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FBF response to EBA Consultation Paper 2013/48 on disclosure of encumbered and unencumbered assets

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 425 commercial, cooperative and mutual banks. FBF member banks have more than 39,000 permanent branches in France. They employ 380,000 people in France and around the world, and service 48 million customers.

The French Banking Federation appreciates the opportunity to express the views of the French banking sector on the Consultation Paper on disclosure of encumbered and unencumbered assets. We agree with the need of providing more transparency on asset encumbrance disclosure within a framework of gradual approach and ensuring that the level of liquidity assistance given by central banks cannot be detected, as recommended by the ESRB.

However, we have the following concerns:

Disclosures: relevance and best practices

We understand EBA's concerns about providing transparent and harmonised information on asset encumbrance in order to better understand the liquidity profiles of institutions. However, we believe that initiatives such as the EDTF recommendations should be better taken into consideration when requiring additional disclosures. These recommendations align needs of market participants with the issues that have been raised related to asset encumbrance in recent years. They promote a better understanding of the relevancy and definitions of such disclosures. They put focus on best practices.

Therefore, we believe that the EBA should stick to the existing recommendations. Moreover, as these disclosures are new requirements and as experience on meaningful information related to this matter is limited, a gradual approach based on best practices should be followed in order to evaluate future improvement needed instead of already defining set of templates.

Moreover, we believe that location of disclosures should not be specified. Flexibility should be retained so that banks would not change the current location of the information they already publish on asset encumbrance. We may add that location of disclosures and scope of consolidation applied should be consistent. Accordingly, information published in the Pillar III report would be based on a prudential consolidation scope, whereas information published in the annual reports would be based on an accounting consolidation scope.

Narrative information

The EBA consultation paper states that narrative information on encumbrance is mandatory whilst the ESRB recommended providing such information on a voluntary basis. We suggest that narrative information should be disclosed when only relevant.

Use of median value

We see no merits to use median value instead of point in time figures. This would make these disclosures less comparable and reconcilable with balance sheet figures.

Our comments to the questions of the consultation paper are detailed in the Appendix to this letter. We hope you find them useful and would be pleased to provide any further information you might require.

Appendix

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.

The disclosure information should not be more granular as these data are very sensitive and as they could highlight to market that for instance all our assets are encumbered assets. We believe that granularity of information should be based on relevance.

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 do not believe that information on the quality of these assets should be disclosed. We see no relevant indicators to be available to allow correct assessment of the quality of the assets. Although ratings are indicators to assess credit quality, many efforts are made to limit the reliance on ratings.

We would like to highlight that disclosing any information relative to the quality of assets is very sensitive, notably for EU institutions which would be subject to such a requirement whilst institutions in other jurisdictions are currently not subject to such requirements. This might be erroneously interpreted by investors as a weakened position of EU institutions compared to institutions in other jurisdictions.

Moreover, this type of data is not required in the EBA asset encumbrance reporting, so we do not see any reason to report more information to investors than to supervisors, especially taking into account the extra operational burden to prepare these figures.

Q3: 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)?

We do not believe that template A allows identification of what is pledged to a central bank.

Moreover we do not believe that information should be disclosed based on median values as it would not meet comparability and reconciliation (please refer to question 7).

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 believe that the information on unencumbered assets drawing a distinction between available and not available assets for encumbrance is relevant for investors.

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.

Yes we agree that it would be inappropriate to disclose information on collateral swaps with central banks because this information is too sensitive.

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.

This analytical approach (breakdown of encumbered assets by sources of encumbrance) as proposed by this consultation is only partially relevant because of current collateral management practice of the market, including central banks. A significant portion of the collateral is managed on a global basis, through assets pools (Pool 3G Banque de France, Triparty collateral management...) and it is not always possible to report the source of encumbrance of a given security. This is why internal options would be taken by banks in order to disclose this information, which would affect comparability. From a practical point of view we recommend to disclose only the total amounts (L10).

On this matter, narrative information about collateral management would be more adequate.

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 do not understand the rationale of requiring a median value.

We believe that requiring a median value makes no sense. Such information would not be easily understandable by the investors who may wish to match those values with balance sheet figures. It would not fulfill the criterion of transparency as it would not match with the BS figures.

We favor BS figures end of period (point-in-time figure). They are less burdensome to implement, they allow comparability across institutions and they are reconcilable with financial statements point in time figures.

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?

The EBA consultation paper states that narrative information on asset encumbrance becomes mandatory whilst the ESRB Recommendation suggests that the information should be requested on a voluntary basis;

We see no reason for the EBA request to be mandatory.

Therefore, we believe that financial institutions should provide information relating to the importance of encumbrance that may be useful to users on the sole voluntary basis.

As far as the emergency liquidity assistance by central banks information is concerned, we believe that the information is very sensitive information to be disclosed. We have not experienced the consequences of disclosing such sensitive data as far as market and investors reactions are concerned. Therefore, we believe that even narrative information should be considered deeply as regard to materiality and other compliance issues such as stock exchange regulations that might interfere.

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 agree on the proposal of publishing the disclosures no later than six months after the publication of the annual financial statements.