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European Banking Authority  
EBA-CP-2013-05@eba.europa.eu

## Consultation on Asset Encumbrance Reporting

### Introduction

Swedish Bankers' Association welcomes the invitation to comment on the consultation on asset encumbrance reporting. We agree that asset encumbrance is an important area that has to be investigated further.

We have noticed that the published consultation do not suggest any limits or quantitative requirements on asset encumbrance. Swedish Bankers' Association supports that no limits or other quantitative requirements are imposed. We instead favour increased transparency and openness. We would also welcome further details on if and how the asset encumbrance reporting would be publicly disclosed.

Swedish Bankers' Association would like to add that we support the comments on the consultation done by the European Banking Federation, EBF. However, the specific views of the Swedish Bankers' Association are stated in this comment letter.

### Specific comments

#### *-Time to implementation*

The proposed reporting of asset encumbrance will require both

1. further increased investments in the banks IT-systems and
2. new routines and resources to administer the reporting.

It is important that the institutions are given enough time to implement the new reporting when the reporting has been finally decided. It is important to stress that the reporting partly are made up of new information which have to be collected by the institutions. Considering the proposed comprehensive reporting we would therefore suggest that the requirement would come into effect no earlier than January 1, 2015.



*-Reporting at consolidated level*

The new reporting requirements on asset encumbrance, as published in the consultation on asset encumbrance reporting, are a comprehensive report. It shall be reported by all institutions. Smaller institutions, which have no material levels of asset encumbrance or are less complex, will be exempted from reporting certain templates. The asset encumbrance reporting will definitely add to the total reporting burden as all institutions will have to perform the report. The costs will be considerable in both IT-investments and administration. Swedish Bankers' Association considers that it would be more appropriate if asset encumbrance is reported for consolidated banking groups instead of individual institutions. Banking groups have most commonly a top-down approach where the total picture of the asset encumbrance is monitored and controlled at the consolidated level and not by the stand-alone institution.

*-Bail-in and Asset Encumbrance*

Bail-in and asset encumbrance are new issues in the European banking regulation and have important interconnections. However, the full picture of the connections between bail-in and asset encumbrance is not yet clear. How do the European Commission and EBA co-operate on these issues being responsible for bail-in and asset encumbrance respectively? We consider that the implementation of the asset encumbrance reporting must be coordinated with the bail-in rules.

**Comments to questions**

The comments by the Swedish Bankers' Association follow the questions asked in the consultation on asset encumbrance. Questions have been answered where we have comments of importance to us.

Question 1: Is the definition of asset encumbrance sufficiently clear?

We believe that definitions and methodology in the asset encumbrance reporting should be coordinated with the LCR, according to the definition and requirements for highly liquid assets. There are also connections to NSFR, since this reporting also consider asset encumbrance.

Question 2: Do you agree with the decision to follow the level of application as set out for prudential requirements? If not, what other level of application would be appropriate?

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*Question 3: Do you believe the chosen definition of asset encumbrance ratio is appropriate? If not, would you prefer a measure that is based solely on on-balance sheet activities (collateral received and re-used, for instance from derivatives transactions would not be included) or a liability?*

Yes. Swedish banks would like to see a transparent definition and that banks acts transparently.

*Question 5: Under what circumstances might unencumbered assets of the types of loans on demand, equity instruments, debt securities and loans and advances other than loans on demand not be available for encumbrance?*

We see a couple of circumstances when unencumbered assets of the types mentioned might not be available for encumbrance;  
-in specific cases institutions might need approval of the customer for availability for encumbrance.  
-Securitized loans are another example.

*Question 6: What additional sources of material asset encumbrance beyond the one listed in rows 20 to 110 and 130 to 150 in template AE-Source do you see?*

We see no additional sources of material asset encumbrance beyond the one listed in the template. Instead we question to include row 150, "fair value of securities borrowed with non-cash collateral" in the reporting.

It should be clarified if the figures should be stated in gross or net in the template

*Question 7: Do you believe the central bank repo eligibility criteria is an appropriate marketability criteria or should other criteria, such as risk weights, be used? If other criteria should be used, what could be the alternative?*

As mentioned in the consultation, we believe that the criteria on central bank eligibility to identify more marketable assets will result in data that is not comparable. This is due to different definitions of eligibility for repo financing in the central banks.



An important remark on the eligibility criteria, if imposed, is that they have to be harmonised at EU level with the LCR, liquidity coverage ratio rules. We consider that definitions and methodology in the asset encumbrance reporting should be coordinated with requirements in the LCR for classifying highly liquid assets.

*Question 8: Do you believe the chosen scenarios are appropriately defined? What alternative definitions would you apply?*

The first stress scenario in the consultation incorporates a 30% decrease in the fair value of encumbered assets. It is a straightforward scenario, but will probably affect the institutions in many various ways. We would also emphasize that this scenario would be strange in those cases where the cover pool do not consist of market valued assets.

*Question 9: Does the instructions provide a clear description of the reporting framework? If not, which parts should be clarified?*

Among the reporting tables the Part D templates concerns specifically covered bonds reporting of asset encumbrance. No other asset types are specified in a separate table. According to the consultation specific monitoring related to covered bonds is deemed necessary in order to ensure effective and harmonised supervision of asset encumbrance and covered bonds issuance. Among the reasons for specific monitoring of covered bonds are that covered bonds programmes constitute one of the main drivers of asset encumbrance and that covered bonds is mainly a long-term encumbrance.

Another instrument that fits the description of specific monitoring need described in the consultation is LTRO, long term refinancing operation. If covered bonds has to be specifically monitored, why do LTRO not?

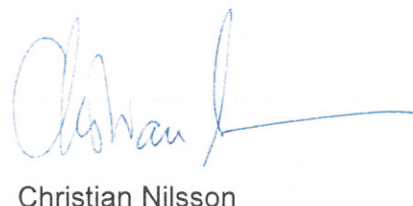
Part E templates; Row 120 – Covered bonds – matching liabilities.

It is not totally clear to us what to report on the row 120, matching liabilities, covered bonds. There is no rule to fully match the liabilities. However, the reporting items in the report must add up in the total column. But how should it be done if the liabilities are not fully matched? Where is OC, over collateralization, supposed to be reported?

SWEDISH BANKERS' ASSOCIATION



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