



Here's Why it's Time to Back Up the Truck on TD Bank (TSX:TD) Stock

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is now considered one of the 30 most strategically important players on the international banking scene. Its addition to a list of global systemically important banks is big news for investors seeking only the weightiest of Canadian financial institutions to add to their income portfolios.

A key designation from the FSB

Already a domestically important bank and a [key financials stock](#), along with its other Big Five banking peers, TD Bank has been deemed of increased importance on the world stage. While the designation can be taken as a sign of prestige of sorts, its intention is to strengthen and stabilize strategically important banks through the imposition of surcharges.

By balancing riskier assets with capital, the Financial Stability Board (FSB) seeks to avoid a repetition of the financial crisis that decimated the sector a decade ago. Banks in Canada must apportion 10.5% of capital to cover risky assets, with a 1% common equity capital surcharge. The new designation is unlikely to affect TD Bank's capital position and will come into effect in a year's time.

Deutsche Bank has been downsizing, meanwhile, reflected in the recent lower risk level assigned by the FSB. The German banker, perhaps best known among political circles for its involvement with the Trump brand, will move down a notch on the leverage scale. On the other end of the scale, the most systemically important financial institution on the world stage is still **JPMorgan Chase & Co.**

Deutsche Bank has been working to reduce risk recently and said of the designation: "This was primarily driven by reductions in leverage, strategic adjustments in the bank's business and geographic perimeter and lower derivative volumes, together with wider industry developments." Since TD Bank is effectively moving in the opposite direction, the Canadian banker may expect to be bumped up in time.

The takeover news of the year

Looking for another reason to buy? Investors may have been aware that TD Bank took a hit on the markets after the announcement that **TD Ameritrade** [had gone zero-commission](#) in line with **Charles Schwab**. Investors were less than impressed. The move dented TD Bank by a few percentage points but knocked a hefty 27% chunk out of Schwab.

Fast forward to the present day, and the news that TD Bank will now own a 13.4% stake in Schwab after the latter buys out TD Ameritrade further strengthens TD Bank stock. The Schwab multi-billion-dollar takeover creates a financial powerhouse and gives passive-income investors a strong reason to back up the truck on the Big Five super-stock.

The bottom line

Risk in the financial world is still a touchy subject and has been ever since the crisis of a decade ago. If investors think that their favourite Big Five stocks are 100% secure, they need only refer to the list of banks deemed in need of leveraging by the FSB. While TD Bank's inclusion on the list, albeit on the lowest rung, signifies the importance of the Bay Street banker, it's also a sign of its need to balance risk.

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