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Your ref., Your message of Our ref., person in charge Extension Date

 BSBV 115/Horvath 3141 13th July 2016

**EBA: Consultation Paper – Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation paper and would like to submit the following position:

# General Comments

Strong asset encumbrance results in a worse position of unsecured creditors in case of the bank resolution or liquidation. Nevertheless it should be emphasized when disclosing the level of asset encumbrance, that there are other important aspects of financial reporting (i.e. asset quality, capitalization etc.) which need to be considered when evaluating the bank’s balance sheet.

Otherwise, unsecured creditors might overstate the asset encumbrance considerations when calculating the possible recovery rate which would automatically trigger higher funding costs for some banks. These considerations especially need to be taken into account as the bail-in regulatory requirements already put a strain on the cost of funding.

1. **Answers to the questions**

**Q1.** Yes, the funding by the central bank should be part of encumbrance disclosures for the users of financial statements in order to have a full and true picture of the liquidity profile of the reporting entity. These fields follow the reporting structure of current regulatory asset encumbrance reporting and are sufficient for providing a good picture of type of assets for users of financial statements.

Given the current situation, as well as the frequency of disclosure on encumbered and unencumbered assets, we do not see any issue regarding potential detection of CB ELA and therefore no necessity to change (i.e. reduce or enlarge) the list of fields required for minimum disclosure.

**Q2.** Using the end of period values is sufficient information for the purpose of disclosure of encumbered/unencumbered assets. Due to the fact that all other information being disclosed is on the basis of end of period values, we would prefer the same treatment in case of encumbered/unencumbered assets. In case of increased transparency regarding the disclosed central bank funding, it is not necessarily associated with emergency liquidity assistance as suggested in the consultation document. Moreover, using end of period balances will not lead to an increased reporting burden.

Therfore we advocate for the using of end of period values for disclosure purposes. Median values require additional resources and lead to an additional burden for technical implementation. Additionally, the aims of the draft RTS to ensure consistency and promote comparability and transparency can be achieved in a sufficient manner when using end of period values. We believe that end of period values are even better suited to provide market participants with consistency since financial statements also use end of period values to show the entity’s financial situation.

In our opinion median values have no beneficial effect on the actual consumer of the disclosure. In addition commenting on median values might make the narrative part redundant, e.g. an effective and sustainable change in encumbrance will only materialize in the figures considerable time later. We propose to always use “as of” figures for all disclosure reports.

Lastly, COMMISSION DELEGATED REGULATION (EU) 2015/62 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio also declares that point in time reporting of the leverage ratio at the end of the quarterly reporting period rather than reporting on the basis of a three-month average better aligns the leverage ratio with solvency reporting.

**Q3.** If median values shall be used we suggest the using of ’median of the sums’ as a viable approach. The ‘median of the sums method’ seems to be more appropriate than the sum of the medians as it provides additional information to the ‘sum of medians’, which can be deducted from other disclosed rows of the template.

**Q4.** We see no benefit in incorporating a different measure of asset quality in the disclosure than in the regulatory reporting (CB-eligibility) especially if it could lead to a further restriction of eligible asset classes (e.g. non-marketable assets eligible as cb-collateral not hqla). In our opinion the CB-eligibility is a sufficient measure of asset quality and is a valid approximation of general asset quality with regards to asset encumbrance considering both, the operational burden, as well as the lack of comparability connected to the other suggestions (i.e. internal rating, external rating etc.).

**Q5.** Yes, we agree with all points.

**Q6.** Yes, as the median values are intended to be used for disclosures (i.e. median values are calculated from quarter-end balances within calendar year), the needs of users are met.

In our opinion the annual disclosure fully meets the customer requirements and increasing the frequency would considerably increase the operational burden on fulfilling the qualitative requirements of the disclosure (i.e. quarterly/semi-annual review). Furthermore we do not see any added value to the customer from increasing the frequency of disclosing said part, as both structure of encumbrance and future development (i.e. strategy) are not subject to significant changes below one year.

We ask you to give our remarks due consideration.

Yours sincerely,

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Managing Director

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