

A response by the British Bankers’ Association to the EBA’s consultation paper on:

**Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under article 443 of the CRR**

*July 2016*

**Introduction**

The BBA is pleased to respond to the European Banking Authority’s consultation paper on disclosure of encumbered and unencumbered assets[[1]](#footnote-1).

The BBA is the leading association for UK banking and financial services representing members on the full range of UK and international banking issues. It has over 200 banking members active in the UK, which are headquartered in 50 countries and have operations in 180 countries worldwide. Eighty per cent of global systemically important banks are members of the BBA.

As the representative of the world’s largest international banking cluster the BBA is the voice of UK banking.

All the major banking groups in the UK are members of our association as are large international EU banks, US and Canadian banks operating in the UK as well as a range of other banks from Asia, including China, the Middle East, Africa and South America. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum from deposit taking and other more conventional forms of retail and commercial banking to products and services as diverse as trade and project finance, primary and secondary securities trading, insurance, investment banking and wealth management.

Our members manage more than £7 trillion in UK banking assets, employ nearly half a million individuals nationally, contribute over £60 billion to the UK economy each year and lend over £150 billion to UK businesses.

**Key Messages**

We welcome the EBA’s Regulatory Technical Standards on disclosure of encumbered and unencumbered assets, as we believe they facilitate the provision of transparent and harmonised information on asset encumbrance by financial institutions across Member States, and enable market participants to compare the institutions in a clear and consistent manner. In general, we agree with most of the information requirements proposed as part of this consultation. We believe the fields included in the different templates are in line with the ESRB recommendations and practically reflect a subset of our members’ annual reports.

One area of concern however is the disclosure of assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA) as the most relevant information possible in terms of asset quality of encumbered and unencumbered assets. Our members note that this approach is overly complex and does not add any additional value than the standard concept of central bank eligibility for assessing quality of assets.

Furthermore, although we agree with the requirements for qualitative disclosures under Template D, we believe that some of the information required may carry risk of duplication with content already produced for banks’ annual reports, which should be avoided.

**Responses to consultation questions**

1. **Given the balance between transparency and the need to avoid detection of central bank liquidity assistance, do you agree with the disclosure requirements proposed in this RTS? Do you agree with the fields in the Templates that are required to be disclosed? Please provide reasons for your answer.**

We believe that the disclosure requirements proposed in this CP adequately achieve a balance between increased transparency and unintended consequences, in periods of stress, of disclosure on financial stability. The fields incorporated in the Templates appropriately reflect the level of asset encumbrance and allow market participants to understand the level of secured funding for the reporting institution.

Our understanding of these requirements is that disclosures are to be performed on a Group basis (as opposed to individual entities). We would appreciate clarification on this aspect by the regulator in order to ensure a common understanding across market participants.

1. **Based on your experience with providing information according to the 2014 Guidelines or with using information disclosed as per these Guidelines, do you believe that the use of median values for disclosures offers sufficient relevant information while also addressing potential financial stability concerns or would you prefer disclosure using end of period values? Is there another appropriate value for disclosure? Please provide reasons for your answer.**

Some of our members have indicated that the use of median values for disclosures is already in place and hence would not be very burdensome to implement. We therefore agree with the use of median values for providing information on asset encumbrance.

1. **Do you agree that the ‘median of the sums’ method is the most relevant to be used in calculating a “Total” or “Sub-total” row in case the median values are used for disclosure? Please provide reasons for your answer.**

If the use of median values is chosen as the most appropriate method for disclosures on asset encumbrance, then the ‘median of the sums’ approach would be the most relevant to be used in calculating the ‘totals’ and ‘sub-totals’. The ‘sum of the medians’ approach would not offer any additional insight than the individual rows in each table, and therefore the ‘median of the sums’ method is more useful for providing additional information to market participants.

1. **Do you agree with the disclosure of assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA) in accordance with Commission Delegated Regulation (EU) 2015/61 as the most relevant information possible in terms of asset quality of encumbered and unencumbered assets? Please provide reasons for your answer. In case you disagree with the disclosure of the EHQLA and HQLA metrics, please indicate the most appropriate alternative metrics according to you (central bank eligibility, traditional asset quality indicator, risk-weights, internal rating/asset quality step, external rating, or another indicator) for providing relevant information on the asset quality of encumbered and unencumbered assets.**

We do not believe that the disclosure of assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA) reflects the most relevant information possible in terms of asset quality of encumbered and unencumbered assets. This approach would create unnecessary complexities for institutions and would not add much value for the end users, whose understanding of EHQLA and HQLA may not be as simple as indicated in the consultation.

Rather, we support the use of central bank eligibility as the indicator of asset quality of encumbered and unencumbered assets. This approach is already in use by our members and therefore the one that is more easily made operational. Apart from benefits such as data availability for all exposure types, the use of central bank eligibility also encompasses a more straightforward approach for calculating values (both median and averages). In addition, it is the most accurate indicator of the ability of financial institutions to obtain funding from their central bank and as such more informative to users. Therefore, we do not believe the disclosure of EHQLA and HQLA offers any additional value and strongly support the use of central bank eligibility instead.

1. **Do you agree with the qualitative disclosure requirements in Template D? In case of disagreement, please identify any requirement you disagree with or state any disclosure requirement you would like to see enhanced or included in Template D.**

Overall, we agree with the information requirements under Template D. Nevertheless, it has been noted by some of our members that information under Template D might duplicate some of the content included in institutions’ annual reports; the EBA should seek to minimise any overlap of disclosure requirements with information reported elsewhere so as not to overburden firms.

1. **Does the proposed annual disclosure frequency meet the needs of users for transparency? Please provide reasons for your answer.**

We agree with the required frequency of disclosures and believe it meets the needs for transparency.

In conclusion, we are at the EBA’s disposal for discussing this response and clarifying any points included within if required.

***Responsible executive***

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1. https://www.eba.europa.eu/documents/10180/1446740/EBA-CP-2016-05+%28CP+on+RTS+on+disclosure+of+encumbered+and+unencumbered+assets%29.pdf [↑](#footnote-ref-1)