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Consultation Paper - Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR

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 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to comment on the EBA's Consultation on disclosure of encumbered and unencumbered assets under Article 443 of the CRR.

Please find below our general comments and our detailed responses to the questions raised in the Consultation Paper.

General comments

- The EBA recalls in the Consultation Paper that the proposed disclosures are intended for the purposes of the disclosure requirements in Part Eight of the CRR and should not be used for the purposes of IFRS requirements. Thus, we believe that the EBA should clarify that information collected on asset encumbrance will be part of the Pillar 3 report and not be part of the financial statements.
- Compared to the ITS reporting on asset encumbrance, the Consultation paper requires additional qualitative and quantitative information that will have operational impacts and that will need further IT developments.
- The Consultation Paper provides no guidance related to the timeframe. Sufficient time should be provided to banks to implement the new disclosures requirements and to comply with the proposed guidance. As a general rule and based on past experiences 12 to 18 months should be given between the final version of the templates and the date of first publication. Moreover, should the EHQLA / HQLA data be retained as asset quality indicator of encumbered and unencumbered assets, a two-year period should be envisaged due to the IT development needed to fulfil the requirements and the other regulatory and reporting projects undertaken.

Answers to the questions for consultation

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 agree with the disclosures requirements in this RTS and with the fields in the Templates which are required to be disclosed.

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 disclosure using end of period values? Is there another appropriate value for disclosure? Please provide reasons for your answer.*

We believe that using end of period values will provide easily understandable information to users and investors as those values could be matched with balance sheet figures. Using end of period values would meet the transparency criterion and would allow comparability across institutions.

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 case the median values are used for disclosure? Please provide reasons for your answer.*

As explained in point 2, we believe that the use of median values is not relevant for disclosure purposes, thus the "median of the sums" method should not be used in calculating a "Total" or "Sub-total" row.

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 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 believe that using the EHQLA / HQLA metrics is the most appropriate indicator to determine the asset quality of the encumbered assets and unencumbered assets.

The objective to disclose encumbered and unencumbered assets quality is to provide information on the capacity of banks to maintain sufficient level of assets to secure funding and to cover their potential funding and collateral needs, whereas the information on EHQLA / HQLA aims to reflect the necessary level of eligible assets to meet the short-term liquidity needs within the liquidity framework.

Therefore, we believe that a breakdown by asset type and central bank eligibility is the most appropriate alternative metrics. This should concern every central bank, even for banks which do not have access to central bank refinancing facilities, because it remains a good measure of the liquidity of an asset.

Indeed, it will meet the objectives of assets encumbrance disclosures as it will provide information on funding and collateral needs by type of operation and on the capacity of banks to obtain funding from their central banks and thus, it will be more useful to users. It is also less burdensome to implement as required for supervisory reporting purposes and already available. Moreover, this metrics could give an indicator of the liquidity of loans, which could be eligible to central bank refinancing, when the HQLA eligibility concerns only securities.

In addition, using EHQLA and HQLA data collected for the liquidity framework purposes would not reduce costs of implementation as data related to EHQLA or HQLA for encumbered assets are not currently provided in the IT systems. Should the EHQLA / HQLA disclosures as asset quality of encumbered and unencumbered assets be maintained, it would imply further developments to collect the information and to automatize the data streams and it would require necessary longer time periods in order to implement the new disclosures.

Besides, the breakdown of encumbered and unencumbered assets for EHQLA and HQLA assets is not required in the ITS.

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.*

We agree with a general narrative information and description on asset encumbrance of the institution, but we believe that the model proposed in template D should be informative rather than prescriptive.

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 meet the needs of users for transparency.