Single Rulebook Q&A

Question ID	2014_1558
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
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	Annex IV p. 7
Date of submission	16/10/2014
Published as Final Q&A	04/06/2021
Disclose name of institution / entity	Yes
Name of institution / submitter	Association of German Public Banks (VÖB)
Country of incorporation / residence	Germany
Type of submitter	Industry association
Subject matter	Identification of encumbered assets when using collateral pools
Question	Are institutions allowed to report the least liquid assets as encumbered first when a pool of assets of the institution is used as collateral for a liability?
Background on the question	In the context of asset encumbrance reporting banks have to report as encumbered assets that are used as collateral for liabilities. It is not clear, however, how encumbered assets are to be identified if the institution uses a pool of assets as collateral. For collateralized central bank funding the collateral breakdown must be done “on a proportional basis”, based on the composition of the pool of collateral (Annex IV ITS item 2.1.1 marginal number 14 ITS). If this proportional assignment would have to be applied to all liabilities it would conflict with the respective distribution of pool collateral under the LCR. For the reporting of liquidity outflows of secured lending transactions under the LCR institutions have to allocate illiquid assets first. Only once all those assets are fully assigned, “assets of high

	liquidity and credit quality" shall be assigned. "Assets of extremely high liquidity and credit quality" shall be as-signed last (Annex XIII COMMISSION IMPLEMENTING REGULATION (EU) No 680/2014 of 16 April 2014 Part 2 (instructions concerning rows 120-950 of the outflow sub template). This different assignment of assets to liabilities would potentially inflict high costs on institutions. Practical example: A liability of 100 is collateralized by a collateral pool consisting of 60 liquid assets (LCR) and 60 illiquid assets. For the purpose of the LCR 60 must be counted for as liquidity outflow (100 % outflow factor) and 40 do not have to be counted for as a liquidity outflow (0 % outflow factor). For the reporting of encumbered assets 50 of the liquid assets and 50 of the illiquid assets have to be reported as encumbered.
EBA answer	Paragraph 14 of section 2.1.1 of Annex XVII to Regulation (EU) No 680/2014 (ITS on Supervisory Reporting) makes clear that: "For operations where it is not possible to identify the specific collateral to each operation, as collateral is pooled together, the collateral breakdown must be done on a proportional basis, based on the composition of the pool of collateral". This treatment differs from the waterfall approach used in the liquidity reporting templates, where less liquid assets are encumbered first.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_1558

European Banking Authority, 29/01/2022
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