



EBA/RTS/2017/03

03 March 2017

Final Report

Draft Regulatory Technical Standards

on disclosure of encumbered and unencumbered assets under
Article 443 of the CRR

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1. Executive summary

Article 443 of Regulation (EU) No 575/2013¹ (the Capital Requirements Regulation – CRR) mandates the EBA to develop draft regulatory technical standards (RTS) on unencumbered assets taking into account the European Systemic Risk Board (ESRB) Recommendation ESRB/2012/2 of 20 December 2012² on the funding of credit institutions. Consequently, the EBA has drawn up these RTS, which, in addition to fulfilling the requirement of the CRR, will fulfil Recommendation D on market transparency on asset encumbrance in the ESRB Recommendation.

As recommended by the ESRB, the EBA has developed these draft RTS following a gradual approach in accordance with the recommendation that disclosures be enhanced after the first year following the adoption of the EBA Guidelines on disclosure of encumbered and unencumbered assets³ (the EBA Disclosure Guidelines).

The mandate in Article 443 of the CRR refers to unencumbered assets, whereas the ESRB Recommendation also refers to encumbered assets. The EBA has therefore drawn up these RTS and the accompanying templates to cover both encumbered and unencumbered assets, in line with the ESRB Recommendation and Article 16 of Regulation (EU) No 1093/2010⁴ (the EBA Regulation).

The EBA supervisory reporting requirements specify that an asset shall be treated as being encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The EBA has drawn up these RTS to provide transparent and harmonised information on asset encumbrance across Member States based on a harmonised definition of encumbrance and in order to enable market participants to compare the institutions in a clear and consistent manner. These RTS provide three disclosure templates and a box for narrative information to be filled in by the institutions in respect of the importance of encumbrance in their funding model. The following information will be required:

¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ, L 176, 27.6.2013, p. 1.

² OJ C 119, 25.4.2013, p. 1.

³ <http://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-disclosure-of-encumbered-and-unencumbered-assets>

⁴ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (O.J. L 331, 15.12.2010, p.12).

- encumbered and unencumbered assets in carrying amount and fair value by broad category of asset type, with the carrying amount of unencumbered assets broken down by asset quality (Template A);
- collateral received by an institution, by broad category of product type (Template B);
- carrying amount of encumbered assets/collateral received and associated liabilities (Template C);
- narrative information on the importance of asset encumbrance for an institution (Template D).

The templates included in these RTS are designed to show the amounts of encumbered and unencumbered assets of an institution. In doing so, they differentiate between assets that are used to support existing funding or collateral needs and those that are available for potential funding needs. The templates are supplemented with narrative information on the importance of encumbrance in the funding model of the institution.

Over the previous years, the EBA has gained experience in the collection of asset encumbrance data following the setting up of dedicated supervisory reporting on repurchased agreements, securities lending and all other forms of encumbrance of assets pursuant to the requirements of Article 100 of the CRR. As for institutions, they have been disclosing data on asset encumbrance since the entry into force of the EBA Disclosure Guidelines in 2014.

The EBA believes that disclosure by institutions about encumbrance is vitally important, as it allows market participants to better understand and analyse the liquidity and solvency profiles of institutions. These RTS take into account the ESRB's recommendation that disclosures should ensure that the level and evolution of assets encumbered to central banks and the amount of liquidity assistance given by central banks cannot be detected.

Next steps

These draft RTS are simultaneously submitted to the European Commission for it to decide whether to endorse the EBA's draft technical standards.

2. Background and rationale

On 20 December 2012, the ESRB published a Recommendation on the funding of credit institutions (ESRB/2012/2)⁵. It recommends that the EBA and national supervisory authorities monitor the level, evolution and types of asset encumbrance, and that the EBA issue guidelines on transparency requirements for credit institutions on asset encumbrance, including guidelines on harmonised templates and definitions (Recommendation D within Recommendation ESRB/2012/2).

This Recommendation is linked to Article 443 of the CRR, which requires institutions to disclose information on unencumbered assets and mandates the EBA to develop guidelines specifying the disclosure of unencumbered assets, taking into account Recommendation ESRB/2012/2. The EBA Disclosure Guidelines were issued in June 2014 and entered into force in December 2014.

The ESRB Recommendation suggests a gradual approach, in accordance with which the disclosure requirements should be enhanced as the EBA gains experience with asset encumbrance, including the data collected via the supervisory reporting framework specified in Article 100 of the CRR and Commission Implementing Regulation (EU) 2015/79⁶ of 18 December 2014. In particular, the EBA Disclosure Guidelines should be amended to require that information be provided on a semi-annual basis and this should be supplemented by a requirement to disclose a breakdown by asset quality, provided that the EBA deems that such additional disclosure offers reliable and meaningful information.

This gradual approach was reflected in Article 443 of the CRR, in the mandate for the EBA to develop draft RTS including the information requirements set out in the EBA Disclosure Guidelines, as well as specifying the disclosure of the balance sheet value per exposure class broken down by asset quality and the total amount of the balance sheet value that is unencumbered, if such an additional disclosure is deemed to offer reliable and meaningful information.

Over the previous years, the EBA has gained experience in the collection of asset encumbrance data, following the setting up of dedicated supervisory reporting on repurchased agreements, securities lending and all other forms of encumbrance of assets in accordance with the requirements of Article 100 of the CRR. The EBA publishes aggregated data on asset encumbrance based on the monitoring allowed by this supervisory reporting, both in regular updates on risks in the banking

⁵ OJ C 119, 25.4.2013, p. 1.

⁶ Commission Implementing Regulation (EU) 2015/79 of 18 December 2014 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards asset encumbrance, single data point model and validation rules: <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1422441915378&uri=CELEX:32015R0079>.

system⁷ and in its September 2015 report on asset encumbrance⁸. As for institutions, they have been disclosing data on asset encumbrance since the entry into force of the EBA Disclosure Guidelines.

Considering this experience gained in the collection and disclosure of data and in accordance with the gradual approach described above, the EBA has developed these RTS to enhance the disclosure requirements on asset encumbrance, taking into account the additional data reporting requirements to be implemented after the first year following the adoption of the EBA Disclosure Guidelines, as recommended by the ESRB.

These RTS will provide information on assets and collateral that have been received, as well as on liabilities associated with encumbered assets. In addition to completing the templates included in the RTS, institutions should also disclose narrative information on the importance of asset encumbrance in their business model. The templates enable the disclosure of information on encumbered and unencumbered assets by asset type, in line with the breakdown suggested by the ESRB, and to comply with the disclosure requirements laid down in Article 443 of the CRR.

The EBA has drawn up its RTS considering:

- the existing disclosure requirements set out in Part Eight of the CRR;
- the existing disclosure requirements set out in IFRS 7 and IFRS 12 as well as in Council Directive 86/635/EEC;
- supervisory reporting requirements on asset encumbrance as specified in Commission Implementing Regulation (EU) 2015/79 of 18 December 2014;
- the work of the Enhanced Disclosure Task Force (EDTF) sponsored by the Financial Stability Board (FSB); and
- the existing room for improvement in disclosures that institutions have so far provided on asset encumbrance.

None of the existing disclosure requirements under the accounting and regulatory framework ensures the provision of a comprehensive picture of encumbered and unencumbered assets as defined in these RTS, since these existing disclosure requirements do not rely on the concept of encumbrance as defined by the EBA. The EBA supervisory reporting requirements specify that an asset shall be treated as being encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Setting up specific disclosure requirements is, therefore, necessary to achieve a comprehensive and harmonised disclosure of asset encumbrance across the EU. In addition to offering a comprehensive scope of disclosure for asset encumbrance, these RTS would also achieve a higher degree of standardisation in the scope of application and presentation of information than existing disclosure requirements, as they would apply a specific disclosure format to all EU institutions, whereas other requirements, for instance those in IFRS 7 or IFRS 12, generally do not specify the format of disclosure or do not apply mandatorily to each institution.

⁷ See the June 2015 report *Risk assessment of the European banking system*: <http://www.eba.europa.eu/documents/10180/1132391/Risk+Assessment+Report+-+June+2015.pdf/b6bc998c-d63c-47b9-9450-7da5788b63cf>.

⁸ *EBA Report on asset encumbrance*, September 2015: <http://www.eba.europa.eu/documents/10180/974844/EBA+Report+on+Asset+Encumbrance+-+September+2015.pdf>.

This will create a level playing field, while concerns about proportionality will be dealt with by the application of the principle of materiality common to all the disclosure requirements set out in Part Eight of the CRR and specified by the EBA guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432(1) and (2) and Article 433 of the CRR (EBA/GL/2014/14). While institutions will retain the ability to supplement the requirements set out in these RTS with additional disclosures in an ad hoc format, the standardisation of a minimum amount of information, which can always be accompanied by additional explanations, is beneficial for the comparability of information between institutions and for the analysis performed by investors.

The sections below provide additional details on the shortfalls in current disclosure requirements, the recent regulatory work on encumbrance and the main features of the RTS in terms of scope, consistency with the existing sources of information on asset encumbrance, and improvements brought to the current state of play.

2.1 Current disclosure requirements and identified shortfalls

These RTS aim to ensure the closure of the same disclosure gaps in the accounting and regulatory frameworks (these gaps are described below) that the current EBA Disclosure Guidelines address. However, the additional features of the RTS should enhance their relevance for users in terms of information available on asset encumbrance.

As regards regulatory disclosure requirements, Part Eight of the CRR covers disclosure on liquidity in only a general way – under the requirement in Article 435 to provide disclosure on risk management for each type of risk, including those referred to in the CRR – and does not explicitly mention funding as a risk on which disclosures must be provided (although some institutions voluntarily include some disclosure on this topic as part of their Pillar 3 reports). Before the release of the Guidelines specifying the requirements referred to in Article 443, the only disclosure requirements that covered a situation of encumbrance were to be found in Article 439 and related to the policies for securing collateral and to the impact of a credit downgrade on the level of collateral to be posted by the institution.

Article 443 has resulted in the EBA Disclosure Guidelines, which specify the disclosure of encumbered and unencumbered assets. In accordance with Article 443, as specified in the EBA Disclosure Guidelines, institutions should disclose the carrying amount and fair value of their encumbered and unencumbered on-balance-sheet assets, the fair value of their encumbered and unencumbered collateral received and own debt securities issued, and the total amount of encumbered assets and off-balance-sheet items with their associated liabilities. While the EBA Disclosure Guidelines resulted in an enhancement of regulatory information available on asset encumbrance following a common definition and a common format, supervisors retain the right to explain their situation in case of non-compliance or partial compliance⁹.

⁹ In practice, almost all EU national competent authorities have declared their intention to fully comply with the Guidelines, with two NCAs intending to comply partially (see the compliance table at <http://www.eba.europa.eu/documents/10180/741903/EBA+GL+2014+03-Compliance+Table-Guidelines+on+Disclosure+of+Encumbered+%26+Unencumbered+Assets.pdf/cbf6397-9e76-4c49-bda2-0fb49902d027>). The compliance of institutions with the Guidelines is discussed in the next section.

As regards accounting disclosure requirements, IFRS 7, as adopted in the EU in accordance with Regulation (EC) No 1606/2002¹⁰, requires institutions to disclose the carrying amount of the financial assets that they have pledged as collateral for their liabilities or contingent liabilities (IFRS 7.14), and the carrying amount or, depending on the transaction considered, the fair value of transferred assets that have not been derecognised. Transferred but not derecognised assets cover, for example, assets that have been posted as collateral or are otherwise involved in reverse repos, securitisation or the issuance of covered bonds operations (IFRS 7.42A–42H). IFRS 7 also requires the disclosure of the fair value of collateral held that the institution is permitted to sell or re-pledge in the absence of default by the borrower, and the amount that has been sold or re-pledged, as well as of qualitative information about the terms and conditions of collateral uses and pledges (IFRS 7.15). Finally, IFRS require the disclosure of the carrying amount of subsidiaries' assets the use of which is restricted for settlement of the group's liabilities (for instance, cash that is not transferable between subsidiaries and parents), and the liabilities to which those restrictions apply (IFRS 12.13).

For institutions that are not subject to or do not choose to apply IFRS in their financial statements¹¹, Council Directive 86/635/EEC also requires the disclosure of the total assets pledged as security for each liabilities item and for each off-balance-sheet item (Article 40). It also requires the amounts of assets that are eligible for refinancing with the central bank(s) of the country or countries in which reporting institutions are based, as well as a breakdown of other transferable securities into asset classes (Article 4 and Articles 13 to 19).

Disclosure requirements under IFRS 7, IFRS 12 and Council Directive 86/635/EEC appear to be more comprehensive than those set out in the EBA Disclosure Guidelines. However, IFRS 7 refers to the notion of transferred assets, IFRS 12 to restricted use assets, and Council Directive 86/635/EEC to assets pledged and available to be pledged. None of the accounting standards refers specifically to encumbered assets. Accordingly, the definition of transferred assets¹², combined with those of pledged collateral or restricted use assets, covers only some situations of asset encumbrance¹³ and does not provide a comprehensive view of the phenomenon of encumbrance as defined by the EBA. More importantly, IFRS and Council Directive disclosure requirements do not prescribe a disclosure format; this has resulted in different practices among institutions.

In addition to accounting and regulatory disclosure requirements, the Enhanced Disclosure Task Force (EDTF), a private sector body under the aegis of the FSB, recommended in a report fully endorsed by the FSB an enhancement of disclosures on encumbered assets. Specifically, the EDTF

¹⁰ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

¹¹ Regulation (EC) No 1606/2002 requires IFRS to be used for the preparation of the consolidated financial statements of listed entities only. Other entities can choose or be permitted to use IFRS for their solo or consolidated financial statements.

¹² Transferred assets, whether or not the transfer has resulted in their derecognition from the balance sheet of the transferor, are assets for which the contractual rights to receive cash flows have been transferred, even if the assets have not been derecognised, or assets for which the holder retains the contractual rights to the cash flows but has the contractual obligation to pay them to one or more recipients (IFRS 7.42A).

¹³ Reverse repos, securities lending, securitisation transactions, covered bonds and assets whose availability to cover the funding needs of a group is limited owing to restrictions.

recommends summarising encumbered assets¹⁴ and unencumbered assets in a tabular format by balance sheet category. This summary should include collateral that can be re-hypothecated or otherwise redeployed. The EDTF also provides an example of tabular disclosures and recommends accompanying the quantitative disclosures with qualitative disclosures on the nature and characteristics of encumbered and unencumbered assets¹⁵.

The EDTF released in 2014 proposals to update its recommendation regarding disclosures on asset encumbrance, which would expand on the 2012 recommendation to include tabular quantitative disclosures on the amount of non-cash collateral received available to support funding and collateral needs by type of operation, as well as sources of encumbrance for on-balance-sheet assets and collateral received that can be re-hypothecated¹⁶.

The implementation of EDTF recommendations is not mandatory for banks, although some national competent authorities have encouraged banks to implement them. In fact, the EDTF found out in 2014 that its recommendation on asset encumbrance was one of the least implemented by banks, with only 49% of banks having implemented it in full and 15% having implemented it partially. One of the reasons for this low rate of implementation was that institutions were waiting for the finalisation of the EBA Disclosure Guidelines.

The EBA Disclosure Guidelines were therefore useful in increasing the transparency and consistency of disclosures on asset encumbrance in Pillar 3 reports in a context where disclosures provided in financial statements suffered from shortcomings regarding their scope and their implementation. As an example, disclosure analyses, including those by the European Securities and Markets Authority (ESMA)¹⁷, have shown the continuing need for improvement of disclosures on asset encumbrance, as regards the provision of comprehensive quantitative information related to encumbered or unencumbered assets, and the level of detail and granularity on assets pledged as collateral or transferred, which varied among institutions. In addition, the provision of information in multiple places throughout financial statements or risk management reports often prevents investors from accessing a comprehensive view of the assets that could be freely used to meet the future liquidity needs of financial institutions. However, the implementation of the EBA Disclosure Guidelines has led to the identification of room for further improvement.

2.2 Recent regulatory work on asset encumbrance

Article 100 of the CRR requires institutions to report to the competent authorities the level of their repurchase agreements, securities lending and all forms of asset encumbrance. In September 2015, the EBA published its report on asset encumbrance, based on data submitted as part of asset

¹⁴ These are defined as assets pledged as collateral or that are restricted to use for securing funding, for example, mortgage loans pledged in favour of covered bond holders, securitised assets and collateral for repos, and securities financing transactions.

¹⁵ See Figure 5 at https://www.financialstabilityboard.org/publications/r_121029.pdf.

¹⁶ EDTF, *2014 progress report*: http://www.financialstabilityboard.org/wp-content/uploads/r_140930a.pdf.

¹⁷ ESMA, *Comparability of IFRS financial statements of financial institutions in Europe*, November 2013: http://www.esma.europa.eu/system/files/2013-1664_report_on_comparability_of_ifrs_financial_statements_of_financial_institutions_in_europe.pdf.

encumbrance reporting under Article 100 of the CRR and Commission Implementing Regulation (EU) 2015/79.

The report is intended to be the first of a series of annual reports on regular monitoring of the extent of and changes in the levels of asset encumbrance at EU level, as well as the sources of asset encumbrance. These reports should help supervisors and policy makers make decisions about their institutions and sectors and should create transparency on aggregate core asset encumbrance metrics for market participants. Future editions of the reports are expected to provide increasingly relevant information as possible data quality issues are resolved as reporting of asset encumbrance data becomes fully established and institutions' familiarity with reporting asset encumbrance data increases.

The year 2014 was the first year of implementation of the EBA Disclosure Guidelines. The EBA has found that, overall, the degree of compliance of the institutions assessed with the Guidelines was quite high. However, while all the institutions provided the required quantitative templates, sometimes with some specific features, the level of qualitative information disclosed was less satisfactory, despite some best practices noted, such as the disclosure of the evolution of encumbrance over time.

When the assessment of the institutions' disclosures goes beyond an assessment of the compliance of their disclosures with the specifications in the EBA Disclosure Guidelines and focuses on how these different provisions have been implemented when institutions applied the EBA Disclosure Guidelines, different practices by institutions become obvious.

When disclosing information on encumbered and unencumbered on-balance-sheet assets, some institutions supplemented the breakdown provided for in the EBA Disclosure Guidelines with additional exposure classes, such as loans and advances, or broke the exposure classes in the template down further, for instance in the case of the 'Other assets' category. When the breakdown does not take the form of additional exposure classes, it can be done in an accompanying narrative. In addition, some institutions distinguish between unencumbered assets available and non-available for encumbrance, in practice merging the EBA Disclosure Guidelines with the EDTF recommendation. The same varying practices can be observed for the disclosure template on collateral received. Similarly, additional breakdowns can be introduced in the disclosures on encumbered assets and off-balance-sheet items and their associated liabilities, with a breakdown of the amounts by type of transaction giving rise to encumbrance. As for qualitative disclosures, the provisions in the EBA Disclosure Guidelines have rarely been implemented in full but were sometimes supplemented by additional information not listed in the Guidelines, such as an encumbrance ratio, which happened to be calculated differently depending on the institution.

2.3 Overview of the EBA RTS on disclosures on asset encumbrance

2.3.1 Scope of application and consistency with disclosures in financial statements

Considering the background provided above and taking into account the importance of the provision of information on asset encumbrance, the EBA has drawn up these RTS to provide a comprehensive

view of asset encumbrance and to harmonise the presentation of relevant disclosures by building on, and fulfilling, the relevant existing IFRS requirements, as well as the EBA Disclosure Guidelines.

Therefore, it was decided that an identical scope should be adopted in terms of transactions covered: to the extent that they meet the definitions set out in these RTS, all transactions involving encumbrance of assets that have to be disclosed in accordance with IFRS 7 requirements on pledged and transferred assets, irrespective of the counterparty to which the assets are pledged or transferred, should also lead to disclosure in accordance with these RTS, as long as they involve a party included within the regulatory scope of consolidation applicable for disclosures as set out in Part Eight of the CRR.

The focus of these RTS is on gauging the resilience of banking activity in Europe within consolidated banking groups in accordance with the regulatory scope defined in the CRR, so these RTS do not require disclosure of encumbrance arising from activities within insurance entities. However, where insurance activities result in the encumbrance of assets held by an institution or any other entity within the regulatory scope of consolidation, all of these encumbering activities are required to be disclosed.

The scope of transactions covered by the concepts in the accounting standards and the EBA's definition are broadly similar, despite some possible differences. First, encumbrance due to the activities of insurance entities is not within the scope of these RTS, as stated above. Second, transactions in addition to those for which information should be disclosed under IFRS may be covered by these RTS if they meet the EBA's definition of encumbrance.

Despite the common features of these RTS and the current IFRS disclosure requirements, especially in terms of the scope of transactions covered, these RTS are intended only for the purposes of the disclosure requirements set out in Part Eight of the CRR; they are not intended as a basis for compliance with IFRS disclosure requirements, which have different purposes. Compliance with these RTS is therefore required in addition to disclosure requirements in accordance with the applicable accounting framework.

2.3.2 Consistency with supervisory reporting and the EDTF recommendation

Institutions are already required to report to their supervisors the information specified in Article 100 of the CRR and Commission Implementing Regulation (EU) 2015/79. This information allows supervisory authorities to engage in the monitoring of encumbrance levels and, for instance, to compare the reliance of institutions on secured funding and assess the ability of institutions to handle funding stress and to switch from unsecured to secured funding.

As these elements are also of interest for users of disclosures, and in order to minimise the implementation costs for institutions, the common definitions and formats already implemented for supervisory reporting have been, to the extent possible, re-used for these RTS. This will allow market participants to make informed decisions on their business activities by engaging in similar monitoring activities, as well as allowing them to acquire a preliminary overview of the amounts of assets available in a resolution situation. The same approach was adopted for the EBA Disclosure Guidelines.

The different purposes of supervisory reporting and disclosures has led to the inclusion of specific features (further described in Section 2.3.4) that have made it necessary to depart from the reporting instructions and formats in some instances, for example with regard to the disclosure of specific types of operations. Cases of deviations from the instructions for supervisory reporting are specifically identified in the annexes to the RTS.

The EBA has also looked at the EDTF proposal with great interest and in detail, with the objective of minimising the additional costs of implementation for institutions, as some of them have already moved towards implementing the EDTF recommendation. Although they require less granularity than the EDTF recommendation does, owing to the need to avoid inadvertent disclosure of use of emergency lending that may be provided by central banks, these RTS are nevertheless consistent with the EDTF recommendation.

2.3.3 Improvements on the June 2014 Guidelines

These RTS build on the EBA Disclosure Guidelines. In particular, they adopt the same disclosure templates and instructions. Where appropriate, these instructions are clarified in order to address the inconsistencies in implementation that were noted when reviewing institutions' disclosures.

However, the RTS also introduce requirements for additional pieces of information, both for quantitative disclosures and qualitative disclosures. In particular, the RTS require greater granularity in the breakdown of encumbered and unencumbered assets and off-balance-sheet items by asset class. They also require a breakdown of encumbered and unencumbered assets by asset quality metrics (set as extremely high quality liquid assets (EHQLA) and high quality liquid assets (HQLA)), as this information was assessed as useful by the EBA, in addition to the fair value of encumbered and unencumbered assets. As for items available for encumbrance that are kept off-balance-sheet, information has been added on own-issued but retained asset-backed securities (ABS) and retained covered bonds.

Enhancements to disclosure requirements have also taken place as regards qualitative information. Enhancements to qualitative disclosures were thought to be necessary in order for users to be aware of the context of disclosures on asset encumbrance.

In particular, it is recognised that asset encumbrance levels very much depend on the business model of the institution, and to that extent institutions have to provide information on the impact of their business models on their levels of encumbrance. Within a given business model, the level of encumbrance can vary depending on the types and specificities of transactions carried out by institutions. This is why the requirements for providing information on the evolution of encumbrance over the period and on the degree of over-collateralisation and the structure of encumbrance within the group have been clarified. Institutions are now required to provide information on the reasons behind changes in their levels of encumbrance, on the extent of over-collateralisation that is due to ABS and covered bonds, on the impact of over-collateralisation on levels of encumbrance, on the entities within a group in which the highest levels of encumbrance can be observed and on whether there is significant intragroup encumbrance. Information on assets underlying retained ABS and retained covered bonds is also requested. In addition, institutions shall also provide information on the differences in the concepts of pledged, transferred and encumbered, to enhance the

understanding by users of these three concepts and how to interrelate them to obtain an adequate picture of the use of assets by institutions to secure their transactions.

In order to accommodate the variety of business models, and to enable institutions to support their qualitative disclosures with appropriate quantitative information, some flexibility has been embedded in the templates. When it is justified by their business model, institutions can provide further breakdowns of some specific rows. For instance, an institution that engages in significant derivative and reverse repo activities may find itself holding a high amount of unencumbered assets unavailable for encumbrance. It may therefore choose to add some rows to the template on encumbrance of assets to provide information on the amount of receivables stemming from derivative and reverse repo activities, and in the template on sources of encumbrance it may choose to add information on encumbrance without associated liabilities. An institution may also decide to use the optional breakdown rows in case of significant covered bond or securitisation activities.

2.3.4 Specific features of these RTS

a. Central bank funding

The EBA believes that these RTS will enable the market to obtain relevant and transparent information on encumbered and unencumbered assets that is clear and easy to compare, thereby enhancing the information available to investors. Nevertheless, given the sensitivity of this information and recognising the need for central banks to retain the ability to undertake covert liquidity support operations to preserve financial stability, they embed specific mechanisms to ensure that the level and evolution of assets encumbered to central banks and the amount of liquidity assistance given by central banks cannot be detected.

The first of those mechanisms is the use of median values instead of the end-of-period values used in other regulatory disclosures. These RTS therefore provide information on the longer-term structural levels of encumbrance, disregarding short-term moves due to specific market conditions. The use of medians renders these moves less visible. The median values used are calculated as the annual median of the end-of-period values for each of the four quarters in a year, and are determined by interpolation.

In terms of the presentation of information, the use of medians means that the figures disclosed in the 'Total' rows in the templates will be the medians of the sums (i.e. the median of the 'Total' amounts using end-of-period figures) and not the sum of the medians (i.e. the sum of the medians disclosed in the other rows). The table below illustrates the difference between the 'median of the sums' and the 'sum of the medians' approaches for the 'Total' row:

	Q1	Q2	Q3	Q4	Median values disclosed
Loans (end-of-period value)	100	50	25	<u>30</u>	<u>40</u>
Debt securities (end-of-period value)	0	100	200	400	150
Other assets (end-of-period value)	5	10	15	20	12.5
TOTAL sum of the medians					202.5
TOTAL median of the sums	105	160	240	450	200

While the table above illustrates a situation where the sum of the medians is higher than the median of the sums, this is not always the case. There may be instances where the opposite is true. The positive or negative difference between the sum of the medians and the median of the sums actually depends on both the distribution of encumbrance over the quarter and the distribution of encumbrance across asset classes. The difference in value between a 'sum of the medians' total and a 'median of the sums' total is even greater in a case where the overall level of encumbrance is stable throughout the four quarters but its distribution between the different asset classes changes markedly.

	Q1	Q2	Q3	Q4	Median values disclosed
Loans (end-of-period value)	100	50	25	15	37.5
Debt securities (end-of-period value)	45	90	75	50	62.5
Other assets (end-of-period value)	5	10	50	85	30
TOTAL sum of the medians					130
TOTAL median of the sums	150	150	150	150	150

The disclosure of the median of the sums is considered more informative, as the median of the sums cannot currently be deduced from the other disclosed rows of the templates, while the sum of the medians is already implicitly disclosed via the other rows.

The second mechanism to ensure that the level and evolution of assets encumbered to central banks and the amount of liquidity assistance given by central banks cannot be detected is less granularity in the breakdown of asset classes for encumbered and unencumbered assets than that required in supervisory reporting: loans are not specifically identified because they are the type of asset that in some jurisdictions may particularly be used to secure central bank funding, either under regular standing monetary policy facilities or under emergency liquidity assistance (ELA).

Using medians and less granularity was preferred to simply omitting from the scope of these RTS transactions with central banks. This is because central bank funding should not necessarily be associated with ELA and liquidity issues for institutions; liquidity injections as part of regular short-term or long-term standing monetary policy facilities may also be part of the regular funding mix of institutions, which arbitrate for a given funding maturity and amount between the rate offered in the

market and the rate available at central bank facilities. In addition, other disclosure requirements for financial statements (especially IFRS 7 and Directive 86/635/EEC) do not specifically exclude central bank funding, and the ESRB recommends that consistency be ensured between regulatory disclosures on asset encumbrance and IFRS requirements. Excluding central bank funding from the scope of these RTS would have called into question the relevance and the accuracy of the information disclosed, as it would provide only a partial view of asset encumbrance.

b. The indicator of asset quality

The EBA is mandated to include more information in disclosures about the balance sheet amounts per exposure class broken down by asset quality.

The asset quality concept chosen is EHQLA and HQLA. These assets are listed in Articles 11, 12, 13 of Commission Delegated Regulation (EU) 2015/61¹⁸ (which refers to EHQLA and HQLA as Level 1 and Level 2 assets, respectively) and comply with the general and operational requirements set out in Articles 7 and 8, as well as with the exposure class-specific requirements set out in Articles 10 to 16 and 35 to 37. As the definition of EHQLA and HQLA in the Delegated Regulation restricts these concepts to unencumbered assets, encumbered EHQLA and HQLA would correspond to those assets that meet the conditions in the aforementioned Articles, except that they are encumbered. These assets are notionally eligible for qualification as EHQLA or HQLA (i.e. if these assets were not encumbered they would qualify as EHQLA or HQLA).

The concept of EHQLA and HQLA encompasses a broad spectrum of assets and is already understood by markets because of the disclosures institutions already provide on a voluntary basis regarding their liquidity. It will also ensure the comparability of the disclosures as a result of the common criteria set out by the Delegated Regulation. While it will ensure a better linkage between the disclosures on asset encumbrance and the disclosures on liquidity, and therefore satisfy the ESRB Recommendation that the liquidity framework be taken into consideration, the lack of existing information in institutions' reporting systems about proxy EHQLA and HQLA means that this information will be disclosed only after a longer implementation period. Finally, to make the calculation easier, the value disclosed will be the median value of EHQLA and HQLA before the application of the haircuts specified in Articles 10 to 16 of Commission Delegated Regulation (EU) 2015/61.

In addition, for reasons of proportionality, the disclosures related to the asset quality indicator do not apply to small credit institutions with a low level of encumbrance, defined in accordance with the criteria set out in Article 16a of Commission Implementing Regulation (EU) 680/2014 for supervisory reporting on asset encumbrance and calculated in accordance with Commission Implementing Regulation (EU) 2015/79. Thus, credit institutions with less than EUR 30 billion total assets or an encumbrance level below 15% will be exempted from providing quantitative disclosures on the asset quality indicator. These small institutions will, however, disclose all the other information required in the disclosure templates. The specific disclosure on asset quality will not apply to investment firms

¹⁸ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, OJ L 11, 17.1.2015, p. 1.

either, as these firms are not in the scope of application of Commission Delegated Regulation (EU) 2015/61.

c. Frequency of disclosure

Article 433 of the CRR requires that institutions publish the disclosures referred to in Part Eight of the CRR (Pillar 3 disclosures) at least on an annual basis and assess the need to publish some or all disclosures more frequently than annually. The EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432(1) and (2) and Article 433 of the CRR (EBA/GL/2014/14) specify the assessment of the frequency. The draft RTS references EBA Guidelines 2014/14, which, among other things, set out criteria in accordance with which some institutions in particular, such as global systemically important institutions and those with exposures higher than EUR 30 billion, should consider disclosing information more often.

3. Draft regulatory technical standards

COMMISSION DELEGATED REGULATION (EU) .../..

of **XXX**

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012¹⁹, and in particular the fourth subparagraph of Article 443 thereof,

Whereas:

- (1) Pursuant to the first subparagraph of Article 443 of Regulation (EU) No 575/2013, the European Banking Authority (EBA) issued Guidelines on the disclosure of encumbered and unencumbered assets on 27 June 2014 (the "EBA Disclosure Guidelines"²⁰). The second subparagraph of Article 443 of Regulation (EU) No 575/2013 provides that EBA is to develop draft regulatory technical standards to specify disclosure of the balance sheet value per exposure class broken down by asset quality and the total amount of the balance sheet value that is unencumbered, taking into account Recommendation ESRB/2012/2 of the European Systemic Risk Board of 20 December 2012 on funding of credit institutions ("Recommendation ESRB/2012/2")²¹ and conditional on EBA considering in its report that such additional disclosure offers reliable and meaningful information. The EBA report²² on asset encumbrance concluded that disclosure of encumbrance in the Union is vitally important as it allows market participants to better understand and analyse the liquidity and solvency profiles of institutions and compare those profiles across Member States in a clear and consistent manner. Based on those conclusions, the EBA developed draft regulatory technical standards in order to ensure a fully harmonised approach to asset encumbrance disclosure.
- (2) The EBA Disclosure Guidelines cover both encumbered and unencumbered assets. This is because the first subparagraph of Article 443 of Regulation (EU) No 575/2013 requires that Recommendation ESRB/2012/2 and, in particular, Recommendation D -

¹⁹ OJ, L 176, 27.6.2013, p.1.

²⁰ Guidelines EBA/GL/2014/03 on disclosure of encumbered and unencumbered assets.

²¹ OJ, C 119, 25.4.2013, p.1.

²² EBA Report on asset encumbrance, September 2015.

Market transparency on asset encumbrance ("Recommendation D") be taken into account. Point 1(a) of that Recommendation recommends disclosure of encumbered and unencumbered assets. The second subparagraph of Article 443 of Regulation (EU) No 575/2013 also provides that Recommendation ESRB/2012/2 is to be taken into account when developing the draft regulatory technical standards referred to in that subparagraph. Furthermore, encumbered assets need to be included in such standards to ensure that the disclosure offers reliable and meaningful information. Therefore, both encumbered and unencumbered assets should be disclosed.

- (3) The EBA was advised in Recommendation D to ensure, in developing the EBA Disclosure Guidelines, that the level and evolution of assets encumbered to central banks, as well as the amount of liquidity assistance given by central banks, cannot be detected. This recommendation has also been taken into consideration when developing this Regulation, as further set out in recitals (4) and (5) below.
- (4) Encumbered assets or collateral received and other off-balance sheet items may be pledged to secure funding. Therefore, in order to allow market participants to better understand and analyse the liquidity and solvency profiles of institutions and access information about the availability of assets to secure funding, institutions should disclose the encumbrance of all on-balance sheet assets and the encumbrance of all off-balance sheet items separately. The disclosure should relate to all collateral received, arising from all on-balance sheet and off-balance sheet transactions regardless of their maturity, including all operations with central banks. While assets disclosed as encumbered assets include assets encumbered as a result of all operations with any counterparty (including central banks), it is not necessary to disclose the encumbrance resulting from operations with central banks separately from the encumbrance resulting from operations with other counterparties. This is without prejudice to the freedom for central banks to define the modalities for the disclosure of emergency liquidity assistance.
- (5) In order to ensure consistency and promote comparability and transparency, the provisions relating to the disclosure templates on encumbrance should be based on the reporting requirements on encumbrance provided for in Commission Implementing Regulation (EU) No 680/2014²³. However, to avoid unintended consequences (such as the ability to identify emergency central bank funding) some deviations are needed. In particular, and taking into account Recommendation D of ESRB/2012/2, the disclosure of information relating to the amount of encumbered and unencumbered assets should be based on median values rather than point-in-time values as required in Implementing Regulation (EU) No 680/2014. Similarly, the level of granularity of the information to be disclosed for specific values and transactions should be less than that of the reporting requirements set out in Implementing Regulation (EU) No 680/2014. Furthermore, since asset encumbrance depends heavily on the risk profile and business model of the institution concerned, the quantitative data should be supplemented with narrative information.
- (6) Given that the general provisions in Part One, Title II of Regulation (EU) No 575/2013 regarding the level of application of the disclosure requirements and the general provisions of Part Eight of Regulation (EU) No 575/2013 on disclosures also apply in relation to asset encumbrance disclosures, information may be omitted from

²³ Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191, 28.6.2014, p. 1).

disclosure where it is considered not to be material as provided for in Article 432(1) of Regulation (EU) No 575/2013 or is considered confidential or proprietary as provided for in Article 432(2) of that Regulation. Information may also be omitted from disclosure, where applicable, according to the conditions specified by the EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432(1) and (2) and Article 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14). Furthermore, in accordance with the criteria specified in the third subparagraph of Article 433 of Regulation (EU) No 575/2013, institutions are required to assess the need to publish some or all of the disclosures of encumbered and unencumbered assets more frequently than on an annual basis. Finally, institutions are required to disclose information on asset encumbrance in the location and the manner referred to in Article 434 of Regulation (EU) No 575/2013.

- (7) The disclosure requirements specified in this Regulation and, in particular, those regarding transferred and pledged assets, as well as off-balance sheet collateral received and posted, should apply in addition to any existing disclosure requirements under the applicable accounting framework.
- (8) In order to ensure the proportionate application of the disclosure requirements set out in Article 443 of Regulation (EU) No 575/2013 to smaller institutions which do not have material levels of asset encumbrance, information on the quality of encumbered and unencumbered assets should not be required from such smaller institutions. Information on the quality of encumbered and unencumbered assets ("asset quality indicators") is based on the asset quality properties attributed to assets of extremely high liquidity and credit quality and assets of high liquidity and credit quality, as defined in Delegated Regulation (EU) 2015/61²⁴. As investment firms are not covered by Commission Delegated Regulation (EU) 2015/61, it is appropriate to also exempt investment firms from disclosing information on the quality of encumbered and unencumbered assets, to avoid incurring disproportionate costs.
- (9) Given the novelty of the requirement to provide information on the asset quality indicators, the application of the provisions on the disclosure of such indicators should be deferred by one year, to allow institutions to develop the necessary IT systems.
- (10) This Regulation is based on the draft regulatory technical standards submitted by the EBA to the Commission.
- (11) EBA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council²⁵,

²⁴ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (OJ L 11, 17.1.2015, p. 1).

²⁵ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

HAS ADOPTED THIS REGULATION:

Article 1

Disclosure requirements for all institutions

1. Institutions shall disclose the amount of encumbered and unencumbered assets under the applicable accounting framework by asset type in columns C010, C040, C060, and C090 of Template A of Annex I, in accordance with the instructions in Annex II.
2. Institutions shall disclose information on collateral received by asset type in columns C010 and C040 of Template B of Annex I, in accordance with the instructions in Annex II.
3. Institutions shall disclose the liabilities associated with encumbered assets and collateral received as set out in Template C of Annex I, in accordance with the instructions in Annex II.
4. Institutions shall disclose narrative information relating to the impact of their business model on their level of encumbrance and the importance of encumbrance in their business model as set out in Template D of Annex I, in accordance with the instructions in Annex II.

Article 2

Additional disclosure requirements for certain institutions

1. In addition to the information referred to in Article 1, institutions that meet the conditions set out in paragraph 2 shall disclose:
 - (a) the asset quality indicators by asset type in columns C030, C050, C080 and C100 as set out in Template A of Annex I, in accordance with the instructions in Annex II ;
 - (b) the asset quality indicators by types of collateral received and debt securities issued, including covered bonds and asset-backed securities (ABSs), in columns C030 and C060 as set out in Template B of Annex I, in accordance with the instructions in Annex II.
2. Paragraph 1 shall apply only to credit institutions that meet either of the following conditions:
 - (a) their total assets, calculated in accordance with point 1.6, paragraph 10 of Annex XVII to Regulation (EU) No 680/2014, amount to more than EUR 30 billion;
 - (b) their asset encumbrance level, calculated in accordance with point 1.6, paragraph 9 of Annex XVII to Regulation (EU) No 680/2014, is above 15 %.

Article 3
Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 2 shall apply from [*instructions to the OJ: one year from the entry into force of this Regulation.*]

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President
On behalf of the President

ANNEX I

Disclosure templates

Template A: Encumbered and unencumbered assets

Template B: Collateral received

Template C: Sources of encumbrance

Template D: Accompanying narrative information

ANNEX II

Instructions for completing the disclosure templates

1. Institutions shall disclose the items referred to in Tables 1 to 7 in the same manner as reported pursuant to Annex XVI to Commission Implementing Regulation (EU) No 680/2014, unless otherwise specifically provided in those tables.
2. The items referred to in paragraph 1 shall be disclosed using median values. Median values shall be rolling quarterly medians over the previous twelve months and shall be determined by interpolation.
3. When disclosures take place on a consolidated basis, the applicable scope of consolidation shall be the scope of prudential consolidation as defined in Part One, Title II, Chapter 2, Section 2 of Regulation (EU) No 575/2013.

Template A – Encumbered and unencumbered assets

Table 1: Instructions with regard to specific rows of Template A

Rows	Legal references and instructions
010	<p>Assets of the reporting institution [International Accounting Standards (IAS) 1.9 (a), Implementation Guidance (IG) 6]</p> <p>Total assets of the institution registered in its balance sheet, with the exception of own debt securities and own equity instruments when the applicable accounting standards allow their recognition on-balance sheet. The value disclosed in this row shall be the median of the sums of four quarterly end-of-period values over the previous twelve months for rows 030, 040 and 120.</p>
030	<p>Equity instruments</p> <p>The median values of the item ‘Equity instruments’ as reported in row 030 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014, with the exception of own equity instruments when the applicable accounting standards allow their recognition on-balance sheet.</p>
040	<p>Debt securities</p> <p>The median values of the item ‘Debt securities’ as reported in row 040 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014, with the exception of own debt securities when the applicable accounting standards allow their recognition on-balance sheet.</p>
050	<p>of which: covered bonds</p> <p>The median values of the item ‘of which: covered bonds’ as reported in row 050 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
060	<p>of which: asset-backed securities</p> <p>The median values of the item ‘of which: asset-backed securities’ as reported in row 060 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
070	<p>of which: issued by general governments</p> <p>The median values of the item ‘of which: issued by general governments’ as reported in row 070 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
080	<p>of which: issued by financial corporations</p> <p>The median values of the item ‘of which: issued by financial corporations’ as reported in row 080 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>

090	<p>of which: issued by non-financial corporations</p> <p>The median values of the item ‘of which: issued by non-financial corporations’ as reported in row 090 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
120	<p>Other assets</p> <p>The median value of other assets of the institution registered in the balance sheet, other than those disclosed in the above rows and different from own debt securities and own equity instruments that may not be derecognised from the balance sheet by a non-IFRS institution. In this case, own debt instruments shall be included in row 240 of Template B and own equity instruments excluded from the asset encumbrance reporting.</p> <p>Other assets include cash on hand (holding of national and foreign banknotes and coins in circulation that are commonly used to make payments), loans on demand [IAS 1.54(i)] including the balances receivable on demand at central banks and other institutions as reported in row 020 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014. Other assets also include loans and advances other than loans on demand, including mortgage loans as reported in rows 100 and 110 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014. Other assets may also include intangible assets, including goodwill, deferred tax assets, property, plant and other fixed assets, derivative assets, reverse repo and stock borrowing receivables.</p> <p>When underlying assets and cover pool assets of retained asset-backed securities (ABS) and retained covered bonds are loans on demand or loans and advances other than loans on demand, they shall also be included in this row.</p>
121	<p>of which: ...</p> <p>Where relevant in the context of their use of encumbrance in relation to their business model, institutions may identify separately the median value of any component of “Other assets” in a dedicated “of which” row.</p>

Table 2: Instructions with regard to specific columns of Template A

Columns	Legal references and instructions
010	<p>Carrying amount of encumbered assets</p> <p>The median value of the carrying amount of the assets held by the institution that are encumbered according to point 11 of paragraph 1.7 of Annex XVII of Regulation (EU) No 680/2014. Carrying amount means the amount reported in the asset side of the balance sheet.</p>
030	<p>of which: notionally eligible EHQLA and HQLA</p> <p>The median value of the carrying amount of encumbered assets which are notionally eligible to the qualification of assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA). For the purpose of this Regulation, notionally eligible encumbered EHQLA and</p>

	<p>notionally eligible encumbered HQLA are those assets listed in Articles 11, 12 and 13 of Delegated Regulation (EU) 2015/61 and that would comply with the general and operational requirements set out in Articles 7 and 8 of that Delegated Regulation, were it not for their status as encumbered assets in accordance with Annex XVII to Implementing Regulation (EU) No 680/2014. Notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA shall also comply with the exposure class-specific requirements set out in Articles 10 to 16 and 35 to 37 of Delegated Regulation (EU) 2015/61. The carrying amount of notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA shall be the carrying amount before the application of the haircuts specified in Articles 10 to 16 of Delegated Regulation (EU) 2015/61.</p>
040	<p>Fair value of encumbered assets</p> <p>The median value of the item “Fair value of encumbered assets” as reported in column 040 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p> <p>For each exposure class, fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median.</p>
050	<p>of which: notionally eligible EHQLA and HQLA</p> <p>The median value of the fair value of encumbered assets that are notionally eligible to the qualification of EHQLA and HQLA. For the purpose of this Regulation, notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA are those assets listed in Articles 11, 12 and 13 of Delegated Regulation (EU) 2015/61 and that would comply with the general and operational requirements set out in Articles 7 and 8 of that Delegated Regulation, were it not for their status as encumbered assets in accordance with Annex XVII to Implementing Regulation (EU) No 680/2014. Notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA shall also comply with the exposure class-specific requirements set out in Articles 10 to 16 and 35 to 37 of Delegated Regulation (EU) 2015/61. The fair value of notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA shall be the fair value before the application of the haircuts specified in Articles 10 to 16 of Delegated Regulation (EU) 2015/61.</p>
060	<p>Carrying amount of unencumbered assets</p> <p>The median value of the item “Carrying amount of non-encumbered assets” as reported in column 060 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
080	<p>of which: EHQLA and HQLA</p> <p>The median value of the carrying amount of unencumbered EHQLA and HQLA as listed in Articles 11, 12 and 13 of Delegated Regulation (EU) 2015/61 and that comply with the general and operational requirements set out in Articles 7 and 8 of that Delegated Regulation, as well as with the exposure class-specific</p>

	<p>requirements set out in Articles 10 to 16 and 35 to 37 of that Delegated Regulation. The carrying amount of EHQLA and HQLA shall be the carrying amount before the application of the haircuts specified in Articles 10 to 16 of Delegated Regulation (EU) 2015/61.</p>
090	<p>Fair value of unencumbered assets</p> <p>The median value of the item “Fair value of non-encumbered assets” as reported in column 090 of Template F 32.01 (AE-ASS) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p> <p>For each exposure class, fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median.</p>
100	<p>of which: EHQLA and HQLA</p> <p>The median value of the fair value of unencumbered EHQLA and HQLA as listed in Articles 11, 12 and 13 of Delegated Regulation (EU) 2015/61 and that comply with the general and operational requirements set out in Articles 7 and 8 of that Delegated Regulation, as well as with the exposure class-specific requirements set out in Articles 10 to 16 and 35 to 37 of that Delegated Regulation. The fair value of EHQLA and HQLA shall be the fair value before the application of the haircuts specified in Articles 10 to 16 of Delegated Regulation (EU) 2015/61.</p>

Template B – Collateral received

Table 3: Instructions with regard to specific rows of Template B

Rows	Legal references and instructions
130	<p>Collateral received by the reporting institution</p> <p>All classes of collateral received by the institution. All securities received by a borrower institution in any securities borrowing transactions shall be disclosed in this row. The total collateral received by the institution is the median of the sums of four quarterly end of period values over the previous twelve months for rows 140 to 160, 220 and 230.</p>
140	<p>Loans on demand</p> <p>The median value of collateral received by the institution that comprises loans on demand shall be disclosed in this row (see legal references and instructions regarding row 120 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
150	<p>Equity instruments</p> <p>The median value of collateral received by the institution that comprises equity instruments (see legal references and instructions regarding row 030 of Template A). It includes all securities received by a borrower institution in any securities borrowing transactions.</p>
160	<p>Debt securities</p> <p>The median value of collateral received by the institution that comprises debt securities (see legal references and instructions regarding row 040 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
170	<p>of which: covered bonds</p> <p>The median value of collateral received by the institution that comprises covered bonds (see legal references and instructions regarding row 050 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
180	<p>of which: asset-backed securities</p> <p>The median value of collateral received by the institution that comprises asset-backed securities (see legal references and instructions regarding row 060 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
190	<p>of which: issued by general governments</p> <p>The median value of collateral received by the institution that comprises debt</p>

	securities issued by general governments (see legal references and instructions regarding row 070 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.
200	<p>of which: issued by financial corporations</p> <p>The median value of collateral received by the institution that comprises debt securities issued by financial corporations (see legal references and instructions regarding row 080 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
210	<p>of which: issued by non-financial corporations</p> <p>The median value of collateral received by the institution that comprises debt securities issued by non-financial corporations (see legal references and instructions regarding row 090 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
220	<p>Loans and advances other than loans on demand</p> <p>The median value of collateral received by the institution that comprises loans and advances other than loans on demand (see legal references and instructions regarding row 120 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
230	<p>Other collateral received</p> <p>The median value of collateral received by the institution that comprises other assets (see legal references and instructions regarding row 120 of Template A). It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
231	<p>of which: ...</p> <p>Where relevant in the context of their use of encumbrance in relation to their business model, institutions may identify separately the median value of any component of “Other collateral” in a dedicated “of which” row. It includes all securities received by a borrower institution in any securities borrowing transaction.</p>
240	<p>Own debt securities issued other than own covered bonds or asset-backed securities (ABS)</p> <p>The median value of the item “Own debt securities issued other than own covered bonds or ABSs” as reported in row 240 of Template F 32.02 (AE-COL) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
241	<p>Own covered bonds and asset-backed securities issued and not yet pledged</p> <p>The median value of the item “Own covered bonds and asset-backed securities issued and not yet pledged” as reported in row 010 of Template F 32.03 (AE-NPL) of Annex XVI to Implementing Regulation (EU) No 680/2014. To avoid double counting, the following rule applies in relation to own covered bonds and asset-</p>

	<p>backed securities issued and retained by the reporting institution:</p> <p>(a) Where those securities are pledged, the amount of the cover pool/underlying assets that are backing them shall be disclosed in Template A as encumbered assets. The source of funding in the event of pledging own covered bonds and asset-backed securities is the new transaction in which the securities are being pledged (central bank funding or other type of secured funding) and not the original issuance of covered bonds or asset-backed securities.</p> <p>(b) Where those securities are not yet pledged, the amount of the cover pool/underlying assets that are backing those securities shall be reported in Template A as unencumbered assets.</p>
250	<p>Total assets, collateral received and own debt securities issued</p> <p>All assets of the institution registered in its balance sheet, all classes of collateral received by the institution and own debt securities issued retained by the institution that are not own covered bonds issued or own asset-backed securities issued.</p> <p>This row is the median of the sums of four quarterly end-of-period values over the previous twelve months for row 010 in Template A and rows 130 and 240 in Template B.</p>

Table 4: Instructions with regard to specific columns of Template B

Columns	Legal references and instructions
010	<p>Fair value of encumbered collateral received or own debt securities issued</p> <p>The median of the fair value of the collateral received, including in any securities borrowing transaction, or own debt securities issued held/retained by the institution that are encumbered according to Article 100 of Regulation (EU) No 575/2013.</p> <p>The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see IFRS 13 Fair Value Measurement). For each item of collateral, fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median.</p>
030	<p>of which: notionally eligible EHQLA and HQLA</p> <p>The median value of the fair value of the encumbered collateral received, including in any securities borrowing transaction, or own debt securities issued held/retained by the institution that are notionally eligible to the qualification of EHQLA and HQLA. For the purpose of this Regulation, notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA are items of collateral received or own debt securities issued held/retained by the institution listed in Articles 11, 12 and 13 of Delegated Regulation (EU) 2015/61 and that would comply with the general and operational requirements set out in Articles 7 and 8 of that Delegated Regulation, were it not for their status as encumbered</p>

	<p>assets in accordance with Annex XVII to Implementing Regulation (EU) 680/2014. Notionally eligible encumbered EHQLA and encumbered HQLA shall also comply with the exposure class-specific requirements set out in Articles 10 to 16 and 35 to 37 of Delegated Regulation (EU) 2015/61. The fair value of notionally eligible encumbered EHQLA and notionally eligible encumbered HQLA shall be the fair value before the application of the haircuts specified in Articles 10 to 16 of Delegated Regulation (EU) 2015/61.</p>
040	<p>Fair value of collateral received or own debt securities issued available for encumbrance</p> <p>The median of the fair value of the collateral received, including in any securities borrowing transaction, by the institution that are unencumbered but are available for encumbrance since the institution is permitted to sell or re-pledge it in absence of default by the owner of the collateral. It also includes the fair value of own debt securities issued, other than own covered bonds or securitisation positions, that are unencumbered but available for encumbrance. For each item of collateral, fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median.</p>
060	<p>of which: EHQLA and HQLA</p> <p>The median value of the fair value of the unencumbered collateral received or own debt securities issued held/retained by the institution other than own covered bonds or securitisation positions available for encumbrance which qualify as EHQLA and HQLA as listed in Articles 11, 12 and 13 of Delegated Regulation (EU) 2015/61 and that comply with the general and operational requirements set out in Articles 7 and 8 of that Delegated Regulation, as well as with the exposure class-specific requirements set out in Articles 10 to 16 and 35 to 37 of that Delegated Regulation. The fair value of EHQLA and HQLA shall be the fair value before the application of the haircuts specified in Articles 10 to 16 of Delegated Regulation (EU) 2015/61.</p>

Template C – Sources of encumbrance

Table 5: Instructions with regard to specific rows of Template C

Rows	Legal references and instructions
010	<p>Carrying amount of selected financial liabilities</p> <p>The median value of the item “Carrying amount of selected financial liabilities” as reported in row 010 of Template F 32.04 (AE-SOU) of Annex XVI to Implementing Regulation (EU) No 680/2014.</p>
011	<p>of which: ...</p> <p>Where relevant in the context of their use of encumbrance in relation to their business model, institutions may identify separately the median value of any component of “Carrying amount of selected financial liabilities” in a dedicated “of which” row, especially if part of the encumbrance of assets is associated with liabilities and another part is not.</p>

Table 6: instructions with regard to specific columns of Template C

Columns	Legal references and instructions
010	<p>Matching liabilities, contingent liabilities or securities lent</p> <p>The median values of the item “Matching liabilities, contingent liabilities or securities lent” as reported in column 010 of Template F 32.04 (AE-SOU) of Annex XVI to Implementing Regulation (EU) No 680/2014. Fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median.</p> <p>Liabilities without any associated funding, such as derivatives, shall be included.</p>
030	<p>Assets, collateral received and own securities issued other than covered bonds and asset-backed securities encumbered</p> <p>The amount of the assets, collateral received and own securities issued other than covered bonds and asset-backed securities that are encumbered as a result of the different types of transactions hereby reported.</p> <p>To ensure consistency with the criteria in Templates A and B, assets of the institution registered in the balance sheet shall be disclosed at the median value of their carrying amount, whereas re-used collateral received and encumbered own securities issued other than covered bonds and asset-backed securities shall be disclosed at the median value of their fair value. Fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median.</p> <p>Assets encumbered without matching liabilities shall also be included.</p>

Template D – Accompanying narrative information

Table 7: Specific instructions with regard to Template D

Legal references and instructions

In order to complete Template D, institutions shall disclose the following information:

(a) General narrative information on asset encumbrance, including:

- i. Any difference between the regulatory consolidation scope used for the purpose of the disclosures on asset encumbrance and the scope retained for the application of the liquidity requirements on a consolidated basis as defined in Part Two, Chapter 2 of Regulation (EU) No 575/2013, which is used to define (E)HQLA eligibility.
- ii. Explanation about the differences between, on the one hand, pledged and transferred assets in accordance with the applicable accounting frameworks and as applied by the institution and, on the other hand, encumbered assets. Institutions shall identify the difference of treatment of transactions, such as when some transactions are deemed to lead to pledge or transfer of assets but not to encumbrance of assets, or vice versa.
- iii. The exposure value used for the purposes of disclosure and how median exposure values are derived.

(b) Narrative information relating to the impact of the institution's business model on its level of encumbrance and the importance of encumbrance on the institution's funding model. This information shall include at least the following aspects, where relevant:

- i. main sources and types of encumbrance, detailing, where applicable, encumbrance due to significant activities with derivatives, securities lending, repos, covered bonds issuance and securitisation;
- ii. structure of encumbrance between entities within a group, and especially whether the encumbrance level of the consolidated group stems from particular entities and whether there is significant intragroup encumbrance;
- iii. information on over-collateralisation, especially regarding covered bonds and asset-backed securities, and the incidence of over-collateralisation on the levels of encumbrance;
- iv. additional information on encumbrance of assets, collateral and off-balance sheet items and the sources of encumbrance by any significant currencies other than the reporting currency as referred to in Article 415(2) of Regulation (EU) No 575/2013;
- v. general description of the proportion of items included in column 060 'Carrying amount of unencumbered assets' in Template A of Annex I that the institution would not deem available for encumbrance in the normal course of its business (e.g. intangible assets, including goodwill, deferred tax assets, property, plant and other fixed assets, derivative assets, reverse repo and stock borrowing receivables);
- vi. amount of underlying assets and of cover pool assets of retained asset-

backed securities and retained covered bonds, and whether those underlying and cover pool assets are encumbered or unencumbered, along with the amount of associated retained asset-backed securities and retained covered bonds;

- vii. where relevant for explaining the impact of their business model on their level of encumbrance, details (including quantitative information if relevant) on each of the following:
 - (i) the types and amounts of encumbered and unencumbered assets included in row 120 of Template A, where quantitative information shall be provided in row 121 of Template A;
 - (ii) the amounts and types of encumbered assets and off-balance sheet items included in row 010 of Template C that are not associated with any liabilities, where quantitative information shall be provided in row 011 of Template C.

4. Accompanying documents

4.1 Cost-benefit analysis/impact assessment

Article 10(1) of the EBA Regulation provides that when any regulatory technical standards developed by the EBA are submitted to the Commission for adoption, they should be accompanied by an analysis of ‘the potential related costs and benefits’. This analysis should provide an overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impact of these options.

Article 443 of the CRR mandates the EBA to develop draft RTS to specify disclosure of the balance sheet value per exposure class broken down by asset quality and the total amount of the balance sheet value that is unencumbered, taking into account Recommendation ESRB/2012/2 and conditional on the EBA considering in its report that such additional disclosure offers reliable and meaningful information.

A. Problem identification

Issues identified by the Commission and the ESRB regarding transparency requirements on asset encumbrance

The mandate for the EBA to draft guidelines on disclosure requirements covering asset encumbrance is an outcome of the negotiations between the European Commission, the European Council and the European Parliament. Therefore, no specific reference is made to the concept of asset encumbrance in the impact assessment document accompanying the July 2011 proposal on the CRD IV/CRR, nor is any specific reference made to any of the elements justifying regulatory intervention.

In February 2013, the ESRB published a report on bank funding that, among other topics addressed, gathers evidence on the materiality of asset encumbrance in the EU and describes some of the associated risks. The report supports a series of ESRB recommendations on the subject of bank funding. Recommendation D (‘Market transparency on asset encumbrance’), in particular, recommends that the EBA develop guidelines on transparency requirements for credit institutions on asset encumbrance. The ESRB explicitly asks that, in accordance with these guidelines, institutions should:

- disclose information on the level and evolution of encumbered and unencumbered assets;
- disclose this information half-yearly and supplement it with a breakdown by asset quality if this is deemed useful by the EBA after one year’s experience;
- provide users with a narrative, when necessary, giving information that may be useful for understanding the importance of encumbrance in the institution’s funding model.

Current disclosure requirements on asset encumbrance in the accounting and regulatory frameworks are not comprehensive, especially regarding unencumbered assets available for encumbrance, common definitions and common presentation. This variation in granularity and in the presentation of disclosures has resulted in difficulties for users in assessing and comparing the levels of asset encumbrance in EU institutions.

B. Policy objectives

The RTS specify the format of the templates that credit institutions should use and which information they should report. The requirements proposed in these RTS aim to achieve the following:

- to provide a disclosure framework and applicable definitions that are as uniform as possible, in order to allow meaningful and clear comparisons between institutions;
- to provide sufficient granularity in reporting to ensure that users of the disclosures have enough information to assess the levels of encumbrance of the assets held by the institutions.

C. Baseline scenario

The current provisions relating to asset encumbrance disclosure are set out in the EBA Disclosure Guidelines currently in place, which were issued in June 2014 and which these RTS propose to supersede. The disclosures called for in the Guidelines are very narrow in scope. This can be evidenced by comparing the level of detail called for in the data templates of the asset encumbrance reporting requirements set out in Implementing Regulation (EU) 2015/79, related to Article 100 of the CRR, with that called for in the Guidelines.

D. Options considered

The EBA reviewed the existing disclosure requirements specified in the CRR and in the accounting frameworks (IFRS 7 and Council Directive 86/635/EEC). It also considered recommendations issued by the EDTF in its October 2012 report. This was to ensure that there was consistency between these RTS and the disclosure requirements, thus making their implementation easier for institutions.

In addition, the reporting templates and requirements proposed in these RTS follow the recommendations of the ESRB and have been adapted from the asset encumbrance reporting templates proposed by the EBA²⁶, with a view to achieving an adequate level of harmonisation in the content and presentation of disclosures. For this reason, very few technical options were available for discussion for these RTS.

The disclosure templates drawn up by the EBA have been adapted to fit the requirements of the ESRB as follows:

²⁶ Commission Implementing Regulation (EU) 2015/79.

- Assets of the reporting institution: this template shows a breakdown of encumbered and unencumbered assets by type of assets.
- Collateral received: this template covers collateral received and own securities issued by an institution and is also broken down into encumbered and unencumbered assets.
- Associated liabilities: this template covers the amount of selected financial liabilities.
- Narrative information on the importance of asset encumbrance for an institution.

Further to this, the EBA considered the option of requiring limited granularity for specific fields. This consideration was made on the basis of concerns that the disclosure of certain information might lead to financial market instability.

E. Cost-benefit analysis

Benefits

The templates provided in Annex I to these RTS will provide investors and market analysts with a richer set of information regarding the levels of encumbrance and non-encumbrance of the assets held by an institution. This additional information should enable them to make better judgements regarding the funding practices of a particular institution and to compare them more easily with those of its peers, thereby increasing market discipline. These RTS will also help investors make more informed decisions.

Costs

The main costs for institutions will relate to setting up processes to produce the required disclosure templates. However, it should be noted that the costs will be driven by the complexity of the balance sheet of the institution: less complex institutions will incur lower costs. In addition, because most of the information needed for the disclosure should have already been produced to fill in the regulatory reporting templates on asset encumbrance, the EBA expects the direct compliance costs to be minimal.

The disclosure of a new asset quality indicator for encumbered and unencumbered assets may, however, give rise to costs for institutions, since this indicator does not currently exist in supervisory reporting on asset encumbrance. However, institutions will still be able to leverage on the data available as part of supervisory reporting on liquidity. In addition, credit institutions with less than EUR 30 billion total assets or an encumbrance level below 15% will be exempted from providing quantitative disclosures on the asset quality indicator. The specific disclosure on asset quality will not apply to investment firms either. This restriction in the scope of application of the disclosure requirements should act as a cost-mitigation mechanism.

Disclosures on asset encumbrance may also have costs for the financial system. A mandatory disclosure regime may increase procyclicality, because information about increased asset encumbrance tends to raise the demand for collateral, resulting in a limited supply of high-quality collateral, at a time when banks need stable funding sources to maintain their lending to the

economy. Moreover, central banks must retain the ability to undertake covert non-conventional liquidity support operations; the covert nature of these operations is critical for financial stability. Disclosing certain information fields on asset encumbrance might allow users of the information to work out whether institutions are resorting to such non-conventional liquidity support operations. In order to alleviate this risk, these RTS specify that the information should be disclosed based on the median value of the quarterly data of the reporting year, rather than on a point-in-time basis, and require less granularity than is required in supervisory reporting.

F. Preferred option

The EBA proposes to adopt the option of disclosure of encumbered and unencumbered assets, with a limited level of granularity for certain fields on financial stability grounds.

4.2 Feedback on the public consultation

The EBA publicly consulted on a proposal on the draft RTS published on 25 April 2016. The consultation period lasted three months and ended on 25 July 2016. Twelve responses were received, of which ten are non-confidential and were published on the EBA website.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments, and the actions taken to address them, if deemed necessary.

In certain cases several industry bodies made similar comments or the same body repeated its comments in response to different questions. In such cases, the comments and the EBA's analysis are included in the section of this paper where the EBA considers them most appropriate.

Changes to the draft RTS have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA's response

Respondents were in general supportive of the proposals, although comments regarding its implementation date and its proportional nature were submitted. Certain respondents argued for a two-year implementation delay and the setting up of thresholds to exempt smaller banks from disclosure. One respondent expressed concerns regarding the possible disclosure of sensitive information.

The EBA acknowledges that the new requirements introduced by its proposals in addition to the information that institutions are already required to report to supervisors justify some specific arrangements. As a consequence, a longer implementation period and an exemption from disclosure will be granted concerning information on asset quality. The RTS include specific features, such as the use of median values and a low level of granularity, which allow institutions to avoid the disclosure of sensitive information.

Respondents were in disagreement regarding the use of median values, with some considering their use a necessary compromise between transparency and financial stability, and others preferring the disclosure of end-of-period values, which are considered less operationally burdensome and more informative for users. Some respondents proposed using a median over five quarters, instead of four, to ease implementation and increase the meaningfulness of the data (since the value disclosed would match an end-of-period value). All respondents, however, supported the use of a 'median of the sums' total row.

The EBA believes that the use of median values, consistently with the EBA Disclosure Guidelines, is currently necessary to comply with the ESRB Recommendation. It also believes that the availability of figures used in supervisory reporting significantly lessens the cost of calculating medians, without there being a need to introduce a discrepancy between the reference period for disclosure on asset encumbrance and the normal reference period for other Pillar 3 disclosures (a financial year). The templates will show a total row computed as the median of the sums.

While the majority of respondents favoured using the central bank eligibility criterion, pointing out that it was a better indicator of asset quality for encumbered assets, a number of respondents did support the use of EHQLA and HQLA as an indicator of asset quality.

The EBA believes that disclosing central bank eligibility could lead to the disclosure of sensitive information. In addition, EHQLA/HQLA is the indicator that is the most consistently defined and which will therefore result in the most comparable disclosures. Specific exemptions and delayed implementation have been introduced to facilitate its implementation by institutions.

Certain respondents required clarification on the qualitative disclosure requirements, in particular their potentially duplicative nature and some of the specific requirements.

The EBA clarified that the information could be cross-referred to information disclosed in financial statements and provided the required clarifications.

All respondents supported the requirement to disclose information on asset encumbrance on an annual basis.

The EBA took note of these comments.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Responses to questions in Consultation Paper EBA/CP/2016/05			
General comments relating to the consultation paper on asset encumbrance disclosures			
Implementation timeline	<p>Some respondents requested clarification on the timeline for implementation of the new disclosure template requirements. Further disclosures are required in addition to the disclosure templates set out in the EBA Disclosure Guidelines, which will require further IT development.</p> <p>Some respondents suggested that, if EHQLA/HQLA is retained as the asset quality indicator, a two-year implementation timeframe should be given.</p>	<p>The RTS will come into force 20 days after publication in the <i>Official Journal of the European Union</i> and the EBA would expect the requirements to apply from 2017 year-end onwards.</p> <p>The EBA recognises the need for additional IT development required to include EHQLA/HQLA as an asset quality indicator and therefore proposes to give institutions an additional year after the RTS comes into force to implement the additional EHQLA/HQLA disclosure requirements.</p>	<p>Please refer to the revised Article 3 of the draft RTS.</p>
Proportionality	<p>Certain comments received suggested the introduction of thresholds to exempt smaller institutions from disclosing particular templates, arguing that information may not be useful for smaller, non-listed institutions such as cooperative banks.</p>	<p>The principle of proportionality has already been taken into consideration when designing the disclosure templates. The disclosure templates have been aligned with supervisory reporting but form a subset of information that institutions are required to report to their supervisors: Parts B, C, D and E of Commission Implementing Regulation (EU) 2015/79 (related to Article 100 of the CRR) are not required to be disclosed.</p>	<p>Please refer to the revised Article 2 of the draft RTS.</p>

Comments**Summary of responses received****EBA analysis****Amendments to
the proposals**

There is no obvious link between the size of an institution or its listed status and the possible risks that encumbrance pose for it and for its investors and depositors, and, therefore, no obvious reason to completely exempt small and/or non-listed institutions from the disclosure requirements on asset encumbrance.

However, the RTS require the disclosure of an item of information that is not already required in Commission Implementing Regulation (EU) 2015/79. Therefore, to ensure the costs of producing this extra item of information do not fall upon small institutions with low levels of encumbrance, the EBA proposes to exempt all institutions below the asset encumbrance threshold, as defined in Article 16a of Commission Implementing Regulation (EU) 680/2014 and paragraphs 9 and 10 of point 1.6 of Annex XVII of that Regulation, from disclosing the EHQLA/HQLA asset quality indicator columns C030, C050, C080 and C100 as set out in Template A and columns C030 and C060 as set out in Template B. As regards the disclosures of a qualitative and quantitative nature required in Template D, the principle of materiality specified by the EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1) and (2) and Article 433 of the CRR (EBA/GL/2014/14) already allows for a proportional implementation of those

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Clarification of basis and location of disclosures	Some comments were received asking for clarification (i) that disclosures were to be made on a group as opposed to an individual basis; (ii) that the disclosure requirements set out in the RTS are to satisfy the CRR requirements and not those in IFRS; and (iii) that these disclosure requirements should be published as part of Pillar 3 rather than financial statements.	requirements.	No change.
		<p>Institutions shall provide the disclosures specified in the RTS on the basis of their consolidated or individual situation, as applicable, in accordance with Articles 6 and 13 of the CRR.</p> <p>Recital 9 of the draft RTS states that ‘the disclosure requirements set out in this Regulation are no substitute for the disclosure requirements under the applicable accounting framework, especially regarding transferred and pledged assets, as well as off-balance-sheet collateral received and posted’.</p> <p>Article 434 of the CRR applies to asset encumbrance disclosures and firms should, to the degree feasible, publish the asset encumbrance disclosures in one medium or location, as with other disclosures required under Part Eight of the CRR.</p>	
Disclosure of market sensitive information	One respondent raised concerns about the disclosure of market sensitive information inherent in the disclosure of information on encumbered and unencumbered assets. The concern was that an erroneous interpretation could have unintended consequences for entities and restrict access to funding.	<p>The EBA had taken this into consideration in its original consultation on these draft RTS. The proposed adoption of (i) median rather than point-in-time values and (ii) specific adjustments to supervisory reporting requirements should result in the disclosures not posing a risk of having an adverse impact on access to funding.</p> <p>Institutions should furthermore use Template D of Annex I for narrative disclosures. This should</p>	No change.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		<p>ensure that users avoid erroneous interpretation of the disclosures.</p> <p>Although institutions may not amend the format of the templates provided in Annex I to these RTS, information can be omitted in disclosures where it is regarded as confidential or proprietary in accordance with Article 432(1) and (2) of the CRR and, where applicable, as specified by the EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432(1) and (2) and Article 433 of the CRR (EBA/GL/2014/14).</p>	
Responses to the specific questions in the consultation paper on asset encumbrance disclosures			
Question 1: Given the balance between transparency and the need to avoid detection of central bank liquidity assistance, do you agree with the disclosure requirements proposed in these RTS? Do you agree with the fields in the templates that are required to be disclosed? Please provide reasons for your answer.			
	<p>There was majority support in the responses received for the level of disclosures required in the proposed templates, and respondents generally concurred that they achieved the right balance between providing meaningful information to users and possible unintended consequences for financial stability in a period of stress. There was support for disclosures encompassing all transactions giving rise to encumbrance and particular appreciation for the attempt to align the disclosure templates with the existing reporting templates.</p> <p>One respondent objected to the level of granularity</p>	<p>The EBA agrees with the majority of respondents that the level of granularity of the disclosures is appropriate. Concerns around confidential or proprietary information have been addressed by the use of median values and the time lag between period end and the disclosures.</p>	No change.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>required for encumbrance by type of debt security. The concern raised was that this could enable users to infer details about portfolios that could negatively impact banks in the event of a sale.</p>		
<p>Question 2: Based on your experience with providing information in accordance with the 2014 Guidelines or with using information disclosed as per these Guidelines, do you believe that the use of median values for disclosures offers sufficient relevant information while also addressing potential financial stability concerns, or would you prefer disclosure using end-of-period values? Is there another appropriate value for disclosure? Please provide reasons for your answer.</p>			
	<p>Views on the use of medians were varied, but a majority of respondents supported the use of median disclosures. Certain responses received indicated that median disclosures provide sufficient and relevant information to users to ensure transparency to the market while taking into account financial stability. It was argued that median values are especially appropriate in case of volatile levels of asset encumbrance, since end-of-period values for higher balances could distort the measure, while a median value approach would result in a steadier trend during the year, providing a longer-term perspective. It was also pointed out that median disclosures have been implemented by many banks following the Guidelines on asset encumbrance and would therefore not cause an additional implementation burden.</p> <p>There were also some suggestions to increase the period of median calculation from one year to five quarters. It was argued that this would ease the median calculation because the median would be an actual quarter-end value and would not require interpolation</p>	<p>The EBA notes the comments from users that end-of-period values would provide more relevant information to users. However, in order to balance the requirements for disclosures to provide transparency with the need to address financial stability concerns, medians are considered the best compromise. The technical burden of using median values appears to be reduced by (i) the availability of data necessary to the computation as part of supervisory reporting and (ii) the current use of median values in the Guidelines on asset encumbrance.</p> <p>The EBA recognises the additional burden caused by the need to interpolate when calculating medians over four quarters, and has considered the calculation using five values proposed by a number of respondents. However, in order to align with other annual disclosures, the median calculation should cover only the financial year being disclosed. Consequently, the calculation of the median values</p>	No change.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>between two quarter-end values.</p> <p>There were some objections raised that medians would not provide relevant information to users and that end-of-period values would align better with other Pillar 3 disclosures and reconcile to the balance sheet. The usefulness of the information could be limited, since, with median values, effective and sustainable change in encumbrance will only materialise in the figures a considerable time later. End-of-period values could ensure better comparability between institutions. There were also concerns raised that calculating medians would be more burdensome than reporting end-of-period values.</p> <p>One respondent pointed out that using medians may introduce distortions when multiple institutions in the same banking group make disclosures, as the median of the given subsidiaries may not align with the overall median value for the group.</p>	<p>should be performed using four quarter-end values.</p> <p>As regards the lack of interactions between the disclosure of different entities of the same group when median values are used, the EBA points out that Article 13 of the CRR does not require disclosure on asset encumbrance on an individual or sub-consolidated basis for material subsidiaries or subsidiaries of material importance for their local market.</p>	
<p>Question 3: Do you agree that the ‘median of the sums’ method is the most relevant for use in calculating a ‘Total’ or ‘Subtotal’ row if median values are used for disclosure? Please provide reasons for your answer.</p>			
	<p>All respondents in favour of using median values supported the use of the ‘median of the sums’ method when calculating totals or subtotals.</p>	<p>The EBA takes note of the views expressed.</p>	<p>No change.</p>
<p>Question 4: Do you agree with the disclosure of EHQLA and HQLA in accordance with Commission Delegated Regulation (EU) 2015/61 as the most relevant information possible in terms of asset quality of encumbered and unencumbered assets? Please provide reasons for your answer. If you disagree with the disclosure of the EHQLA and HQLA metrics, please indicate the most appropriate alternative metrics according to you (central bank eligibility, traditional asset quality indicator, risk weights, internal rating/asset quality step, external rating, or another indicator) for providing relevant information on the asset quality of encumbered and unencumbered assets.</p>			

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>A majority of respondents objected to the use of EHQLA/HQLA as the asset quality indicator on the basis that it does not align with current supervisory reporting on asset encumbrance, since it already includes information on central bank eligibility. On the contrary, disclosing encumbered and unencumbered EHQLA/HQLA would require a longer implementation period.</p> <p>They argued that using central bank eligibility would be less burdensome and less costly to implement, and that it would be a better indicator of asset quality than EHQLA/HQLA. First, it was argued that it covers a wider scope of assets, such as non-marketable assets eligible to central banks but not qualifying as HQLA, and a wider scope of institutions. Second, it was submitted that it would be more consistent with the objective of the disclosures on asset encumbrance to provide information on the existence and availability of bank assets to be used as collateral to secure funding (an indicator of the ability of financial institutions to obtain funding from their central bank), while EQHLA/HQLA focuses more on short-term liquidity (an indicator that institutions have the necessary assets to address short-term liquidity disruptions). In addition, it was argued that the concept of EHQLA and HQLA may not be as intuitively understood by users as central bank eligibility.</p> <p>A minority of respondents, however, supported the disclosure of EHQLA/HQLA, noting that it was feasible in terms of data sourcing and systems, and consistent with the reporting on liquidity, especially the liquidity</p>	<p>The EBA recognises the additional burden caused by implementing disclosure requirements with EHQLA/HQLA as the asset quality indicator. However, it has concerns that using central bank eligibility could lead to the disclosure of sensitive information. On the other hand, EHQLA/HQLA is the asset quality indicator with the most consistent implementation across Member States and will lead to improved comparability of disclosures.</p> <p>To address implementation concerns, an additional year will be given, after the RTS come into force, to implement the EHQLA/HQLA asset quality indicator columns C030, C050, C080 and C100 as set out in Template A of Annex I and columns C030 and C060 as set out in Template B of Annex I.</p> <p>In addition, in order to reduce the reporting burden on smaller institutions, the EBA will introduce a threshold to exempt those institutions from disclosing the EHQLA/HQLA asset quality columns C030, C050, C080 and C100 as set out in Template A of Annex I and columns C030 and C060 as set out in Template B of Annex I. Investment firms, which are not in the scope of application of Commission Delegated Regulation (EU) 2015/61, will also be exempted from disclosing information on EHQLA/HQLA.</p>	<p>Please refer to revised Articles 2 and 3 of the draft RTS.</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	coverage ratio.		
Question 5: Do you agree with the qualitative disclosure requirements in Template D? In case of disagreement, please identify any requirement you disagree with or state any disclosure requirement you would like to see enhanced or included in Template D.			
	<p>One respondent saw no need for the disclosure requirements in Template D.</p> <p>A majority of respondents supported the qualitative disclosure requirements in Template D.</p> <p>Some respondents noted that the information could duplicate the requirements for financial statements and requested some level of flexibility in the requirements in cases where disclosures are not relevant to the business model of the institution or where disclosures could lead to disclosure of ELA.</p> <p>A couple of respondents required clarification on or deletion of the following requirements:</p> <p>(a)(i) Differences between regulatory and liquidity scope of consolidation: clarification is needed on the qualitative scope of the application of the disclosure standards.</p> <p>(b)(ii) Intragroup encumbrance: information is not useful to users, as intragroup encumbrance does not have an effect on investors.</p> <p>(b)(iv) Information by significant currency: it is not clear how this requirement can be met if disclosure by currency is not being undertaken.</p>	<p>Template D is intended to complement the quantitative information in the other templates, and institutions may choose its location in application of Article 434 of the CRR. Institutions are reminded that the disclosures in Template D(a) are mandatory and that those in D(b) are required only where relevant. Materiality and applicability considerations apply when providing information in accordance with Template D, which should normally lead to the volume of disclosures being proportionate to the volume of encumbrance activities.</p> <p>Institutions are not required to include statements relating to the use, or absence thereof, of liquidity assistance from central banks in their narrative information in Template D.</p> <p>The following elements should be considered when providing information in Template D:</p> <p>(a)(i): Disclosures should be provided in Template D on any differences between the regulatory scope of consolidation and the scope used for liquidity requirements that affect disclosures of asset encumbrance.</p> <p>(b)(ii): The EBA believes that the information is relevant to provide comprehensive information on</p>	<p>Please refer to changes in Template D point (b)(iv) in Annex II.</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		<p>encumbrance at a group level.</p> <p>(b)(iv): Where relevant, institutions should supplement their asset encumbrance disclosures with information on encumbrance of assets, collateral and off-balance-sheet items and the sources of encumbrance by significant currency as referred to in Article 415(2) of the CRR. Corresponding clarifications have been included in the instructions.</p>	
<p>Question 6: Does the proposed annual disclosure frequency meet the needs of users for transparency? Please provide reasons for your answer.</p>			
	<p>All respondents supported an annual disclosure frequency, arguing that it was in line with the needs of users and would be less burdensome to implement.</p> <p>One respondent noted that the requirement to disclose all the information required by the CRR in a single report made the requirement to disclose information on asset encumbrance no later than six months after the reference date of the annual financial statements useless.</p>	<p>The EBA will not include specific requirements as regards the frequency of disclosure for asset encumbrance, which remains set at a minimum annual level in application of Article 433 of the CRR.</p> <p>In accordance with Articles 433 and 434 of the CRR, institutions shall, to the degree feasible, include information on asset encumbrance in the same medium that already includes information required by Part Eight of that Regulation, and publish this medium in conjunction with the date of publication of the financial statements. The six-month lag is therefore the upper limit of the time lag possible from the date of publication of the financial statements, without prejudice to the deadline for publication that national competent authorities may set in application of Article 106 of Directive 2013/36/EU.</p>	<p>No change.</p>