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European Banking Authority
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25 July 2016

STANDARD CHARTERED RESPONSE TO THE EUROPEAN BANKING AUTHORITY'S ('EBA') CONSULTATION PAPER EBA/CP/2016/05 ON DRAFT REGULATORY TECHNICAL STANDARDS ON DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS UNDER ARTICLE 443 OF THE CRR

Dear Sir / Madam,

We are pleased to provide our comments on the Consultation Paper EBA/CP/2016/05 on the Draft Regulatory Technical Standards (RTS) on disclosure of encumbered and unencumbered assets under Article 443 of the CRR.

We support the EBA's objective to provide transparent and harmonised information on asset encumbrance and to enable market participants to compare the institutions in a clear and consistent manner and to better understand and analyse the liquidity and solvency profiles of institutions.

We thank the EBA for the opportunity to take part in the consultative process. In our letter, we provide responses to the six questions asked including specific comments and alternative proposals on some of the individual templates.

We would like to highlight the following:

- We broadly agree with the disclosure requirements as proposed in the RTS including the proposed annual disclosure frequency.
- Our preferred method is the use of median values for disclosures of encumbered and unencumbered assets rather than a point in time or average encumbered balance as median values provide a more appropriate long-term perspective on asset encumbrance levels.
- Disclosure of qualitative information can be useful in supporting the quantitative data provided and enables users to obtain a better understanding of the business models. However, qualitative disclosures should be flexible and depend on the firm's use of asset encumbrance as a source of funding.

We would be pleased to discuss the contents of this letter, and related matters, with you or your representatives at your convenience.

Yours faithfully,



PETER ROBERTS
HEAD, GROUP REGULATORY REPORTING

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 broadly agree with the disclosure requirements as proposed in the RTS which strike a balance between enabling the market to obtain relevant and transparent information on encumbered and unencumbered assets whilst not requiring the disclosure of sensitive information.

2. 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.

The use of median values for disclosures of encumbered and unencumbered assets rather than a point-in-time or average encumbered balance is our preferred option.

For volatile levels of asset encumbrance, the use of median values for disclosures is the more appropriate measure. There may be a lack of transparency with disclosures of point-in-time or average values, especially if an institution has fluctuating encumbered balances. Higher balances at a point in time could distort the measure while a median value approach would result in a steadier trend during the year providing a more long-term perspective.

We have interpreted point 2 of the instruction applying to Templates A-D, given on page 33 of the CP, as the median being calculated on the basis of four quarters. This means that for a period of 12 months from January to December, the median value will be calculated based on March, June, September and December actuals. It would be helpful if the final guidelines can clarify this.

When calculating the median values for a 12 month timeframe using quarterly data, we suggest using data for five quarter-ends to allow the inclusion of data from the first quarter. If a period of five consecutive quarters is selected then the median will relate to a ‘real’ observed value which has been reported through a regulatory return. Please see the example below.

	31/12/14	31/3/15	30/6/15	30/9/15	31/12/15	Median Values Disclosed
Loans (end of period value)	50	100	70	25	30	50
Securities (end of period value)	0	50	200	100	400	100
Other assets (end of period value)	3	5	20	15	10	10
Total Median of the sums	53	155	290	140	440	155

3. 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.

We agree that “median of the sums” is the more appropriate method as it will provide a consistent and representative approach in calculating the median given the level of granularity required.

4. 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 agree that the asset quality indicator disclosed should provide meaningful information that is easily understandable and comparable for users while minimising operational complexity for institutions in comparison to existing reporting and disclosure requirements.

The proposed approach is feasible in terms of data sourcing and systems. Moreover, it is consistent with the existing liquidity reporting framework as EHQLA and HQLA assets are already reported under the Liquidity Coverage Ratio (LCR) reporting and the Net Stable Funding Ratio (NSFR).

5. 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.

We agree that the disclosure of qualitative information is useful in order to support the quantitative data provided as business models vary from institution to institution.

We note that the qualitative information requested in Template D is very detailed. Firms should have sufficient flexibility when populating Template D. The amount of required qualitative disclosure should reflect the extent to which a firm relies on asset encumbrance as a source of funding. For firms with low and stable levels of asset encumbrance, there should be no requirement to provide extensive qualitative disclosures.

We do not consider that the qualitative disclosure requirement should include specific requirements on what must be disclosed. Some institutions may have received waivers from their competent authority, e.g. a significant number of UK firms are not required to complete Template B on the grounds of materiality. In such a case, for disclosure on a group-wide consolidated basis, there should be no need to include detailed information on intra-group encumbrance between entities.

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

The proposed annual disclosure frequency appears reasonable. We note that any significant change in asset encumbrance, relating to change in business model and funding strategy would need to be explained to the market and regulators prior to any material adjustment.

It is not clear, however, from when the RTS will take effect and the EBA should consider alignment with the BCBS Pillar 3 disclosure timings. It will be important that firms are given sufficient notice and time for the preparation of the disclosures.