

**IV High-Level Meeting
for
Central and Eastern Europe
on
Strengthening Financial Sector Supervision
and
Current Regulatory Priorities**

BCBS / FSI / BSCEE / National Bank of Slovakia

Bratislava, 24th June 2015



The rationale, approach and latest work on TLAC

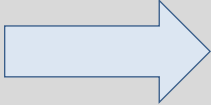
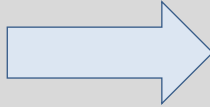
José M^a Roldán, Chairman & CEO
Spanish Banking Association



Rules vs Discretion

- Kydland, F.E. y Prescott, E.C. «*Rules Rather than Discretion: The inconsistency of Optimal Plans*»

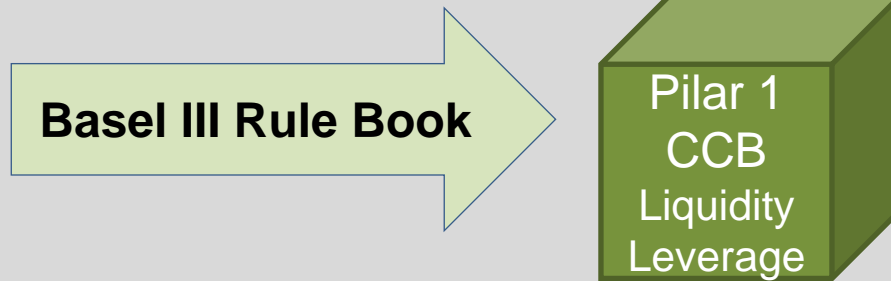
- Architecture:

- Very detailed rules  supervisor: compliance check
- Very simple rules  a lot of supervisory discretion

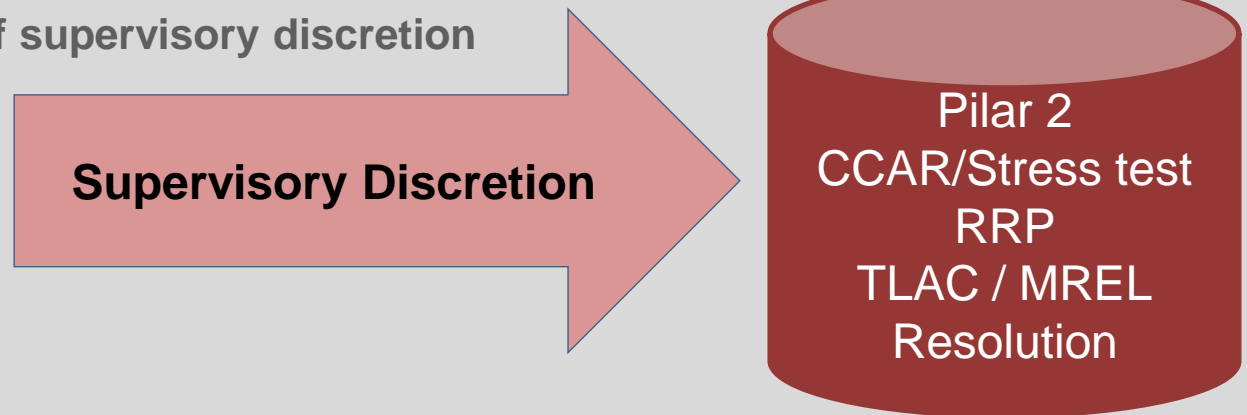
Rules and Discretion

- After the crisis:

- Very detailed rules



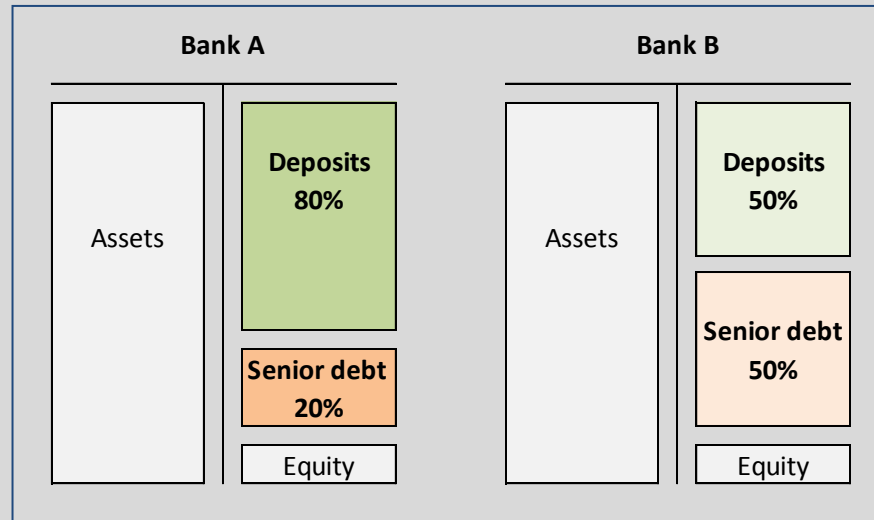
- But, a lot of supervisory discretion



TLAC

- RRP
- Resolution authority discretion
- TLAC / MREL \approx contractual / statutory bail-inable debt (Tier 3)
- Resolution:
 - If discretion.- less legal risk?
 - If rules based.- more legal risk?
- Impact of the cost of funding
 - Balanced view :
 - Higher equity \rightarrow lower cost of debt
 - Subordination \rightarrow lower rating \rightarrow higher yield
 - Weak institutions: the few \rightarrow Affected by TLAC: Going concern / sound entities

TLAC: cost is not neutral



- The safer (80% deposits / 20% senior debt)
... the more expensive (LGD for senior debt 20% > LGD for senior debt 50%) → greater cost for sounder banks.

THANK YOU

