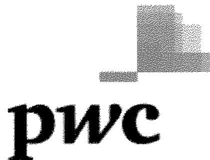

EBA
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ

20 March 2014

Dear Sirs,

Consultation Paper (EBA/CP/2013/48) – Draft guidelines on disclosure of encumbered and unencumbered assets

Thank you for the opportunity to provide feedback on the European Banking Authority's (EBA) proposed guidelines on disclosure of encumbered and unencumbered assets.

This submission is made by PricewaterhouseCoopers LLP (PwC), the UK member firm of the PwC Network. In the UK, PwC has established a unit of dedicated specialists focusing on the impact of regulatory developments on the financial services sector. PwC audits and advises industry participants on prudential issues. This letter is not intended to represent the views of our clients, but rather to identify and to comment on certain aspects of the CP which we believe to have particular significance.

We offer comments on a number of specific areas of the CP in the Appendix to this letter, but would like to highlight several areas that we believe are of particular importance.

We welcome the fact that the guidelines will provide a harmonised framework for disclosure of encumbrance, allowing for comparisons across firms. We also support your intention to minimise the reporting burden for firms.

We understand the concerns raised by the EBA around disclosure of encumbrance related to central banks' emergency liquidity assistance (ELA). This proposal calls for institutions to treat assets deposited with a central bank for purposes of obtaining ELA as unencumbered in their public disclosure. We are concerned that this approach to disclosure could create an inaccurate picture of the funding situation of an institution that is relying on ELA for its survival, thus misleading investors. It will also result in a loss of comparability between institutions that are receiving ELA and those that are not.

We would like to emphasize the importance of providing complete and accurate disclosure. This encumbrance disclosure will be carefully scrutinised by market participants and investors (and possibly other regulators), and therefore will have important implications for the views that they form about the financial health of institutions and the subsequent decisions they may make based on that information. And there may be cases where our clients may need to disclose information to fulfil their obligations regarding transparency, even if this conflicts with a financial stability objective.

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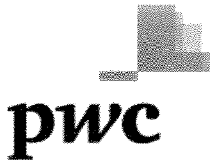


If the financial stability objective counterbalances the need for market participants to be aware of central bank support, then one solution could be to have a greater degree of aggregation of disclosure of all encumbered assets including those used in ELA operations, whilst maintaining the granularity of disclosure of unencumbered assets. Market participants and investors are likely to focus more on the unencumbered assets disclosure as an indicator of the bank's ability to manage its liquidity issues.

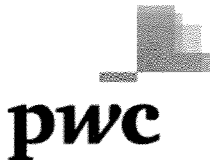
Although the proposed time lag of 6 months for disclosure would allow a firm having liquidity issues to either improve its situation or enter recovery and resolution planning, this conflicts with the requirement for CRR Part Eight disclosures to be published at the same time as financial statements. Stock exchange regulations usually require publication of the Annual Report within 3 months.

We hope that our response will be helpful to you and we would be pleased to discuss our comments further with you. If you would like to do so, please contact Anne Simpson on 0207 804 2093.

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP



Appendix (covering selected questions)

1. Should the disclosure information on encumbered and unencumbered assets, in particular on debt securities, be more granular and include information on, for example, sovereigns and covered bonds? Please explain how sensitive the disclosure of this information is.

We note the conflict between the transparency objective, which our suggestions below are designed to achieve, and the financial stability objective of keeping emergency liquidity support on a covert basis. We believe that the only feasible way of avoiding disclosure of emergency support is in fact to reduce the level of granularity for encumbered asset disclosure, while increasing granularity for unencumbered assets.

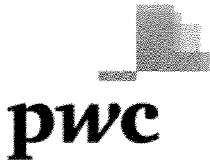
To get a more complete picture of assets available for encumbrance, we would suggest the following:

- separate unencumbered assets into categories of readily realisable and not readily realisable. Given the importance of identifying a bank's readily realisable assets in the event of liquidity issues, including these disclosures would be helpful to investors
- include more granularity on debt securities, with a split for sovereign and covered bonds. This approach would provide a better picture of categories of securities with a high secured funding potential.
- include more granularity on equities, to break them down between exchange traded and not exchange traded
- include a total assets line and a line with total unsecured liabilities on template A, so that readers can easily compare the amount of encumbered assets to total assets and unsecured liabilities.

Finally, the proposals state that institutions should not disclose information on assets in insurance activities that back liabilities to policyholders, but no explanation is given for this exclusion. If this is considered an appropriate omission from disclosure, then we consider it would be better to scope out such assets from the definition of encumbrance, rather than include them in the definition but exclude them from disclosure.

2. Should the disclosure information on encumbered and unencumbered assets also include information on the quality of these assets? What would be a suitable indicator of asset quality? Please explain how sensitive the disclosure of this information is.

Information on the quality of unencumbered assets could be useful. It could be aligned to the extremely high or high quality liquid asset categories.



3. Do you think that the disclosure required in Template A could lead to detection of the level and evolution of assets of an institution encumbered with a central bank, given that the information should be disclosed based on median values and the lag for disclosure is 6 months?

As indicated in the main letter, if the detection of emergency assistance from the central bank is considered a threat to financial stability, we believe this is best addressed by having a greater degree of aggregation of disclosure of encumbered assets, whilst maintaining the granularity of disclosures of unencumbered assets.

5. Do you agree with the proposed granularity of Template B given that collateral swaps with central banks will not be disclosed? Please explain how sensitive the disclosure of this information is.

The consultation paper does not explain the basis for the exclusion of collateral swaps with central banks, and the rationale for this approach is not clear to us. We would welcome more clarity on that issue, and would like to reiterate the importance of complete and accurate disclosure.

6. Do you think that the information on the sources of encumbrance in Template C is too sensitive to be disclosed? Should this information be disclosed in Template D instead (as narrative information)? Please explain the relevance of this information for market participants and the sensitivity of the disclosure of this information.

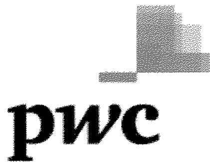
As the template is seeking to give information for the reasons for encumbrance, complementary narrative information may be more informative.

7. Should the information be disclosed as a point in time (e.g. as of 31 December 2014) instead of median values? Please explain why.

We agree that there is value in disclosing information as median rather than point in time. This disclosure would show the level of encumbrance over the period rather than any temporary spike. But in our experience, investors like to have median and year-end data, so that they can then reconcile the year-end data to the period-end balance sheet and other disclosures such as IFRS 7 risk disclosures. Financially robust banks would most likely voluntarily disclose their year-end position. But for banks that are less financially sound, the absence (or removal) of a year-end disclosure, could create an impression that the bank is trying to avoid disclosure of year-end ELA. We note that the equivalent Enhanced Disclosure Task Force recommendation in this area recommends balance sheet date information is provided.

8. Do you agree with the proposed list of disclosures under narrative information in Template D? Should the guidelines explicitly state that emergency liquidity assistance by central banks (ELA) should not be disclosed?

It would be useful to clarify your view on what types of emergency liquidity assistance fall within the definition of ELA. For instance the Bank of England would likely not consider its emergency facilities to be ELA, because those facilities are part of the Sterling Monetary Framework.



The consultation proposes narrative disclosure of the evolution of encumbrance over time, including since the last disclosure period. We are concerned about this requirement in circumstances where a bank had to use ELA during the relevant period. Omitting this from its narrative disclosure would again mean that the bank would make disclosures that are not complete and accurate.

9. Do you agree that the disclosures should be published no later than six months after the publication of the financial statements? Do you consider a time lag of no more than six months sufficient to ensure that the information disclosed will not adversely impact the financial stability of markets and institutions?

While we believe the proposed time lag of six months would mitigate adverse effects of disclosure in stress situations, we note the requirement for CRR Part Eight disclosures to be made at the same time as financial statements are published. Stock exchange regulations usually require publication of financial statements within three months and so banks may have to provide this information well before the six months deadline. It is then difficult to delay publication in a stress situation without adverse effects on market confidence, with investors assuming the worst in case of delays. One way to address this would be for the EBA to issue a blanket requirement to delay disclosure if they identify market wide stress in one country.