POSITION PAPER

ESBG Response to the EBA's Consultation on Disclosures of Encumbered and Unencumbered Assets

ESBG (European Savings and Retail Banking Group)

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ESBG

Dear Sir/Madam

Thank you for the opportunity to comment on the EBA consultation on *Draft guidelines on disclosure of encumbered and unencumbered assets*.

1. General comments

ESBG welcomes the opportunity to provide comments on the current consultation paper and on the whole believe that the EBA has presented fair and clear disclosure templates.

ESBG has some general concerns regarding the current proposal for disclosure of encumbered and unencumbered assets. Firstly we are concerned with some of the disclosure requirements due to the inherent market sensitive information relating to encumbered and unencumbered assets which would require further interpretation guidance if they are to be publicly disclosed. The information provided is very sensitive and an erroneous interpretation may have unintended consequences for entities. It may for example restrict access to funding for the reporting entity.

Secondly we are concerned with the level of detailed information required in some of the templates. Financial institutions need time for the implementation of reports, the setting up of a steering process and the development and implementation of changes to the IT infrastructure. This is time-consuming. We therefore ask that the EBA considers a timeframe which allows banks to implement the relevant process to ensure the required quality in the reports and in disclosure.

2. Comments on the questions from the Consultation Paper

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**

ESBG cannot support a further breakdown of categories in template A as the underlying data requirements are already extremely complex involving data managed in different divisions such as Risk, Accounting, ALM, Liquidity etc. Additionally, as mentioned above the information provided is extremely sensitive and more granular disclosures may have extensive unintended negative repercussions on reporting entities. ESBG also do not believe that there is any obvious added value of providing additional information.

The preparation of the disclosures would become too time and resource consuming, especially during the initial period where financial institutions need also to tackle new reporting requirements in relation to Basel III reporting requirements such as the Leverage Ratio and also FinRep, whilst working extensively on the AQR, the EBA Stress Test and various national quality review initiatives.

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**

It is the understanding of ESBG that no uniformly defined quality indicator exists currently. Thus there is a risk of including information on the quality of the assets as users of the information would not be able to interpret the data disclosed by different entities in a comparable manner. We therefore do not believe that it would be appropriate to include this type of information in the disclosures. Should a uniformly defined quality indicator be developed in the future then information on the quality could be included if demanded by the users of the information.

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 no more than 6 months?

ESBG believes that for financial institutions that do not have a large repo business it may be possible to extract this information by considering 040 together with the delta between line 010 and 040 in conjunction with C 040. This could result in an adverse effect on the financial institution compared to other financial institutions.

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

ESBG is concerned that mandatory disclosures of this information could result in misinterpretations of the data. For collateral received where encumbrance is not an option due to technical reasons a user of the disclosures may incorrectly draw the conclusion that the collateral received is classified as junk.

ESBG also questions the information-value to a user of the disclosures in obtaining information regarding collateral which cannot be used for encumbrance since this collateral cannot be realised in case of an entity's insolvency.

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

ESBG supports the proposed level of granularity of Template B and is not convinced that additional granularity of the information provided in Template B would provide information that is more relevant to the reporting of encumbered and unencumbered assets. It is the understanding of the ESBG that collateral swaps with Central Banks are very rare and we do not believe that the disclosures of these would provide any added value to the disclosures.

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, as set out in paragraph 8 below)? Please explain the relevance of this information for market participants and the sensitivity of the disclosure of this information

ESBG supports a qualitative presentation of the information in Template D rather than the current proposal in Template C. These disclosures are highly sensitive and as disclosures on collateralised liabilities are already disclosed in the Annual Report ESBG is concerned that the proposed disclosures from the EBA could result in misinterpretations of the data provided.

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

As financial institutions will not have sufficient data available to calculate median values for 2014 ESBG would ask that for the purposes of the 2014 disclosures financial institutions prepare values based on point in time for the year-end reporting figures. Going forward we would favour the reporting of median values in order to avoid introducing a volatility component to the disclosure, a median value is a more stable view of the level of encumbrance.

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?

ESBG would ask that the EBA provides a very clear statement to the effect that non-disclosure of Emergency Liquidity Assistance by Central Banks should not be disclosed so that there is no risk of ambiguities or misinterpretations. ESBG is very concerned that entities will be required to provide highly sensitive business information as a result of the narrative disclosure requirement.

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?

ESBG agree with a disclosure time lag of no more than six months after the publication of the financial statements.

About ESBG (European Savings and Retail Banking Group)

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and promote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,300 billion, non-bank deposits of €3,480 billion and non-bank loans of €3,950 billion (31 December 2012).

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