MARKET TRANSPARENCY ON ASSET ENCUMBRANCE AND MONITORING THEREOF

SCOPE

1. The scope of this Appendix is to implement the requirements of Recommendations B and C of the Recommendation of the European Systemic Risk Board of 20 December 2012 on funding of credit institutions (ESRB/2012/2) (hereinafter referred to as 'ESRB Recommendation'].

   Provided that in complying with the requirements prescribed in this Appendix, credit institutions shall refer to the instructions provided in the EBA Final draft Implementing Technical Standards (ITS) on asset encumbrance reporting under Article 100 of Regulation (EU) No. 575/2013.

Obligations of credit institutions

2. Credit institutions shall implement risk management policies to define their approach to asset encumbrance as well as procedures and controls that ensure that the risks associated with collateral management and asset encumbrance are adequately identified, monitored and managed. These policies should take into account the business model of credit institutions, the Member States and other jurisdictions in which they operate, the specificities of the funding markets and the macroeconomic situation. The policies shall be approved by the Board of Directors of the credit institution.

3. Credit institutions shall include in their contingency plans, strategies to address the contingent encumbrance resulting from relevant stress events, which means plausible albeit unlikely shocks including downgrades in the credit institution's credit rating (if any), devaluation of pledged assets and increases in margin requirements.

4. Credit institutions shall have a general monitoring framework that provides timely information to the management and the relevant Boards of Directors on:

   (a) the level, evolution and types of asset encumbrance and related sources of encumbrance, such as secured funding or other transactions;
   (b) the amount, evolution and credit quality of unencumbered assets, specifying the volume of assets available for encumbrance;
   (c) the amount, evolution and types of additional encumbrance resulting from stress scenarios (contingent encumbrance).

Obligations of the authority

5. The authority shall:

(a) review the monitoring frameworks, policies and contingency plans put in place by the credit institution in terms of encumbrance and collateral management;
(b) monitor the level, evolution and types of asset encumbrance and related sources of encumbrance, such as secured funding or other transactions;
(c) monitor the amount, evolution and credit quality of unencumbered but encumberable assets available for unsecured creditors;
(d) monitor the amount, evolution and types of additional encumbrance, resulting from stress scenarios (contingent encumbrance).

6. The authority shall monitor and assess risks associated with collateral management and asset encumbrance. This assessment shall take into account other risks, such as credit and funding risks, and mitigating factors, such as capital and liquidity buffers.

Reference Dates

7. The first reporting reference date in relation to asset encumbrance shall be 31 December 2014.