

Comments

EBA Consultation paper EBA/CP/2016/05
“Draft Regulatory Technical Standards on
disclosure of encumbered and unencumbered
assets under Article 443 of the CRR”

Register of Interest Representatives
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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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General comments

1. Although the EBA consultation paper is based on templates A, B, C and D of the guidelines issued in June 2014, the EBA now proposes requiring the disclosure of further qualitative and quantitative information (e.g. in relation to assets and collateral in EHQLA and HQLA). This will give rise to organisational and operational implementation issues since banks will need to upgrade their IT systems.
2. We note that the consultation paper does not mention a time frame for implementing the revised templates. The EBA should ensure that sufficient time is given to banks for their implementation. Should the EBA decide to retain the EHQLA and HQLA metrics as the asset quality indicator, we envisage a minimum period of two years for the reasons given in our reply to Question 4 and also taking into consideration the numerous regulatory and IFRS projects that banks are currently in the process of implementing.

Replies to the questions

Question 1: Given the balance between transparency and the need to avoid detection of central bank liquidity assistance, do you agree with the disclosure requirements proposed in this RTS? Do you agree with the fields in the Templates that are required to be disclosed? Please provide reasons for your answer.

We do not agree with the proposal to require the disclosure of debt securities broken down by type of instrument. This would enable users to infer details about the portfolio, which would force banks into a defensive position in the event of a sale.

Question 2: Based on your experience with providing information according to the 2014 Guidelines or with using information disclosed as per these Guidelines, do you believe that the use of median values for disclosures offers sufficient relevant information while also addressing potential financial stability concerns or would you prefer disclosures using end of period values? Is there another appropriate value for disclosure? Please provide reasons for your answer.

We agree that the use of median values for disclosures offers sufficient relevant information.

Question 3: Do you agree that the 'median of the sums' method is the most relevant to be used in calculating a "Total" or "Sub-total" row in the case median values are used for disclosure? Please provide reasons for your answer.

We agree that, if median values are used for disclosure, the "median of the sums" method is the most relevant for calculating a "total" or "sub-total" row.

Question 4: Do you agree with the disclosure of assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA) in accordance with Commission Delegated Regulation (EU) 2015/61 as the most relevant information possible in terms of asset quality of encumbered and unencumbered assets? Please provide reasons for your answer. In case you disagree with the disclosure of the EHQLA and HQLA metrics, please indicate the most appropriate alternative metrics according to you (central bank eligibility, traditional asset quality indicator, risk-weights, internal

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rating/asset quality step, external rating, or another indicator) for providing relevant information on the asset quality of encumbered and unencumbered assets.

We do not agree with the expectation expressed in the consultation paper that the use of EHQLA/HQLA would not cause undue cost or effort for banks since EHQLA/HQLA identification is already required under the liquidity framework. Certain balance sheet positions are not relevant to determining liquidity coverage due to its definition and, as a result, not all balance sheet positions are today identified using the EHQLA/HQLA concept.

This applies, for instance, to reporting central bank eligibility. Eligibility for central bank operations covers loans to non-financial corporations, which we consider an important category of assets. These do not qualify as EHQLA or HQLA, however. If, for example, central bank liquidity has been obtained using industrial loans as collateral, this collateral may not count as EHQLA or HQLA despite its eligibility at central banks.

The disclosure of asset encumbrance will require banks to identify the asset quality of all balance sheet positions. Using EHQLA/HQLA as an asset quality indicator for the purpose of asset encumbrance disclosure would therefore generate significant implementation effort and costs.

A breakdown by asset type and central bank eligibility would be the most suitable and preferable solution as it would provide the most relevant information and be less burdensome to implement than any other indicator. What is more, the eligibility at central banks of the encumbered and unencumbered assets would be a better indicator than EHQLA/HQLA for the following reasons.

- Its use is better suited to meeting the objective of disclosing asset encumbrance, namely the provision of information on the existence and availability of bank assets which can be used as collateral to secure funding. This is different from the objective of the liquidity framework, which is designed to ensure that banks have sufficient assets to ride out short-term liquidity disruption. Moreover, since central bank eligibility is also required under the LCR framework, the ESRB's recommendation to take the liquidity framework into consideration would also be followed by using this metric.
- It is the most realistic indicator of an institution's ability to obtain funding from its central bank and therefore provides users with more useful information.
- Since its use is also mandatory for supervisory reporting purposes, the information is readily available and would therefore not be onerous for institutions to implement.
- It can be applied to all types of exposure.
- "Eligibility" is defined directly by national central banks.

Question 5: Do you agree with the qualitative disclosure requirements in Template D? In case of disagreement, please identify any requirement you disagree with or state any disclosure requirement you would like to see enhanced or included in Template D.

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Question 6: Does the proposed annual disclosure frequency meet the needs of users for transparency? Please provide reasons for your answer.

We agree that the proposed annual disclosure frequency should meet the needs of users for transparency.

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As to the timing of the disclosure, we believe the current procedure should be retained. At present, all disclosures, including information on asset encumbrance, are published in a single Pillar 3 report, which has to be issued shortly after publication of the bank's annual financial statements. The proposed requirement to disclose asset encumbrance data "no later than six months after the reference date of the annual financial statements" makes little sense and should therefore be deleted.