



Consultation on Asset Encumbrance reporting

Public Hearing

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Mandate

- > Article 95 CRR – reporting of all forms of encumbrance of assets:
Institutions shall report to the competent authorities the level, at least in aggregate terms, of their repurchase agreements, securities lending and all forms of encumbrance of assets.
- EBA shall include this information in the implementing technical standard on reporting of Article 95 paragraph 2.*
- > Mandate relates to COREP reporting in article 95. Hence the scope will follow COREP. All entities subject to COREP reporting will be subject to asset encumbrance reporting.
- > ESRB recommendation of Feb 20 on providing templates also hereby fulfilled

Definition of asset encumbrance

- > Hard to define the concept of asset encumbrance
 - Several definitions considered, including a purely legal definition
- > Asset encumbrance will be based on broad economic principles
 - An asset is 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to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn*
- > Assets which are being placed at facilities that are not used and can be freely withdrawn should not be considered encumbered.
- > Reporting should clarify the definition further, in the sense of the product breakdown to be provided.

Templates

- > Part A – Encumbrance overview (quarterly)
 - Assets of the reporting institution
 - Collateral received
 - Own covered bonds and ABSs issued and not yet pledged
 - Sources of encumbrance

- > Part B – Maturity data (quarterly)

- > Part C – Contingent encumbrance (annually)

- > Part D – Covered bonds (quarterly)
 - Covered bond issuance and assets eligible for cover pools

- > Part E – Advanced data (semiannually)

Reporting

- > Extensive re-use of existing concepts from COREP and FINREP frameworks in order to ease implementation burden
- > Based on carrying amounts (accounting values), but supplemented with fair value evaluations
- > Consultation also contains a Data Point Model (DPM), which is a structured representation of the field descriptions. This should also assist implementation.
- > Focus on both encumbered and unencumbered assets

Proportionality

- > Part A mandatory for all credit institutions
- > Part D mandatory only for those institutions that issue covered bonds
- > Parts B, C and E reported only if:
 - Total assets less than €30 billion
 - Asset encumbrance levels are below 5%.
 - Either threshold not exceeded in previous 2 years.
- > Considerations on exempting smaller institutions completely from B, C and E, just as the calibration is still under consideration.

Contingent Encumbrance

- > In order to gauge the impact of potential encumbrance, the concept of contingent encumbrance has been introduced
- > Contingent encumbrance is the need for additional collateral, that may arise as a consequence of adverse market conditions
- > Will require institutions to calculate at least two scenarios
 - 30% decrease in the fair value of encumbered assets
 - 10% depreciation in significant currencies
- > In addition, this will be supplemented by the 3-notch downgrade in the liquidity framework, which is very similar.

Concluding remarks

- > In general, we have adopted for a pragmatic approach, which should ease implementation burden
 - Open to practical suggestions, that is more aligned with existing reporting systems.
- > Timeline is currently implementation together with the rest of the COREP framework, i.e. follow the implementation date of the CRR
 - Comments on the feasibility of this would also be welcome

Questions?

Contact information

Send comments to:
EBA-CP-2013-05@eba.europa.eu
Reference 'EBA/CP/2013/05' on the subject field
by **24 June 2013**

European Banking Authority

Floor 18 | Tower 42 | 25 Old Broad Street
London EC2N 1HQ | United Kingdom
t +44 (0)20 7933 9900
f +44 (0)20 7382 1771
info@eba.europa.eu
www.eba.europa.eu