

European Banking Authority
Tower 42 (Level 18)
25 Old Broad Street
London EC2N 1 EX

1 July, 2013

Dear Sir/Madam

Standard Chartered response to EBA Draft Implementing Technical Standards on Asset Encumbrance Reporting

Standard Chartered PLC is listed on the London, Hong Kong and Bombay Stock Exchanges. Standard Chartered is an international bank with 1,700 branches and offices in 68 markets, predominantly in Asia, Africa and the Middle East. This international perspective, coupled with our deep local knowledge, enables us to meet effectively both the local and cross-border needs of our clients and customers.

We welcome the opportunity to comment on the draft Implementing Technical Standards (ITS) on Supervisory reporting on "Asset Encumbrance Reporting under article 95a of the draft Capital Requirements Regulation."

Key points

Our key concerns are highlighted below:

- It is unclear how the Data Point Models (DPM's) for asset encumbrance, Common Reporting (COREP), Financial Reporting (FINREP) and Liquidity relate which adds complexity to the reporting process. In particular, we would like to understand why so much data is required to be reported under asset encumbrance when already covered elsewhere and what risks are being mitigated by the reporting of this detailed information. The templates require the reporting of balance sheet subordination and liquidity, whereas, liquidity is already covered through the reporting in relation to the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). We would, therefore, suggest that asset encumbrance should concern only balance sheet subordination.
- Given the need for the EBA to consider the responses to this Consultation Paper and issue a final ITS, we understand why the paper does not specify an implementation date. Furthermore, given the level of granularity required in the asset encumbrance templates, with over 1,200 data points constituting 42% of the existing FINREP templates, a successful implementation of a reporting solution for these complex set of requirements will take at least 12 to 18 months to complete. The EBA is, therefore, requested to bear the implementation timeframe in mind when setting an effective date for asset encumbrance.

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Questions asked in the consultation

We provide comments to the specific questions asked in the consultation below:

Q1) *Is the definition of asset encumbrance sufficiently clear?*

The definition of asset encumbrance is unclear in relation to a reverse repo. It is standard market practice for banks to repo in securities (reverse repo) and then use these securities for their own liquidity management up to the contractual date of the trade. More clarity is required to ascertain whether these securities would be disclosed as being encumbered or unencumbered. It is important for the treatment to be clear and consistent with LCR to ensure the encumbrance ratio and LCR to follow the same pattern or behaviour depending on the reverse repo activities of a bank. For example, level 1 assets are treated as 0% roll off under LCR and are, therefore, assumed to be Liquid Asset Buffer (LAB) eligible. Are these assets considered to be encumbered? This would assume all of LAB is to be treated as encumbered and, therefore, not eligible for use under a stress. There is a greater need for clarity over the linkage between encumbrance reporting and LCR, with reverse repo being the main area of focus.

Q2) *Do you agree with the decision to follow the level of application as set out for prudential requirements? If not, what other level of application would be appropriate?*

On the basis that the main purpose of asset encumbrance is to ascertain balance sheet subordination, a consolidated position is likely to be more closely aligned to information that is publicly available and consistent with the other FINREP templates which are also required at Group level. Requiring other levels of application would add to the cost and time required for implementation.

Q3) *Do you believe the chosen definition of asset encumbrance ratio is appropriate? If not, would you prefer a measure that is based solely on on-balance sheet activities (collateral received and re-used, for instance from derivatives transactions would not be included) or a liability?*

A ratio using both on-balance sheet and off balance sheet items which is linked directly to the reporting requirements, should reduce the complexity of the process by not requiring additional information to be sourced.

Q4) *Do you agree with the thresholds of respectively 30 bn. € in total assets or material asset encumbrance as defined as 5% of on- and off-balance sheet assets encumbered? If not, why are the levels not appropriate and what would be an appropriate level? Should additional proportionality criteria be introduced for the smallest institutions?*

We believe an exemption based on total assets would be more appropriate as one based on 5% of on- and-off-balance sheet would still require an institution to calculate the encumbrance.

Q5) *Under what circumstances might unencumbered assets of the types of loans on demand, equity instruments, debt securities and loans and advances other than loans on demand not be available for encumbrance?*

Whilst this is difficult to envisage, unencumbered assets might become unavailable for encumbrance in certain situations of stress affecting counterparties, for example, conditions specific to an individual entity, such as bankruptcy, or specific securities such as Mortgage Backed Securities or in particular jurisdictions such as Greece.

Q7) *Do you believe the central bank repo eligibility criteria is an appropriate marketability criteria or should other criteria, such as risk weights, be used? If other criteria should be used, what could be the alternative?*

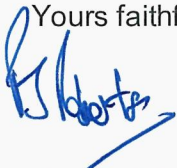
We would question how Central Bank repo eligibility is defined e.g. will it be restricted to EU and US central banks or more broadly interpreted across the footprint of an entity's global operations? We believe it is important for international banks, like Standard Chartered with a significant presence in emerging markets, that the definition of Central Bank repo eligibility should be based on their global footprint, rather than concentrated in the EU and US.

Central Bank repo eligibility criteria has been shown to change during times of stress. A risk weighting approach is less flexible and could mean that assets placed with Central Banks being reported as eligible during a period of stress although the eligibility criteria had changed. We would, therefore, support the eligibility criteria based on the Central Bank repos.

Q10) *Do you identify any overlaps with the existing reporting framework, which could be mitigated?*

Whilst we understand the reporting of incremental information, we are concerned about the duplication of effort involved in providing data sets that are similar in nature to those provided under other work streams. Whilst reporting entities can leverage off the information gathered the need for such information being required is brought into question. Our concern particularly stems from the reporting requirements within the Consultation Paper that specify the reporting of both balance sheet subordination and liquidity information as liquidity related data is covered through the NSFR and LCR work streams. We would, therefore, recommend that the EBA considers restricting the scope of the Asset Encumbrance work stream to balance sheet subordination related information.

Yours faithfully



Peter J Roberts
Head, Group Regulatory Reporting