Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - Asset Encumbrance
Article	100
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
Article/Paragraph	1
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Contingent encumbrance
Question	For Scenario A of Contingent Encumbrance reporting template F34.00, should the 30% decrease in value be assumed for the instrument that is encumbered, or should it be considered whether such an instrument itself has underlying values for which the 30% decrease in value should be assumed?
Background on the question	From Annex 17 (to the ITS on supervisory reporting), paragraph 26 states that it shall be assumed that all encumbered assets decrease 30% in value. Paragraph 24 from that same Annex does state that 'this scenario only covers a change in the underlying fair value of the assets, and not any other change which may effects is carrying amount such as foreign exchange gains or losses or potential impairment.' In a hypothetical example, where a portion of a retained covered bond position has been pledged as collateral (for example for the TLTRO program) and therefore is encumbered. In Scenario A, in this example, should the covered bond position be assumed to drop 30% in value, regardless of how (un)likely that may be, or is it allowed (or even instructed) that the 30% drop in value is assumed on the underlying fair value of the assets, which in case of a covered bond secured by a pool of mortgage loans would be the underlying mortgages, which in itself will also

	be dependent on underlying value of housing prices. If not the “direct” instrument encumbered for a specific position, what logic should be applied to determine which underlying (assets) should be assumed to drop 30% in value? Because column 020 of F34.00 does refer to “encumbered assets”, does it matter in the example provided that the covered bond itself, because it is fully retained, will not be an identifiable asset on the institution’s balance sheet, as there you will only see the mortgages?
EBA answer	Paragraph 26 of Annex XVII to Regulation (EU) No 680/2014 (ITS on Supervisory Reporting), states that “it shall be assumed that all encumbered assets decrease 30% in value”. In addition, paragraph 27 asserts that “only contracts and agreements, where there is a legal obligation to supply additional collateral shall be included”. Therefore, it has to be assessed if a decrease by 30% of the fair value of encumbered assets imply the provision of additional guarantees in order to keep the value of the collateral. In order to determine which (underlying) assets should be assumed to drop 30% in value for central bank funding operations, where it is not possible to identify the specific collateral to each operation, as collateral is pooled together, it should be done on a proportional basis, based on the composition of the pool of collateral (see Annex XVII, section 2.1.1, paragraph 14 c).
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5359

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