



14/03/2014

European Banking Authority

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

General view

Liquidity assistance by central banks must be disclosed. The argument that financial stability is achieved by concealing that information is unreasonable, and instructions from authorities not to disclose facts will undeniably result in greater market uncertainty. In particular, this proposal will seem irrational in the context of increased regulation on liquidity disclosure and requirements on liquidity buffers. The objective of the EBA guidelines is “to enable the market participants to compare the institutions in a clear and consistent manner” since “disclosure by institutions about encumbrance is of vital importance for market participants to better understand and analyze the liquidity and solvency profiles of institutions”. This objective is completely contradicted by the explicit proposal to conceal information regarding encumbrance related to central bank funding. There is a significant risk that the guidelines will lose all credibility if the EBA promotes that some encumbrance should be disregarded.

Questions and answers

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.

See the answer on question 2.

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.

The disclosure information on unencumbered assets can include information on the quality of these assets. This is crucial information for senior bond holders as unencumbered assets and common equity are their sole protection. Without transparency related to asset quality, the possibility for senior bond holders, the



stock market and other market participants to assess banks will be obstructed. The concealment of this information will lead to unnecessary uncertainty and increased costs for the financial system as a whole. Therefore we suggest some kind of granularity among assets when it comes to quality. Rating is of course the normal indicator of credit quality. Because of all the problems that can be related to the use of rating we suggest a distribution of securities among types of securities. Government bonds, Covered bonds, Corporate bonds and other could be a template. Government bonds could be divided into EES-government and other, Covered bonds could be divided in labeled and not labeled. Corporate bonds are hard not to divide into investment grade and other, but then the rating is a part of the definition. This kind of granularity is most important among unencumbered assets.

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 (see paragraph 7 of Title II) and the lag for disclosure is 6 months (see paragraph 10 of Title II)?

For small banks and for banks which do not have any natural need for securities it will not be hard to understand that their exposure to securities would be a part of an ELA. But that would be possible to recognize anyhow. For larger banks in small markets it is also not possible to hide large exposures. This is a strange idea that ESRB has introduced. It is not possible to hide that banks get support from the central bank and probably it would damage the market even more if it would be known that there is a part of the regulatory infrastructure to hide certain operations. Why should the market actors then believe any disclosure at all? It is obvious that transparency is very important even when central banks are involved.

4. Should the disclosure of information relating to the 'nominal amount of collateral received or own debt issued not available for encumbrance' on unencumbered collateral be requested? Please explain the relevance of this information for market participants and the sensitivity of the disclosure of this information.

No answer.

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.

No answer.

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.



No answer.

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.

Information should be disclosed as a point in time. The regulation aims to ensure sufficient liquidity for banks at all times, and not only on average. To be forced to request central bank funding is such a critical event that it needs to be published. Historical data should be disclosed so that trends on central bank support are highlighted. Clear information is crucial for the authorities' credibility by the public as well as equity- and credit investors' ability to value their exposure, especially considering the increasingly vague role for central banks as lender of last resort. Currently the conditions on central bank support in times of crises are unclear.

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 will not be possible to get a trustworthy narrative that really explain what has happens if certain things are left out or reported wrongly (ELA) and everything disclosed as median values. Transparency is good and the alternative will lead to problems.

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?

Disclosures should be published far sooner than six months after the publication of the financial statements. It seems irrational to allow crucial information on liquidity issues and central bank support to delay up to six months while stricter regulation on liquidity and transparency point in time is introduced. Regarding equity price sensitive information there is strict regulation on immediate disclosure that implicate that the general public should have complete and immediate information for example on the occasion of acquisition of securities (MiFID).

SWEDISH BANKERS' ASSOCIATION



Thomas Östros



Jonny Sylvén