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Topic	Supervisory reporting - Asset Encumbrance
Article	99
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	99
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Short Positions in Asset Encumbrance
Question	<p>Should the short positions be reported in Asset Encumbrance? Taking into account that a short positions generated due to the sale of a received collateral is considered to be a liability for the reporting entity, seems plausible to include them in template F32.04, specifically in row 070 (collateralized deposits other than repurchase agreements). Nevertheless, this could imply that validations of this template with FINREP are not fulfilled; $\{F\ 32.04.a, r070, c010\} \leq \text{sum}(\{F\ 08.01.a, r050, (c010-035)\}) - \text{xsum}(\{F\ 08.01.a, (r100, r150, r200, r250, r300, r350, c010-035)\})$.</p> <p>Notwithstanding, should be pointed out that FINREP's F1.2 Liabilities template has a specific row for short positions (row 030), this reinforces the belief that maybe short positions are not required in Asset Encumbrance reporting or that the F32.04 lacks a row for this category.</p>
Background on the question	<p>The template F32.04 of Asset Encumbrance has direct validations with FINREP. The amounts in F32.04 must be smaller or equal to the amounts in FINREP. However, while in FINREP's template short positions have an specific row to be reported in, this is not the case in Asset Encumbrance's template. To sum up, if this liabilities are included in row 70 (collateralized deposits other than repurchase agreements) the amount of reported deposits</p>

in Asset Encumbrance could be greater than the one reported in FINREP.

EBA answer

Although the question refers to collateral received by the reporting institution that is sold, the answer also addresses the case of received collateral that is reused in a transaction giving rise to encumbrance.

1) When an item of collateral received is sold the reporting entity is a short-seller, i.e. it sells a financial instrument it has borrowed and does not yet own):

Selling collateral received (short sale) does not give rise to encumbrance. In this case, according to IAS 39.37 (b), the reporting institution shall recognize the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral (short positions are liabilities according to IFRS and should be reported in the template F 08.01 of FINREP).

In the templates on asset encumbrance, the transaction that allows the institution to receive the collateral and the sale of the collateral received shall be reported separately.

a) Before the sale, the collateral received shall be reported in the appropriate row of template F 32.02 columns c040 to c060. The securities borrowing transaction that allowed in the first place the reporting institution to receive the collateral shall be reported as provided for in paragraphs 14(iv) and 17 of Annex XVII of the ITS and specified by Q&A 2015_1852 for the cases where the collateral was borrowed against cash, a fee or another security;

b) After the sale, the item of collateral ceases to be reported in template F 32.02 and the proceeds from the sale is considered as cash on hand and reported in F 32.01, r120, c060. The securities lending transaction that allowed in the first place the reporting institution to receive the collateral shall however still be reported in accordance with paragraphs 14(iv) and 17 of Annex XVII of the ITS, as before the sale.

c) The proceeds from the sale is also reported in F 08.01, column 010, row r020 to r030 as appropriate. Nothing should be reported in template F 32.04, as the liability only represents the obligation to return the collateral, and not a source of encumbrance.

2) When an item of collateral received is re-used in a transaction that gives rise to encumbrance:

Collateral received and that are re-used shall be reported as encumbered only when this re-use gives rise to encumbrance according to the definition used in paragraph 11 of Annex XVII of Regulation (EU) No 680/2014 - ITS on Supervisory Reporting of institutions (ITS), that is the collateral received 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 definition of encumbered is not based on an explicit legal definition but rather on economic principles, although the definition is

	<p>closely linked to contractual conditions.</p> <p>In such cases, the following treatment applies:</p> <ul style="list-style-type: none">• Before the re-use, the treatment described in 1)a) applies• After the collateral is reused, the fair value of the encumbered collateral is reported in the appropriate row of template F 32.02, columns c010 to c030• The fair value of the re-used collateral is reported in the appropriate row of template F 32.04. column c040• The carrying amount of the associated liabilities r is reported in the appropriate row of template F 32.02, columns c010 and c020• The securities lending transaction that allowed in the first place the reporting institution to receive the collateral shall still be reported in accordance with paragraphs 14(iv) and 17 of Annex XVII of the ITS, as before the re-use.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_946

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