CLEARY GOTTLIEB

ALERT MEMORANDUM

November 20, 2015 clearygottlieb.com

Comparing the Federal Reserve's TLAC Proposal to the FSB TLAC Final Standards

On November 9, 2015, the Financial Stability Board (**FSB**) issued its final standards for Total Loss-Absorbing Capacity (**TLAC**) for global systemically important banks (**FSB Standards**). On October 30, the Federal Reserve issued its proposal to impose TLAC requirements on the largest, most systemically important US bank holding companies and on US intermediate holding companies owned by comparable foreign banking organizations (**Federal Reserve Proposal**). The table below compares the FSB Standards to the Federal Reserve Proposal.

The Federal Reserve Proposal includes the following elements:

- Minimum external TLAC requirements for the bank holding companies (**BHCs**) of US global systemically important banks (**G-SIBs**), which include a minimum level of long-term debt (**LTD**) and related TLAC buffers;
- Minimum internal TLAC and LTD requirements for the US intermediate holding companies (**IHCs**) of non-US G-SIBs, which differentiate between single-point-of-entry (**SPOE**) and multiple-point-of-entry (**MPOE**) groups, but require all eligible instruments to be issued by the IHC to a foreign entity that controls the IHC, even for MPOE groups;
- "**Clean holding company**" requirements that impose stringent limitations on the ability of covered BHCs and IHCs to incur common types of non-TLAC-related liabilities; and
- A new regulatory capital deduction for any investment in the unsecured debt of a covered BHC by state member banks, other BHCs, large savings and loan holding companies and all IHCs.

While broadly consistent with the framework of the FSB Standards, the Federal Reserve Proposal is much more restrictive than, and deviates from, the FSB Standards in several meaningful ways:

- While calibration of the risk-weighted assets component of the Federal Reserve's proposed minimum TLAC requirement is aligned with the FSB Standards, the additional constraints on eligible liabilities along with other elements make the Federal Reserve standard more stringent.
  - Among the key elements making the Federal Reserve Proposal more stringent are the proposed formal long-term debt requirement, TLAC buffer and clean holding company limitations. There are no comparable requirements in the FSB Standards.
  - The standards for eligible debt under the Federal Reserve Proposal are much more stringent than the FSB Standards and current Tier 2 standards. Tier 2 capital instruments would be eligible for inclusion in TLAC under the FSB Standards. By contrast, and as only one example, much of the existing long-term debt issued by BHCs and IHCs includes acceleration clauses that would be barred for eligible debt under the Federal Reserve Proposal.
- The Federal Reserve Proposal's treatment of IHCs deviates significantly from the FSB Standards applied to entities in host jurisdictions in a number of ways.

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  - o It imposes more onerous requirements for internal TLAC, significantly increases the required proportion of long-term debt required, precludes the issuance of external TLAC by IHCs and severely limits the financing and operational flexibility allowed for IHCs.

The chart below is generally organized around the structure, and according to the numbering scheme, of the FSB Standards. However, certain issues addressed in the Federal Reserve Proposal have no direct analogue under the FSB Standards. In order to identify these issues, the chart below includes separate subheadings for them within the most analogous section of the FSB Standards.

For more information about the Federal Reserve Proposal, please refer to Cleary's alert memorandum.[1] The text of the Federal Reserve Proposal can be found here,[2] and a helpful executive summary can be found on pages 2 through 4 of the Federal Reserve staff's memorandum to the Board of Governors.[3] The FSB Standards can be found here.[4]

If you have any questions, please feel free to contact:

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You may also contact any of our partners and counsel listed under "Banking and Financial Institutions" located in the "Practices" section of our website at http://www.cgsh.com/.

[1] https://clients.clearygottlieb.com/rs/alertmemos/2015-79.pdf

[2] http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20151030a1.pdf

[3] http://www.federalreserve.gov/aboutthefed/boardmeetings/ltd-board-memo-20151030.pdf

[4] http://www.financialstabilityboard.org/wp-content/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf

FSB Standards	Federal Reserve Proposal
2. Covered Firms[5]	

• All G-SIBs, as determined by the FSB.	• BHCs of US-headquartered G-SIBs (**Covered BHCs**) would be determined under Method 1 of the G-SIB surcharge provisions of the Federal Reserve's capital rules.
	• IHCs of non-US G-SIBS (**Covered IHCs**) are those where the foreign banking organization either:
	  o Determines that it qualifies as a G-SIB under the Basel Committee on Banking Supervision (**BCBS**) framework for identifying G-SIBs; or
	  o Is determined by the Federal Reserve to be a G-SIB based on either the BCBS G-SIB framework or Method 1 of the Federal Reserve's capital rules.

3. Minimum TLAC Requirements	
• Minimum external TLAC requirements apply to each "**resolution entity**" within a G-SIB, including each "point of entry" for a G-SIB for which there is an MPOE resolution strategy (**MPOE G-SIBs**).[6] • Minimum internal TLAC requirements apply to each material subgroup of a resolution entity.[7]	• Minimum external TLAC requirements would apply to Covered BHCs only. • Minimum internal TLAC requirements would apply to Covered IHCs, including Covered IHCs of MPOE G-SIBs. • The Federal Reserve is also considering imposing a domestic internal TLAC framework with respect to the material subsidiaries of Covered BHCs and Covered IHCs.

[5] Note that this chart omits item 1 of the term sheet provided under the FSB Standards and therefore begins with "*2. Covered Firms*."

[6] "Resolution entity" is defined in the FSB Standards as "an entity to which resolution tools will be applied in accordance with the resolution strategy for the G-SIB." The FSB Standards provide that the minimum TLAC requirement for each resolution entity will be set in relation to the consolidated balance sheet of each "**resolution group**," defined as the resolution entity and any entities that the resolution entity owns or controls, either directly or indirectly, that are not themselves resolution entities. Additional rules apply for the determination of the minimum TLAC requirement in the case of MPOE G-SIBs.

[7] For the definition of "material subgroup," please see "*16. Internal TLAC*" below.

<table>
<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><td colspan="2">4. Calibration of External Minimum TLAC[8]</td></tr>
<tr><td>
• Resolution entities must maintain external TLAC equal to the greater of:
o 18% of total risk-weighted assets (RWA); and
o 6.75% of the resolution group's Basel III leverage ratio denominator.
</td><td>
• Covered BHCs would have to maintain external TLAC equal to the greater of:
o 18% of RWA; and
o 9.5% of the Covered BHC's total leverage exposure (the US supplementary leverage ratio denominator).
</td></tr>
<tr><td colspan="2">TLAC Buffer</td></tr>
<tr><td>
• No formal TLAC buffer requirement.
• However, Common Equity Tier 1 Capital (CET1) held to satisfy Basel III capital buffers may not be counted towards the minimum TLAC requirements for purposes of the RWA test.
</td><td>
• Covered BHCs would have to maintain an additional External TLAC Buffer of:
o CET1 equal to 2.5% of RWAs; plus
o The Covered BHC's Method 1 G-SIB surcharge; plus
o Any applicable countercyclical capital buffer.
• The External TLAC Buffer would apply over and above the RWA TLAC ratio.
• CET1 used to satisfy regulatory capital buffers may be used to satisfy the External TLAC Buffer.
</td></tr>
<tr><td colspan="2">5. Additional Firm-Specific TLAC Requirements</td></tr>
<tr><td>
• Home authorities, in consultation with the G-SIB's Crisis Management Group (CMG), may impose additional firm-specific requirements.
</td><td>
• No explicit reservation of authority to impose additional firm-specific requirements.
• However, the Federal Reserve may increase requirements on specific firms as part of the supervisory process.
• Calibration would be inherently firm-specific in view of the incorporation of the regulatory capital buffers into the External TLAC Buffer and the LTD requirement (see "6. Relationship with Capital Instruments" below).
</td></tr>
</table>

[8] For the phase-in schedule, please see "*21. Conformance Period*" below.

FSB Standards	Federal Reserve Proposal
6. Relationship with Capital Requirements	
Debt Requirement	
• There is an "expectation" that at least 33% of a G-SIB's TLAC will consist of eligible debt liabilities (including those that count as regulatory capital).	• A Covered BHC would have to maintain minimum LTD equal to the greater of: o 6% of RWAs plus the Covered BHC's G-SIB surcharge; and o 4.5% of the G-SIB's total leverage exposure.
Eligibility of Regulatory Capital Instruments	
• Regulatory capital instruments may count towards a resolution entity's external TLAC requirement if the instruments: o Meet the general TLAC eligibility criteria; and o Are issued by the resolution entity. • Regulatory capital instruments issued by subsidiaries of the same resolution group may count towards the resolution entity's external TLAC requirement if they are recognized as CET1 for the resolution entity under Basel III.	• Regulatory capital instruments issued by the Covered BHC would count towards satisfying its TLAC requirement; however: o CET1 and Additional Tier 1 (**AT1**) instruments consisting of minority interests in consolidated subsidiaries would not be counted; and o Tier 2 instruments would only count to the extent they satisfy the proposed criteria for eligible external LTD (see "*9. Eligibility Criteria*" below). • Instruments issued by subsidiaries may not count towards the Covered BHC's TLAC requirement.
7. Eligibility of Recapitalization Commitments[9]	
• Prefunded recapitalization commitments by resolution authorities may count for up to 3.5% of a resolution entity's external TLAC requirement if: o The relevant authorities consent; o Such recapitalization can be effected even if senior creditors are not exposed to loss; and o There is no legal limit on the amount that may be contributed under such commitments.	• No analogous provision.
8. Issuer	
• External TLAC generally must be issued and maintained directly by resolution entities. • Exceptions exist for certain regulatory capital instruments issued by subsidiaries (see "*6. Relationship with Capital Instruments*").	• All eligible TLAC instruments, including eligible LTD, would have to be issued by the Covered BHC. • No analogous exception for regulatory capital instruments issued by subsidiaries.

[9] For the phase-in schedule, please see "*21. Conformance Period*" below.

<table>
<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><th colspan="2">9. Eligibility of Debt Instruments</th></tr>
<tr><td>• Eligible instruments must:
o Be paid in;
o Be unsecured;
o Not be subject to setoff or netting rights; <u>and</u>
o Not be funded by the resolution entity or a related party (unless the G-SIB is an MPOE G-SIB, the instrument is issued to the parent and home and host authorities agree).
• Eligible instruments must also be perpetual or have a remaining maturity of at least <u>1 year</u>.</td><td>• Eligibility criteria are consistent with the FSB Standards, but would include the following <u>additional limitations</u>:
o Cannot be guaranteed or subject to other arrangement that enhances the seniority;
o Cannot permit acceleration other than on fixed dates, insolvency or payment defaults;
o Cannot have credit-sensitive features;
o Cannot be structured notes; <u>and</u>
o Cannot provide for conversion into equity of the Covered BHC.
• Eligible instruments must also be perpetual or have a remaining maturity of at least 1 year. <u>However</u>:
o Instruments with a remaining maturity of <u>greater than 1 year but less than 2 years</u> would be <u>haircut by 50%</u>.</td></tr>
<tr><th colspan="2">10. Liabilities Excluded from TLAC</th></tr>
<tr><td>• Excluded liabilities include:
o Insured deposits, sight deposits and short-term deposits;
o Liabilities arising from derivatives;
o Debt instruments with derivative-linked features (e.g., structured notes);
o Non-contractual liabilities;
o Liabilities preferred to senior unsecured creditors under relevant insolvency law; <u>and</u>
o Liabilities that cannot be bailed-in or written down by the relevant resolution authority.</td><td>• Effectively excludes all liabilities except those meeting the eligibility criteria identified in “9. Eligibility of Debt Instruments” above from counting as TLAC.
• Imposes a separate limitation through the clean holding company requirements, which prohibit Covered BHCs from maintaining non-TLAC liabilities in excess of 5% of the value of the BHC’s eligible external TLAC (see “11. Priority” below).
o By definition, none of these liabilities would count towards the minimum LTD or TLAC requirements.</td></tr>
</table>

FSB Standards	Federal Reserve Proposal
11. Priority[10]	
• Eligible instruments must be subordinated to excluded liabilities contractually, structurally or by statute. • Subordination requirements do not apply in jurisdictions where excluded liabilities are statutorily excluded from the bail-in tool. • If the resolution authority has the power to exclude or partially exclude from bail-in all excluded liabilities, the appropriate authorities may permit otherwise eligible instruments that are pari passu with excluded liabilities to contribute up to 3.5% RWA (the **permissible exclusion exception**).	• No subordination requirement, but the structural subordination of Covered BHC debt to the liabilities of operating subsidiaries and the clean holding company requirements result in the subordination of TLAC liabilities to “excluded liabilities” under the FSB Standards.
Clean Holding Company Requirements	

• No outright prohibition on maintaining certain liabilities.
• A resolution entity may maintain excluded liabilities that are not senior to eligible instruments (the **de minimis exception**) if:
  o Such excluded liabilities equal less than 5% of the resolution entity’s total TLAC;
  o The resolution authority has the authority to differentiate among pari passu creditors in resolution; and
  o The liabilities do not have a material adverse effect on resolvability.
• A resolution entity may only rely on either the de minimis exception or the permissible exclusion exception.
	• The clean holding company requirements would prohibit Covered BHCs and Covered IHCs from:
	  o Issuing short-term debt instruments other than to affiliates;
	  o Entering into swaps or other “qualified financial contracts,” other than with affiliates;
	  o Issuing instruments giving the holder the right to offset obligations to a subsidiary of the BHC or IHC against amounts due under the instrument;
	    ▪ In the case of Covered IHCs, setoff is also prohibited with respect to obligations to the IHC itself.
	  o Guaranteeing their subsidiaries’ liabilities if the Covered BHC’s or Covered IHC’s insolvency would result in the subsidiary’s default; or
	  o Entering into, or benefiting from, any agreement guaranteeing its liabilities by any subsidiary.
	• The requirements would also cap the value of a Covered BHC’s non-contingent, non-LTD liabilities to non-affiliates at 5% of the value of the Covered BHC’s eligible external TLAC.
	  o Covered IHCs would be prohibited from incurring any such liabilities (see “*19. Core Features of Eligible Internal TLAC*” below).

[10] For the phase-in schedule, please see item “*21. Conformance Period.*”

<table>
<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><td colspan="2">12. Redemption Restrictions</td></tr>
<tr><td>• Resolution entities may not redeem eligible instruments prior to maturity without supervisory approval if the redemption would lead to a breach of the TLAC requirements.</td><td>• Similar restrictions would apply.</td></tr>
<tr><td colspan="2">13. Governing Law</td></tr>
<tr><td>• Eligible instruments must be subject to the law of the resolution entity's jurisdiction of organization, <u>unless</u>:
o The resolution authority's application of resolution tools is effective and enforceable pursuant to binding statutory or legally enforceable contractual provisions.</td><td>• Eligible instruments would have to be governed by US law.
o No exception for instruments that have a contractual recognition provision of US insolvency or resolution laws.</td></tr>
<tr><td colspan="2">14. Triggers for Externally Issued TLAC</td></tr>
<tr><td>• Eligible instruments should contain a contractual trigger or be subject to a statutory mechanism that permits the resolution authority to write down the instrument or convert it into equity in resolution.</td><td>• Eligible LTD <u>may not</u> contain conversion features.</td></tr>
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<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><th colspan="2">15. Deductions for TLAC Holdings</th></tr>
<tr><td>
G-SIBs must deduct from the calculation of their own TLAC or regulatory capital exposures to eligible TLAC instruments issued by other G-SIBs in a manner parallel to the Basel III provisions regarding holdings of other firms' regulatory capital instruments.
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All BHCs, savings and loan holding companies and state member banks subject to the Federal Reserve's capital rules would be required to deduct from Tier 2 capital any debt securities issued by a Covered BHC to the extent the banking organization's holdings in these securities exceeds 10% of its CET1 when aggregated with all other nonsignificant investments[11] in the capital of unconsolidated financial institutions.
Accordingly, the Federal Reserve Proposal is broader than the BCBS Consultation Paper, since commercial paper or structured notes issued by a Covered BHC would potentially be subject to deduction if held by a banking organization.
This deduction treatment would apply regardless of whether the debt securities issued by the Covered BHC are eligible LTD that qualifies as external TLAC.
The Federal Reserve has indicated that it intends to work with the other federal banking agencies to incorporate this deduction treatment into the generally applicable capital requirements.
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<tr><td>BCBS Consultation on TLAC Holdings</td></tr>
<tr><td>
In parallel with publication of the FSB Standards, the BCBS issued a Consultation Paper[12] that would broaden the deduction approach applied to investments in the regulatory capital instruments of financial firms in the current Basel III framework to apply to "TLAC holdings" held by internationally active banking organizations.
The definition of a TLAC holding in the Consultation Paper includes:
Instruments that currently qualify as TLAC;
Instruments that were formerly included in TLAC but no longer qualify (such as senior unsecured debt with a maturity of less than 1 year); and
Subordinated instruments that rank pari passu with TLAC instruments but never qualified as TLAC (such as Tier 2 subordinated debt instruments with a maturity of less than 1 year).
The deduction would be made from the banking organization's Tier 2 capital, although the Consultation Paper requests comment on whether the deduction should come from TLAC instruments.
</td></tr>
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[11] An investment is considered nonsignificant so long as the banking organization owns less than 10% of the common stock of the issuer.

[12] https://www.bis.org/bcbs/publ/d342.pdf

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<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><th colspan="2">16. Internal TLAC</th></tr>
<tr><td>

- Internal TLAC must be pre-positioned at material subgroups only, not at resolution entities.
- A "**material subgroup**" consists of direct or indirect subsidiaries of a resolution entity that:
  - Are not themselves resolution entities;
  - Do not form part of another material subgroup;
  - Are incorporated in the same jurisdiction outside the resolution entity's home jurisdiction; and
  - Meet the eligibility criteria discussed in "*17. Material Subgroups*" below.
- The host authority, in consultation with the home authority, determines the composition of the material subgroup and the distribution of internal TLAC.
- Branches are not subject to internal TLAC requirements separate from the external or internal TLAC requirements applicable to the legal entity of which they are a part.

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- Internal TLAC and LTD must be issued by (or pre-positioned at) all Covered IHCs, including IHCs of MPOE G-SIBs that are resolution entities.
- Such internal TLAC and LTD must be issued exclusively to a company "incorporated or organized outside the United States that directly or indirectly controls the Covered IHC."
- The Federal Reserve is considering imposing a domestic internal TLAC framework with respect to the material subsidiaries of Covered BHCs and Covered IHCs.

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<tr><th colspan="2">17. Material Subgroups</th></tr>
<tr><td>

- A subgroup is considered "material" if it meets at least one of the following criteria:
  - Has more than 5% of the consolidated RWA of the G-SIB;
  - Generates more than 5% of the total operating income of the G-SIB;
  - Has a total leverage exposure measure larger than 5% of the G-SIB's consolidated leverage exposure; or
  - Has been identified by the firm's CMG as material to the exercise of the firm's critical functions.

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- Internal TLAC applies to all Covered IHCs, irrespective of the materiality of its activities to the G-SIB's operations or to US financial stability.

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<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><th colspan="2">18. Size of Internal TLAC Requirement[13]</th></tr>
<tr><td>

- Each material subgroup must maintain internal TLAC equal to at least 75% to 90% of the external TLAC that would apply if the material subgroup were a resolution group.
- The host authority should determine the minimum internal TLAC requirement within the range in consultation with the home authority.
- Exposures between entities within the same material subgroup should not be included in the denominator of the internal TLAC calculations.
- Exposures to affiliates in different material subgroups should be included in the denominator.

</td><td>

- A Covered IHC that is a resolution entity of an MPOE G-SIB would have to maintain internal TLAC equal to the greater of:
  - 18% of RWA;
  - 6.75% of the Covered IHC's total leverage exposure (if the Covered IHC is required to maintain a minimum supplementary leverage ratio); and
  - 9% of the Covered IHC's total consolidated assets.
- A Covered IHC of an SPOE G-SIB (i.e., that is not a resolution entity) would have to maintain internal TLAC equal to approximately 89% of the TLAC it would need to maintain were it a resolution entity–an amount equal to the greater of:
  - 16% of RWA;
  - 6% of the Covered IHC's total leverage exposure (if the Covered IHC is required to maintain a minimum supplementary leverage ratio); and
  - 8% of the Covered IHC's total consolidated assets.
- The Covered IHC would also have to maintain an **Internal TLAC Buffer** of CET1 equal to 2.5% RWA plus any applicable countercyclical capital buffer.
  - Like the External TLAC Buffer, the Internal TLAC Buffer applies over and above the RWA component, and CET1 held to satisfy regulatory capital buffers may be applied to satisfy the Internal TLAC Buffer.
- A Covered IHC would have to maintain minimum LTD equal to the greater of:
  - 7% of RWA;
  - 3% of the Covered IHC's total leverage exposure (if the Covered IHC is required to maintain a minimum supplementary leverage ratio); and
  - 4% of the Covered IHC's total consolidated assets.

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[13] For the full phase-in schedule, please see "*21. Conformance Period*" below.

<table>
<tr><th>FSB Standards</th><th>Federal Reserve Proposal</th></tr>
<tr><td colspan="2">19. Core Features of Eligible Internal TLAC</td></tr>
<tr><td>

Same as criteria for eligible external TLAC instruments, except for the issuing entity and permitted holders:
Instruments that count as regulatory capital instruments must comply with the relevant provisions of Basel III and may not be issued externally, unless the instruments count as CET1.
Instruments must be subject to write down by the host authority at the point of non-viability, without entry into resolution proceedings.
Home and host authorities may agree to allow collateralized guarantees to count as internal TLAC if certain conditions are met.

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Same criteria as for external TLAC, except that instruments would have to be held by the Covered IHC's direct or indirect non-US parent company.
Unlike the FSB Standards, no externally issued instruments would count towards a Covered IHC's internal TLAC or LTD requirements, <u>even for Covered IHCs of MPOE G-SIBs</u>.
The clean holding company prohibitions on certain holdings (see "11. Priority" above) would apply to Covered IHCs as well.
In place of the 5% cap on non-LTD liabilities applicable to Covered BHCs, all eligible internal LTD would be required to be subordinated to all third-party liabilities.

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<tr><td colspan="2">20. Public Disclosure by G-SIBs of their Eligible TLAC</td></tr>
<tr><td>

G-SIBs must disclose the amount, maturity and composition of external and internal TLAC maintained by each legal entity.
Resolution entities must disclose the amount, nature and maturity of any liabilities which in the relevant insolvency creditor hierarchy rank pari passu or junior to eligible instruments.

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Covered BHCs (but <u>not</u> Covered IHCs) would have to publicly disclose a description of the financial consequences to unsecured debtholders of the Covered BHC entering resolution proceedings under an SPOE strategy.
Disclosure would have to be in the offering documents for eligible LTD and either the G-SIB's website or public financial report.

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<tr><td colspan="2">21. Conformance Period</td></tr>
<tr><td>

Firms designated as G-SIBs before January 1, 2016, except for firms headquartered in an emerging market economy (EME), must maintain minimum external TLAC equal to <u>the greater of</u> 16% of RWA <u>and</u> 6% of the Basel III leverage ratio denominator <u>by January 1, 2019</u> (and meet corresponding internal TLAC requirements).
<u>Beginning January 1, 2022</u>, such firms must maintain minimum external TLAC equal to <u>the greater of</u> 18% of RWA <u>and</u> 6.75% of the Basel III leverage ratio denominator (and meet corresponding internal TLAC requirements).
Other phase-in periods apply for EME G-SIBs, firms designated as G-SIBs after January 1, 2016, and G-SIBs that emerge from resolution.
Firms may only count recapitalization commitments and the permissible exclusion exception for up to 2.5% of RWA until January 1, 2022.

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Presently designated G-SIBs would have until <u>January 1, 2019</u> to comply, but requirements for external and internal TLAC would phase-in over a three year period, with maximum levels reached by <u>January 1, 2022</u>.
From January 1, 2019 through December 31, 2021, the RWA component of the <u>external TLAC</u> requirement would be 16% and the RWA component of <u>internal TLAC</u> would be 16% for <u>MPOE Covered IHCs</u> and 14% for SPOE Covered IHCs.
There is no phase-in of the leverage components of either the external or internal TLAC requirements.
Newly designated G-SIBs would have three years to comply.
The Federal Reserve Proposal does <u>not</u> grandfather existing debt, meaning that existing debt that does not meet the eligibility requirements for external LTD may need to be replaced with eligible LTD.

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