

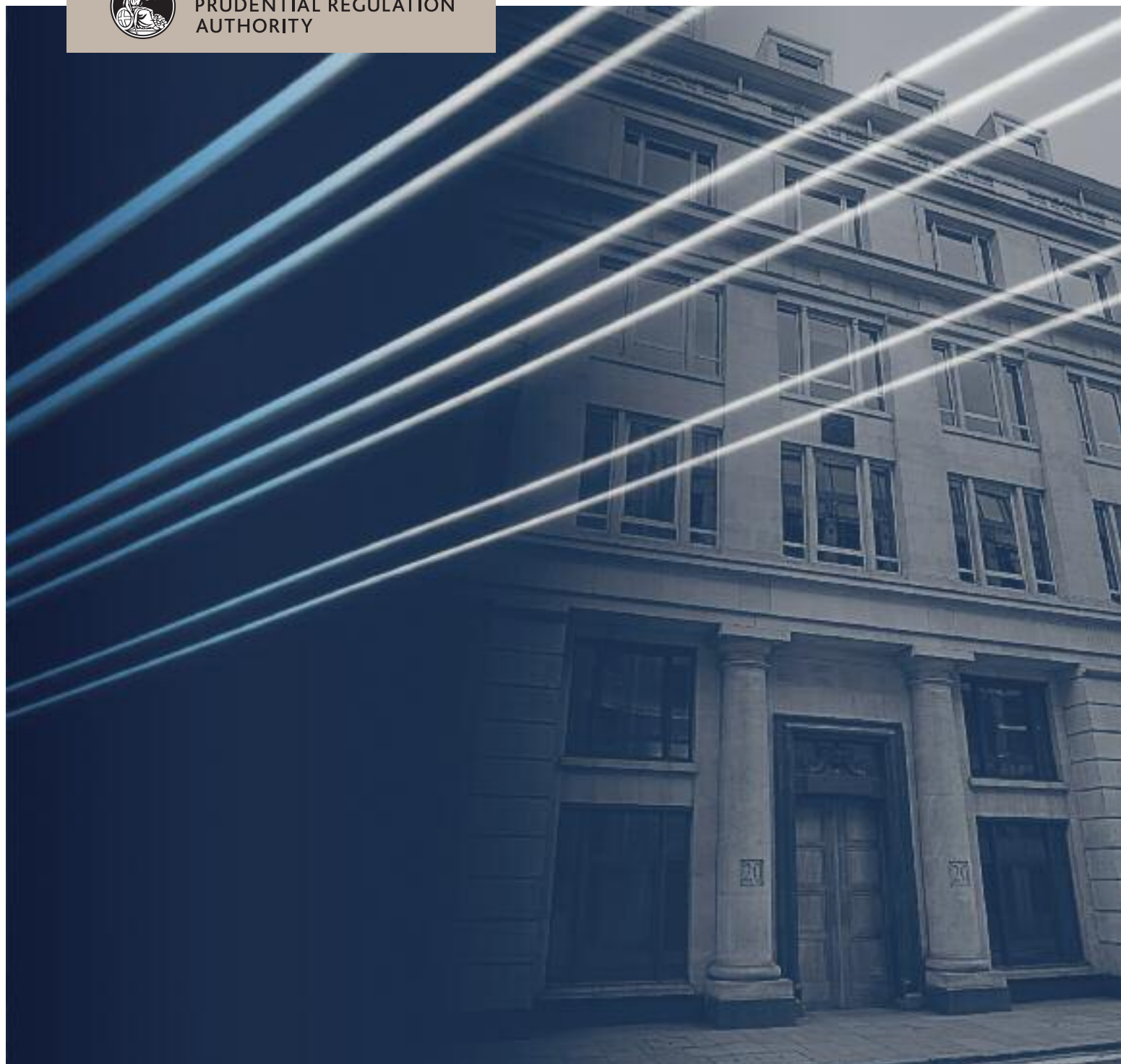
Supervisory Statement | SS11/14

CRD IV: compliance with the European Banking Authority's Guidelines on the disclosure of encumbered and unencumbered assets

December 2014



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



22 October 2018: This SS ceased to apply to firms on Tuesday 2 January 2018 when it was superseded by Regulatory Technical Standards, see the dedicated webpage for this SS on the Bank of England website.

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1 Introduction

1.1 This supervisory statement sets out a waiver from the requirement to disclose template B of the European Banking Authority's Guidelines on disclosure of encumbered and unencumbered assets⁽¹⁾ (the EBA Guidelines). It also sets out the Prudential Regulation Authority's (PRA's) expectations in respect of certain aspects of firms' compliance with the EBA Guidelines. This supervisory statement is not intended to provide guidance on meeting disclosure obligations other than the EBA Guidelines.

1.2 The purpose of the supervisory statement is to help the PRA meet its primary objective of promoting the safety and soundness of firms. The ability of central banks to undertake liquidity assistance effectively, including the orderly disclosure of that assistance, is regarded as critical to financial stability. In recognition of this, the EBA Guidelines allow competent authorities to waive the requirement to disclose template B. This supervisory statement seeks to reduce the risk that firms' compliance with the EBA Guidelines could enable the use or non-use of liquidity assistance to be deduced.

1.3 This supervisory statement is relevant to firms to which CRD IV applies.⁽²⁾

2 Responses to feedback

2.1 The PRA consulted on a draft of this supervisory statement in CP18/14.⁽³⁾ Three responses were received. One response supported the proposal in full. The PRA has considered the comments in the remaining two responses. They refer to options considered by the PRA prior to consultation. However, these responses did not produce new information that would have suggested the consultation's proposals are not valid. Therefore the PRA considers that no policy changes are needed as a result and the cost benefit analysis in CP18/14 is unaltered. One comment suggested phasing in implementation of the proposals over two years. This option is not available as the EBA Guidelines will be reviewed after one year and the EBA will develop binding technical standards on asset encumbrance disclosure by 2016.

3 Waiver of disclosure of template B of the EBA Guidelines

3.1 Title II paragraph 4 of the EBA Guidelines allows competent authorities to waive the requirement to disclose template B if disclosure of this template 'would allow, now or in the future, for the detection of liquidity assistance provided by central banks via collateral swaps'.

3.2 The PRA considers that such disclosure would have that result for some firms. The PRA therefore waives the

requirement to disclose template B of the EBA Guidelines for firms that meet at least one of the following criteria at the reporting reference date:

- (a) Both conditions laid down in Article 94(1) of the Capital Requirements Regulation (CRR) relating to the size of on and off balance sheet trading book business are met.
- (b) The fair value of collateral received by the firm in the form of debt securities (including both encumbered and unencumbered amounts), as reported by the firm in accordance with CRR Article 100,⁽⁴⁾ has not exceeded £100 billion for any single reporting reference date under CRR Article 100 in the twelve months preceding the reporting reference date under the EBA Guidelines. If the firm has yet to report under CRR Article 100 at the first reporting reference date for the EBA Guidelines, then the amount as at the first reporting reference date under CRR Article 100 should be used instead.
- (c) The arithmetic mean of the fair value of collateral received by the firm in the form of debt securities (including encumbered and unencumbered amounts), calculated using monthly data on a rolling basis over the twelve months immediately preceding the reporting reference date, is less than £100 billion. The monthly data used should be calculated in a manner that is consistent with the data reported in accordance with CRR Article 100. For the purpose of calculating monthly data, firms are expected to use data that are readily available. It is acceptable to interpolate between quarterly data reported in accordance with CRR Article 100 — or other sources — when there is no reason to believe that it would not result in reasonable approximations of the monthly data. For the first calculation, firms may use available data for a one-year period to estimate the arithmetic mean.

3.3 If a firm is satisfied it meets one of the above criteria at the EBA Guidelines' reporting reference date, no further assessment against the other criteria is needed. Firms do not need to apply for the waiver.

(1) The EBA Guidelines (published on 27 June 2014) are available at www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-disclosure-of-encumbered-and-unencumbered-assets.

(2) The Capital Requirements Directive (2013/36/EU) (CRD) and the Capital Requirements Regulation (575/2013) (CRR) — jointly, 'CRD IV'.

(3) *PRA Consultation Paper CP18/14*, 'CRD IV: compliance with the European Banking Authority's Guidelines on disclosure of encumbered and unencumbered assets', September 2014; www.bankofengland.co.uk/pr/Documents/publications/cp/2014/cp1814.pdf.

(4) This is the information reported under the EBA's *Implementing Technical Standards on Supervisory Reporting Annex XVI Template F 32.02* available at www.eba.europa.eu/regulation-and-policy/supervisory-reporting/draft-implementing-technical-standard-on-supervisory-reporting-asset-encumbrance-.

4 PRA expectations regarding the use of discretion available to firms in complying with the EBA Guidelines

4.1 In the context of complying with the EBA Guidelines, firms have various discretions, including determining the appropriate level of disclosure, the basis of calculation for median values and the frequency of disclosure. The PRA expects firms to exercise the discretions they have in a manner that is consistent with the PRA's primary objective of promoting the safety and soundness of firms. Firms would do this by reducing the risk that information disclosed about encumbered and unencumbered assets, for the purpose of complying with the EBA Guidelines, could enable market participants to deduce the use or non-use of liquidity assistance provided by the Bank of England.

Determining the appropriate level of disclosure

4.2 In determining the appropriate level of disclosure for the purpose of complying with the EBA Guidelines, the PRA expects firms to consider the principles underlying the following:

- The European Systemic Risk Board (ESRB) Recommendation ESRB/2012/2 of 20 December 2012⁽¹⁾ 'to ensure that the level and evolution of assets encumbered to central banks, as well as the amount of liquidity assistance given by central banks, cannot be detected'.
- The Bank of England has noted that 'in relation to liquidity support operations, considerations of policy effectiveness and transparency have the potential to conflict with each other. But even here the conflict can be reconciled through time: for any given instance of liquidity support, the financial stability benefit of keeping that assistance covert is only temporary. With a sufficient lag, disclosure that a firm had received temporary liquidity support from the Bank should not undermine confidence in that firm or the financial system as a whole. This also explains why the Bank publishes data on the use of its Discount Window Facility (DWF) with a five-quarter lag'.⁽²⁾
- The Bank of England has highlighted in its *Sterling Monetary Framework Annual Report 2013–14* that '(T)he Bank sought to reduce the financial stability risks posed by premature disclosure of DWF drawings by extending its own disclosure lag and ensuring that firms have the capacity to turn over their liquid assets in repo markets regularly. The Bank continues to argue the case for ensuring that new national and international liquidity disclosure regimes do not increase that risk through other channels'.⁽³⁾

Basis of calculation for median values

4.3 The EBA Guidelines require the quantitative information to be disclosed based on median values of at least quarterly

data. As the EBA Guidelines explain, this is 'to provide users with information on longer-term structural levels of encumbrance' whilst at the same time 'recognising the need for central banks to retain the ability to undertake covert liquidity support operations to ensure there is financial stability'.

4.4 To ensure these objectives are met as fully as possible, the PRA expects firms to use median values of monthly data on a rolling basis over the previous twelve months, including for the first disclosure, for all numerical disclosures, provided to comply with the EBA Guidelines.

4.5 There is one exception to the PRA's expectation. The PRA accepts that volatility in the level of encumbered assets month to month will not be significant for all firms. Where volatility is not significant, the use of monthly data is unlikely to result in materially different information compared to using quarterly data. This may be the case for firms that, for example, enter infrequently into secured financing transactions, or collateral agreements for relatively small amounts. The PRA does not expect firms in this situation to use monthly data to comply with the EBA Guidelines.

4.6 CRR Article 432 permits firms to omit disclosure of certain information that is not regarded as material. The PRA expects firms to apply the concept of materiality to the EBA Guidelines as they would to other disclosures made in accordance with Part Eight of the CRR.

Frequency of disclosure

4.7 The PRA expects disclosures prepared to comply with the EBA Guidelines to be published no more frequently than annually.

5 Future revisions

5.1 Revisions may be made to this supervisory statement in response to the binding technical standards on disclosure of unencumbered assets that the EBA is expected to develop by 2016, and in light of data gathered under the regulatory reporting of asset encumbrance.

(1) ESRB Recommendation ESRB/2012/2 is available at www.esrb.europa.eu/pub/pdf/recommendations/2012/ESRB_2012_2.en.pdf.
(2) *Bank of England Quarterly Bulletin*, Vol. 54, No. 3, 'Changes to the Bank's weekly reporting regime', available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q309.pdf.
(3) Bank of England 'Sterling Monetary Framework Annual Report 2013–14', 16 June 2014, available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q210.pdf.