EBA/CP/2013/48

European Banking Authority

Sent through EBA Website

**Re: Consultation Paper on draft guidelines on disclosures of encumbered and unencumbered assets**

Dear Sirs

HSBC Banking Group appreciates this opportunity to respond to the European Banking Authority regarding its consultation paper on “disclosures of encumbered and unencumbered assets. HSBC understands the objective of the paper and supports the proposed EU common reporting framework, this should ensure consistency and allow competent authorities to compare and contrast risk both within the same institution and across the industry.

**General Comments**

Whilst we appreciate and support the EBA’s goal to better manage the risk associated with encumbrance in general and the reporting thereof, we are concerned around the scope of reporting and timing of implementation. We have following general comments

1. We believe that reporting requirements should be aligned to the extent possible to current EDTF requirements.
2. We also believe that it not factually correct to disclose the assets which are encumbered under the emergency liquidity assistance facilities as unencumbered. They would be encumbered to the extent of the drawings, in accordance with the current EDTF encumbrance disclosure. Removing existing disclosures could be destabilizing for the market. Further these will be against the true and fair presentation of the accounts to investors and auditors will also not be able to sign off on such disclosure.
3. Further we would also like to state that information at point in time should be reported rather than median values. It is better from cost and amount of work required to accomplish the desired information and consistency with the COREP process.
4. As the scope of the requirements around this reporting for an EU lead regulated bank is both at single entity and consolidated level, this requires a global financial services group, such as HSBC, to implement in many jurisdictions across the globe. We are committed to undertaking just such a requirement, but with the ongoing commitment to report other reporting requirements under CRR we believe the current timescale, as proposed, is wholly inappropriate and unachievable given the amount of system implementation required to automate these reports. We think that a timescale of between 12-18 months post final EBA decision making process on this disclosure is appropriate, this indicates implementation not before Dec 2015.

**Response to questions posed by EBA**

Q1. 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.

EBA should align their requirement with the EDTF recommendations.

Q2. 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.

We believe IFRS 7 gives comprehensive details on these assets, and it is not necessary to go beyond these requirements.

Q 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*)?

It would be far preferable to use period end data rather than median values to ensure consistency with the COREP framework.

We do not have any view on the disclosure required in template A

Q4. 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.

We do not have any view on this question.

Q5. 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.

We are satisfied with the current format of template B

Q6. 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.

We do not have any views on this.

Q7. 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 think it is very important that information at point in time is better than median from process, cost and amount of work required to accomplish the desired information.

Q8. 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?

We are usually in favour of the prescriptive guidelines as to narrative information required under template D so that there is consistency among the reporting institution.

Q9. 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?

We suggest that such disclosure should be published with the financial statements as not disclosing such information will be against the Corporate Governance Code which places a duty on directors to present a fair and balanced assessment of the firm’s position which could not be provided if the institution was heavily encumbered at time of presenting financial statements.

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HSBC Group appreciates the opportunity to share feedback and is happy to engage with regulators to further consider the issues around disclosure requirements.

Sincerely,

Mark Sinclair

(Group Head of Liquidity Policy and Control)