bank of England, “Resolving Globally Active, Systemically Important, Financial Institutions” (Dec. 10, 2012), available at <https://www.fdic.gov/about/srac/2012/gsifi.pdf>.

<sup>4</sup> See Remarks by FDIC Chairman Thomas M. Hoenig, “The Relative Role of Debt in Bank Resiliency and Resolvability” (Jan. 20, 2016), available at <https://www.fdic.gov/news/news/speeches/spjan2016.html#>.

benefit of the SPOE resolution approach is that resolution can be accomplished in a single proceeding—a banking organization’s separate subsidiaries could continue to function without the need to enter into multiple proceedings in a multitude of jurisdictions, which could carry with it an “associated destabilizing complexity.” Losses associated with a banking organization’s failure would be “passed up from the subsidiaries that incurred the losses using one of several potential mechanisms” and then “imposed on the equity holders and unsecured creditors of the [BHC],” which in turn would recapitalize the banking organization’s subsidiaries and avoid losses to its third-party creditors. The BHC could be liquidated with losses imposed on stockholders and creditors of the BHC, as opposed to taxpayers in the form of a bailout. The subsidiaries would remain intact and could continue to operate without having to enter into resolution proceedings, engage in an asset “fire sale” or engage in funding runs, any of which could undermine U.S. financial stability.

**Overview of the MPOE Approach.** Under an MPOE resolution approach, which has been the preferred strategy for some foreign banking organizations (“FBOs”), a banking organization’s legal entities would engage in separate resolutions, which could be executed by numerous resolution authorities across several jurisdictions. The assumption underlying the MPOE resolution approach is that the covered IHC will enter resolution if a foreign parent entity fails, as opposed to continuing to operate outside of resolution proceedings of the parent (i.e., an SPOE strategy). However, as noted by the FDIC in its December 2013 request for comment with regard to the SPOE strategy, an MPOE resolution approach would require a banking organization’s operations be “housed within subsidiaries that would be sufficiently independent so as to allow for their individual resolution without resulting in knock-on effects.”<sup>5</sup>

**Treatment of the SPOE and MPOE Approaches Under the Final TLAC Rule.** The Final TLAC Rule has been modified to enable FBOs with MPOE resolution approaches to satisfy their TLAC and LTD obligations. A covered IHC that expects to enter into resolution proceedings in the United States based on its FBO parent’s MPOE resolution approach may issue LTD:

- (i) internally to the FBO parent or to a foreign wholly owned subsidiary of the FBO parent; *or*
- (ii) externally to third-party investors.

Unlike the TLAC Proposal, which would have required covered IHCs that intended to serve as a point of entry for resolution to maintain internal LTD issued solely to a parent entity and, in the process, largely impeded the ability to utilize the MPOE resolution approach, the Final TLAC Rule enables certain covered IHCs to issue LTD that best fits either resolution approach.

A covered IHC must certify to the Federal Reserve on the later of June 30, 2017, or one year prior to the date on which the covered IHC is required to comply with the covered IHC TLAC and LTD requirements as to its planned resolution approach.

### **Comparison of Requirements for Covered BHCs and Covered IHCs**

The following provides a comparison of the TLAC, LTD and clean holding company requirements for covered BHCs and covered IHCs.

#### **Calibration and Eligibility of TLAC**

**Covered BHCs.** Under the Final TLAC Rule, all covered BHCs must maintain specified amounts of outstanding eligible *external* TLAC in an amount not less than the greater of:

- (i) 18% of the covered BHC’s total risk-weighted assets (“RWAs”); *and*
- (ii) 7.5% of the covered BHC’s total leverage exposure.

<sup>5</sup> See 78 Fed. Reg. 76614, 76623 (Dec. 18, 2013), available at [https://www.fdic.gov/news/board/2013/2013-12-10\\_notice\\_dis-b\\_fr.pdf](https://www.fdic.gov/news/board/2013/2013-12-10_notice_dis-b_fr.pdf).

Eligible external TLAC is defined as the sum of:

- (a) the tier 1 regulatory capital (common equity Tier 1 capital and additional Tier 1 capital) issued directly by the covered BHC; *and*
- (b) the covered BHC's eligible external LTD.

Tier 2 capital counts towards the external TLAC requirement and external LTD requirement as long as it meets the definition of eligible external LTD.

**Covered IHCs.** Unlike a covered BHC, the amount of outstanding eligible TLAC depends on whether the IHC's top-tier FBO's planned resolution:

- (i) involves the covered IHC or its subsidiaries entering into resolution, receivership, insolvency or similar proceeding (i.e., an MPOE strategy) (a "**resolution covered IHC**"); *or*
- (ii) does not involve the covered IHC or its subsidiaries entering into resolution, receivership, insolvency or similar proceedings in the United States (i.e., an SPOE strategy) (a "**non-resolution covered IHC**").

Under the Final TLAC Rule, a resolution covered IHC must maintain the greater of:

- (i) 18% of the covered IHC's total RWAs;
- (ii) 6.75% of the covered IHC's total leverage exposure (if subject to the Supplementary Leverage Ratio ("**SLR**")); *and*
- (iii) 9% of the covered IHC's average total consolidated assets.

A non-resolution covered IHC must maintain the greater of:

- (i) 16% of the covered IHC's total RWAs;
- (ii) 6% of the covered IHC's total leverage exposure (if subject to the SLR); *and*
- (iii) 8% of the covered IHC's average total consolidated assets.

### Calibration and Eligibility of LTD

**Covered BHCs.** Under the Final TLAC Rule, all covered BHCs must maintain outstanding eligible *external LTD* in an amount not less than the greater of:

- (i) 6% (plus the applicable G-SIB surcharge) of total RWAs; *and*
- (ii) a minimum ratio of common equity Tier 1 capital to RWAs of 4.5% (total leverage exposure).

Eligible external LTD is defined as debt that:

- (a) is paid in and issued directly by the covered BHC;
- (b) is unsecured;
- (c) has a maturity of greater than one year from the date of issuance;
- (d) is "plain vanilla"; *and*
- (e) is governed by U.S. law.

However, debt instruments issued prior to December 31, 2016, may still count as eligible external LTD, irrespective of whether these instruments contain impermissible acceleration clauses or are subject to foreign law. Principal due to be paid on eligible external LTD in one year or more and less than two years is subject to a 50%

haircut for purposes of satisfying the external LTD requirement. But principal due to be paid on eligible external LTD in less than one year will not count toward the external LTD requirement.

Covered BHCs are prohibited from redeeming or repurchasing eligible external LTD prior to its stated maturity date (where the redemption or repurchase would cause the covered BHC's eligible external LTD to fall below the Final TLAC Rule's external LTD requirement) without obtaining prior approval from the Federal Reserve. However, a covered BHC's eligible external LTD may maintain acceleration clauses and adopt contractual subordination or structural subordination.

***Covered IHCs.*** Covered IHCs must maintain outstanding eligible LTD that is no less than the amount equal to the greater of:

- (i) 6% of the covered IHC's total RWAs;
- (ii) 2.5% of the covered IHC's total leverage exposure (as applicable); *and*
- (iii) 3.5% of the covered IHC's average total consolidated assets.

The requirements for eligible LTD for covered IHCs are generally similar to that of external LTD for covered BHCs. Specifically, eligible internal LTD must, among other requirements:

- (a) be issued directly from the covered IHC;
- (b) be unsecured;
- (c) have a maturity of greater than one year from the date of issuance;
- (d) be "plain vanilla"; *and*
- (e) be governed by U.S. law.

While the majority of eligibility requirements for LTD are the same for all covered IHCs, resolution covered IHCs may issue eligible LTD externally to third-party investors ("**eligible external debt securities**"). Resolution covered IHCs have the option to issue debt internally to a foreign parent or foreign wholly owned subsidiary of a G-SIB FBO that directly or indirectly controls the covered IHC (conversely, non-resolution covered IHCs must issue debt internally to a foreign parent or a foreign wholly owned subsidiary of a G-SIB FBO that directly or indirectly controls the covered IHC).

Similar to covered BHCs, without prior Federal Reserve approval, a covered IHC is prohibited from redeeming or repurchasing eligible internal LTD if it would result in the covered IHC being unable to satisfy its minimum internal LTD requirements. Eligible internal LTD with a remaining maturity of between one and two years is subject to a 50% haircut, and eligible internal LTD with a remaining maturity of less than one year would not count toward the internal LTD requirement.

Eligible external LTD for covered IHCs is similar to external LTD for BHCs. Specifically, eligible LTD issued by covered IHCs may have the same acceleration clauses that are permitted for eligible external LTD issued by covered BHCs. Covered IHCs, like covered BHCs, have the option to adopt contractual or structural subordination for their eligible LTD. Additionally, eligible external debt securities issued by a resolution covered IHC prior to December 31, 2016, which otherwise contain impermissible acceleration clauses or were issued under foreign law, may nevertheless qualify as eligible external LTD.

However, unlike eligible external LTD for covered BHCs, eligible internal LTD for covered IHCs (1) does not benefit from the grandfather provision for external LTD, (2) must be issued to and held by an entity outside the United States that controls the covered IHC and (3) must contain a contractual trigger pursuant to which the Federal Reserve could require the covered IHC to convert (or exchange) the internal LTD into (or for) common equity Tier 1 capital and without the covered IHC needing to enter into resolution proceedings if:

- (i) the Federal Reserve determined that the covered IHC is in default or in danger of default; and
- (ii) *any* of the following applies:
  - a. the top-tier FBO or any subsidiary outside the United States is placed into resolution proceedings;
  - b. the home country supervisory authority consents to the conversion, or does not object to the conversion following 24 hours' notice; *or*
  - c. the Federal Reserve makes a written recommendation to the Secretary of the U.S. Treasury that the FDIC should be appointed as receiver of the covered IHC.

Last, in accordance with guidance released by the U.S. Internal Revenue Service (the “**IRS**”) on December 16, 2016, the IRS will treat eligible internal TLAC (i.e., debt issued by a covered IHC to its FBO parent) as “indebtedness” for federal tax purposes, to the extent that such internal TLAC has not been subject to a debt conversion order from the Federal Reserve.<sup>6</sup>

### **TLAC Buffer**

**Covered BHCs.** Covered BHCs must maintain, on top of the minimum amount of its external TLAC and LTD:

- (i) a buffer for the RWA component of the external TLAC requirement (the “**TLAC RWA Buffer**”) equal to the sum of 2.5% plus the applicable G-SIB surcharge (applicable to the covered BHC under Method 1 of the G-SIB Surcharge Rule); *and*
- (ii) a 2% buffer for the leverage component of the external TLAC requirement (the “**TLAC Leverage Buffer**”).

Both the TLAC RWA Buffer and the TLAC Leverage Buffer must be satisfied solely with common equity Tier 1 capital, and any breach of the buffers could result in a limitation on capital distributions and discretionary bonus payments.

**Covered IHCs.** Similar to the external TLAC buffer for covered BHCs, all covered IHCs must maintain an internal TLAC buffer for the RWA component of the IHC's TLAC requirement. However, unlike covered BHCs, covered IHCs are not subject to a TLAC buffer for the leverage component of the IHC's internal TLAC requirement.

### **Clean Holding Company Requirement**

The clean holding company requirement applies analogously to both covered BHCs and covered IHCs (together, “**covered holding companies**”). Specifically, covered holding companies are prohibited from engaging in certain transactions that could hamper the orderly resolution of the covered holding company or increase the risk of financial market contagion. In accordance with the clean holding company requirement (as further described below), a covered holding company may not:

- (i) maintain third-party debt instruments with an original maturity of less than one year (i.e., short-term debt);
- (ii) enter into qualified financial contracts (“**QFCs**”) with a third party;
- (iii) enter into a contract that permits offset of a claim against the covered holding company against an amount owed by the holder to a subsidiary;

<sup>6</sup> See IRS, “26 CFR § 601.105: Examination of returns and claims for refund, credit or abatement; determination of correct tax liability,” Rev. Pro. 2017-12 (Dec. 16, 2016), available at <https://www.irs.gov/pub/irs-drop/rp-17-12.pdf>. Please also see Morrison & Foerster LLP, “IRS Provides Guidance on TLAC” (Dec. 21, 2016), available at <https://media2.mofo.com/documents/161221-irs-guidance-tlac.pdf>.

- (iv) issue certain guarantees of the covered holding company's subsidiaries' liabilities if the liabilities provide default rights against the subsidiary based on the resolution of the covered holding company, excluding a limited exemption; *or*
- (v) enter into, or otherwise benefit from, any agreement that provides for its liabilities to be guaranteed by any of its subsidiaries.

***Third-Party Short-Term Debt Instruments.*** Under the Final TLAC Rule, covered holding companies are prohibited from issuing debt instruments that contain an original maturity of less than one year to a third party. However, issuances to an affiliate by the covered holding company to one of its affiliates are permitted. A liability is said to be short-term if it would:

- (i) provide the creditor with the option to receive repayment within one year of the creation of the liability; *or*
- (ii) create such an option or an automatic obligation to pay upon the occurrence of an event that could occur within one year of the creation of the liability (excluding an event related to the covered holding company's insolvency).

The prohibition on issuing short-term debt instruments would also apply to demand deposits at the covered holding company, which are disclosed in Item 11 (*Liabilities and Equity Capital—Deposits*) of Schedule PC of the covered holding company's FR Y-9LP.

***QFCs With Third Parties.*** The Final TLAC Rule prohibits QFCs with third parties that are not affiliates of the covered holding company, excluding credit enhancements of QFCs. A "credit enhancement" includes any security agreement or arrangement or other credit enhancement related to any agreement or transaction involving any of the following under Title II of the Dodd-Frank Act:

- (i) securities contracts;
- (ii) commodity contracts;
- (iii) forward contracts;
- (iv) repurchase agreements; *or*
- (v) swap agreements.

***Guarantees Subject to Cross-Defaults.*** A covered holding company is prohibited under the Final TLAC Rule from guaranteeing its subsidiaries' liabilities if such a liability permits the exercise of a default right (i.e., a cross-default right) that is related, directly or indirectly, to the covered holding company becoming subject to a receivership, insolvency, liquidation, resolution or some other similar proceeding (other than a receivership proceeding under Title II of the Dodd-Frank Act). However, unlike the TLAC Proposal, the Final TLAC Rule provides that guarantees subject to a future rule of the Federal Reserve, the Office of the Comptroller of the Currency (the "OCC") or the FDIC restricting such default rights are exempt from this prohibition.

***Upstream Guarantees and Offset Rights.*** The Final TLAC Rule prohibits covered holding companies from issuing a debt instrument if the holder of the debt instrument maintains a contractual right to offset its liabilities (or the liabilities of the holder's affiliate) to the covered holding company's subsidiaries against the covered holding company's liability under the instrument, irrespective of whether the offset right is provided in the instrument itself.

***5% Cap on Certain Liabilities.***

***Covered BHCs.*** The Final TLAC Rule caps the amount of a covered BHC's third-party liabilities (excluding those related to eligible external TLAC and eligible external LTD) that can be *pari passu* with or junior to its eligible external LTD at 5% of the value of its eligible external TLAC. However, in the event a covered BHC

chooses to contractually subordinate all of its LTD, there will be no cap on the amount of the covered BHC's non-contingent liabilities.

**Covered IHCs.** The Final TLAC Rule adopts different caps for non-resolution covered IHCs and resolution covered IHCs:

- (i) *for non-resolution covered IHCs*, the aggregate amount of unrelated liabilities that a non-resolution covered IHC may owe to any person that is not an affiliate of the covered IHC may not exceed 5% of the covered IHC's total TLAC amount; *and*
- (ii) *for resolution covered IHCs*, the cap is equal to 5% of the covered IHC's total TLAC on the aggregate amount of unrelated liabilities that a resolution covered IHC may owe to any person other than a subsidiary of the covered IHC.

However, as for covered BHCs, in the event a covered IHC chooses to contractually subordinate all of its LTD, there will be no cap on the amount of its non-contingent liabilities.

**Disclosure Requirements.** The Final TLAC Rule requires resolution covered IHCs (but not non-resolution covered IHCs) and covered BHCs to publicly disclose the financial consequences to unsecured debtholders of the resolution covered IHC's or covered BHC's, as applicable, entry into resolution proceedings in which the covered entity is the only entity that would enter resolution.

COMPARISON CHART

COVERED BHC AND COVERED IHC REQUIREMENTS UNDER THE FINAL TLAC RULE		
Provision	Requirement for Covered BHCs	Requirement for Covered IHCs
<b>TLAC</b>		
<b>Calibration</b>	<ul style="list-style-type: none"> <li>Must maintain the greater of: (i) 18% of the BHC's total RWAs; and (ii) 7.5% of the covered BHC's total leverage exposure.</li> </ul>	<b>Resolution IHC</b> <ul style="list-style-type: none"> <li>Must maintain the greater of: (i) 18% of the covered IHC's total RWAs; (ii) 6.75% of the covered IHC's total leverage exposure (if applicable); and (iii) 9% of the covered IHC's average total consolidated assets.</li> </ul>
		<b>Non-Resolution IHC</b> <ul style="list-style-type: none"> <li>Must maintain the greater of: (i) 16% of the covered IHC's total RWAs; (ii) 6% of the covered IHC's total leverage exposure (if applicable); and (iii) 8% of the covered IHC's average total consolidated assets.</li> </ul>
<b>Eligibility</b>	<ul style="list-style-type: none"> <li>The sum of the Tier 1 regulatory capital issued directly by the covered BHC and the amount of the covered BHC's eligible external LTD due to be paid after one year or more (principal due to be paid on external LTD in one year or more but less than two years is subject to a 50% haircut).</li> <li>Tier 2 capital that satisfies the definition of eligible external LTD may count toward the external TLAC requirement.</li> </ul>	<b>Resolution IHC</b> <ul style="list-style-type: none"> <li>The sum of the Tier 1 regulatory capital issued directly by the covered IHC (to an FBO parent that controls the covered IHC or to a wholly owned subsidiary of the FBO parent, or externally to third parties) and the amount of the covered IHC's eligible internal or external LTD due to be paid after one year or more (principal due to be paid on internal LTD in one year or more but less than two years is subject to a 50% haircut).</li> <li>Tier 2 capital that satisfies the definition of eligible internal or external LTD may count toward the internal TLAC requirement.</li> </ul>
		<b>Non-Resolution IHC</b> <ul style="list-style-type: none"> <li>The sum of the Tier 1 regulatory capital issued directly by the covered IHC (to an FBO parent that controls the covered IHC or to a wholly owned subsidiary of the FBO parent) and the amount of the covered IHC's eligible internal LTD due to be paid after 1 year or more (principal due to be paid on internal LTD in one year or more but less than two years is subject to a 50% haircut).</li> <li>Tier 2 capital that satisfies the definition of eligible internal LTD may count toward the internal TLAC requirement.</li> </ul>
<b>TLAC Buffer</b>	<ul style="list-style-type: none"> <li>TLAC buffer for the RWA and leverage components of the TLAC requirement of 2.5% and 2%, respectively.</li> <li>Limits on capital distributions and discretionary bonus payments if violated.</li> </ul>	<ul style="list-style-type: none"> <li>Subject solely to an RWA-related TLAC buffer equal to 2.5%.</li> <li>Limits on capital distributions and discretionary bonus payments if violated.</li> </ul>
<b>LTD</b>		
<b>Calibration</b>	<ul style="list-style-type: none"> <li>Must maintain the greater of: (i) 6% (plus the G-SIB surcharge) of total RWAs and (ii) 4.5% of total leverage exposure.</li> </ul>	<ul style="list-style-type: none"> <li>Must maintain the greater of: (i) 6% of total RWAs; (ii) 2.5% of the total leverage exposure (if applicable); and (iii) 3.5% of average total consolidated assets.</li> </ul>
<b>Eligibility</b>	<ul style="list-style-type: none"> <li>Includes debt that: (i) is paid in and issued directly by the covered BHC; (ii) is unsecured; (iii) has a maturity of more than one year from the date of issuance; (iv) is "plain vanilla"; and (v) is governed by U.S. law.</li> </ul>	<ul style="list-style-type: none"> <li>Includes debt that: (i) is paid in and issued directly by the covered BHC; (ii) is unsecured; (iii) has a maturity of more than one year from the date of issuance; (iv) is "plain vanilla"; and (v) is governed by U.S. law.</li> </ul>
<b>Acceleration/Subordination Permitted?</b>	<ul style="list-style-type: none"> <li>Yes; may maintain acceleration clauses and adopt contractual subordination or structural subordination.</li> </ul>	
<b>Contractual Trigger Required?</b>	N/A	<ul style="list-style-type: none"> <li>Yes; must contain a contractual trigger pursuant to which the Federal Reserve could require the covered IHC to convert (or exchange) internal LTD into (or for) common equity Tier 1 capital.</li> </ul>
<b>Clean Holding Company Requirement</b>		
<b>Applicability</b>	<ul style="list-style-type: none"> <li>Applies limitations to the operations of the top-tier holding companies of U.S. G-SIBs and the top-tier U.S. IHC of FBOs.</li> </ul>	
<b>Prohibitions</b>	<ul style="list-style-type: none"> <li>Prohibits issuing certain guarantees of subsidiaries' liabilities if the liabilities provide default rights based on the resolution of the covered entity.</li> </ul>	
<b>Exemptions</b>	<ul style="list-style-type: none"> <li>Exempts guarantees of liabilities that are subject to any future rule of the Federal Reserve, the OCC or the FDIC restricting default rights.</li> </ul>	



**COVERED BHC AND COVERED IHC REQUIREMENTS UNDER THE FINAL TLAC RULE**

Provision	Requirement for Covered BHCs	Requirement for Covered IHCs	
<b>5% Liability Cap</b>	<ul style="list-style-type: none"> <li>• Caps the amount of a covered BHC's third-party liabilities (excluding those related to eligible external TLAC and eligible external LTD) that can be <i>pari passu</i> with or junior to its eligible external LTD at 5% of the value of its eligible external TLAC.</li> <li>• In the event the covered BHC chooses to contractually subordinate its entire LTD, there will be no cap on the amount of its non-contingent liabilities.</li> </ul>	Resolution IHC	<ul style="list-style-type: none"> <li>• Equal to 5% of the covered IHC's total TLAC on the aggregate amount of unrelated liabilities that a resolution covered IHC may owe to any person other than a subsidiary of the covered IHC.</li> <li>• In the event the resolution covered IHC chooses to contractually subordinate its entire LTD, there will be no cap on the amount of its non-contingent liabilities.</li> </ul>
		Non-Resolution IHC	<ul style="list-style-type: none"> <li>• The aggregate amount of unrelated liabilities that a non-resolution covered IHC may owe to any person that is not an affiliate of the covered IHC may not exceed 5% of the covered IHC's total TLAC amount.</li> <li>• In the event the non-resolution covered IHC chooses to contractually subordinate its entire LTD, there will be no cap on the amount of its non-contingent liabilities.</li> </ul>
<b>Miscellaneous</b>			
<b>Discretion to Exclude Certain Debt</b>	<ul style="list-style-type: none"> <li>• The Federal Reserve may order a covered BHC or a covered IHC (after appropriate notice and response proceedings) to exclude from its outstanding eligible LTD amount any debt securities with features that would significantly impair the ability of such debt securities to take losses.</li> </ul>		
<b>Disclosure Requirement</b>	<ul style="list-style-type: none"> <li>• Each BHC must publicly disclose a description of the financial consequences to unsecured debtholders of the covered BHC's entry into resolution proceedings in which the covered BHC is the only entity that would enter resolution.</li> <li>• May be made on the covered BHC's website or in more than one public financial report or other public regulatory report (but must publicly provide a summary table specifically indicating the location of the disclosure).</li> </ul>	Resolution IHC	<ul style="list-style-type: none"> <li>• If issuing external debt, must publicly disclose a description of the financial consequences to unsecured debtholders of the covered IHC's entry into resolution proceedings in which the covered IHC is the only entity that would enter resolution.</li> <li>• May be made on the covered IHC's website or in more than one public financial report or other public regulatory report (but IHC must publicly provide a summary table specifically indicating the location of the disclosure).</li> </ul>
		Non-Resolution IHC	N/A
<b>Capital Deductions</b>	<ul style="list-style-type: none"> <li>• The Federal Reserve has deferred adoption of capital deduction requirements for state member banks, certain BHCs and savings and loan holding companies and certain IHCs formed to comply with the Federal Reserve's enhanced prudential standards for FBOs.</li> </ul>		
<b>Grace Period</b>	<ul style="list-style-type: none"> <li>• No grace period during which a covered BHC that breaches its external LTD requirement may take voluntary actions to comply with such a requirement without being subject to any other regulatory consequences.</li> </ul>		N/A
<b>Grandfather Provision for Certain Debt</b>	<ul style="list-style-type: none"> <li>• Grandfather provision for certain outstanding LTD of covered BHCs issued prior to December 31, 2016, that will count towards the external LTD and external TLAC requirements in the Final TLAC Rule.</li> <li>• Not subject to the limitations on acceleration and the requirement to be governed by U.S. law that will apply to eligible debt securities.</li> </ul>	Resolution IHC	<ul style="list-style-type: none"> <li>• Grandfather provision for certain outstanding eligible external LTD of resolution covered IHCs issued prior to December 31, 2016.</li> <li>• Not subject to the limitations on acceleration and the requirement to be governed by U.S. law that will apply to eligible debt securities.</li> </ul>
		Non-Resolution IHC	N/A
<b>Certification to Federal Reserve Regarding Resolution Approach</b>	N/A		<ul style="list-style-type: none"> <li>• Top-tier FBO with U.S. non-branch assets <math>\geq</math> \$50 billion must certify to the Federal Reserve whether the planned resolution approach of the top-tier FBO involves the covered IHC or its subsidiaries entering resolution, receivership, insolvency, or similar proceedings in the United States.</li> <li>• Must be provided to the Federal Reserve on the later of June 30, 2017, or one year prior to the date on which the covered IHC is required to comply with the Final TLAC Rule.</li> </ul>
<b>Special Treatment Under U.S. Federal Tax Law</b>	N/A		<ul style="list-style-type: none"> <li>• The IRS will treat eligible internal TLAC as "indebtedness" for federal tax purposes to the extent that the internal TLAC has not been subject to a debt conversion order from the Federal Reserve.</li> </ul>

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