



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

# Session 2

## Market discipline

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Supervisory Reporting Conference

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# Overview

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# 1. Motivation

# Exercise conducted with following objectives:

## BCBS, DIS 10.1

*“The provision of meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system. It reduces information asymmetry and helps promote comparability of banks’ risk profiles within and across jurisdictions. **Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements.** These requirements enable market participants to access key information relating to a bank’s regulatory capital and risk exposures in order to increase transparency and confidence about a bank’s exposure to risk and the overall adequacy of its regulatory capital.”*

- Promote market discipline by publishing Pillar 3 information in a single location accessible to the general public and enabling meaningful comparisons
- Check on the consistency of SIs’ Pillar 3 disclosures with regulatory reporting and prompt corrective action where appropriate

## 2. Scope of the exercise

# Scope of the 2019 Pillar 3 exercise

Topic	Pillar 3 information covered	Sample size
Capital ratios	CET1 ratio, Total Capital Ratio, Leverage Ratio	113
Asset encumbrance	Template A: encumbered & unencumbered assets Template B: encumbered & unencumbered collateral	100*

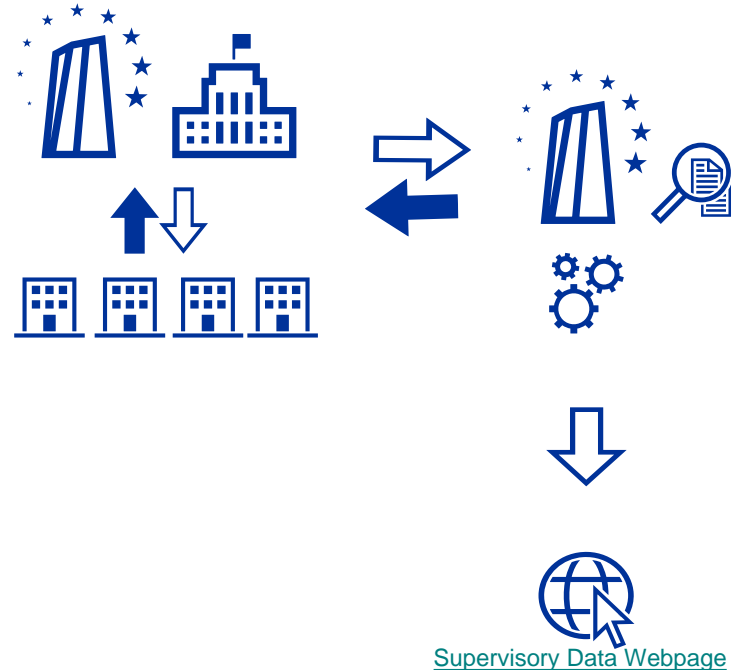
\* according to Article 13 of the CRR, 13 banks are not required to disclose the information specified in Article 443 on an individual or sub-consolidated basis (2 of these banks still chose to disclose). Additionally, based on Article 432(1) of the CRR, 2 banks omitted the asset encumbrance templates due to immateriality.

- Cut-off date: 7 October 2020
- Publication date: 21 October 2020

# Scope: the production process

## Stakeholders involvement:

- **DG-Statistics** collected the Pillar 3 data, reconciled it with supervisory data and coordinated the exercise
- **Joint Supervisory Teams** and banks checked the correctness of data
- **DG-Statistics** sent the final document for publication on ECB Banking Supervision website



## 3. Findings in terms of data quality



# Most frequent methodological issues identified

1. Errors in **data inputs**: use of averages, year-end data or monthly data
  - ✓ *Correct practice: computation of median values based on four quarter-end values*
2. Errors in **data aggregation**: calculation of totals as sums of median values
  - ✓ *Correct practice: calculation of median values based on sum totals*
3. Errors in **data definitions**: disclosure of “other assets” in Template A according to the definition from supervisory reporting
  - ✓ *Correct practice: apply the definition from the disclosure framework, where loans and advances have to be included in “other assets”*

Issues 1 & 2 can be avoided by careful reading of the disclosure template instructions. This holds true also for issue 3, but in addition EBA plans to publish a new comprehensive disclosure ITS, including an official mapping between ITS reporting & Pillar 3.

# Data quality findings: overall results

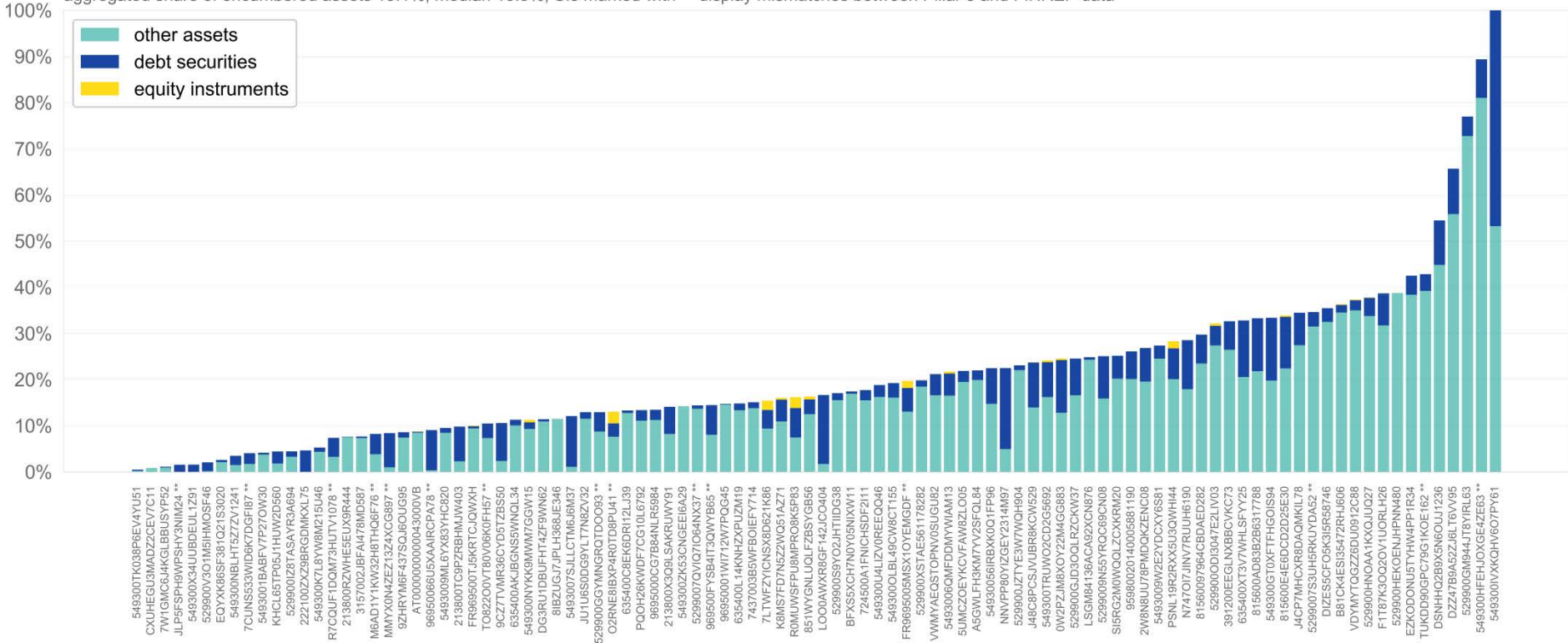
- **38** institutions amended and republished their 2019 Pillar 3 reports
  - *These republications took place during the data quality assessment phase, involving the Banking Supervision Data division and the JSTs.*
- **23** institutions displayed material discrepancies between their Pillar 3 information on asset encumbrance and respective supervisory reporting by the time of publication
  - *At the beginning of the exercise, more than 50 institutions displayed such material discrepancies*

The exercise resulted in **substantial improvements in the consistency between the selected Pillar 3 information and regulatory reporting**. For the 23 institutions which still displayed material discrepancies by the time of publication, supervisory follow-ups are ongoing.

## 4. Insights from asset encumbrance disclosures

# Share of encumbered assets across SSM SIs

aggregated share of encumbered assets 19.1%; median 16.5%; SIs marked with \*\* display mismatches between Pillar 3 and FINREP data



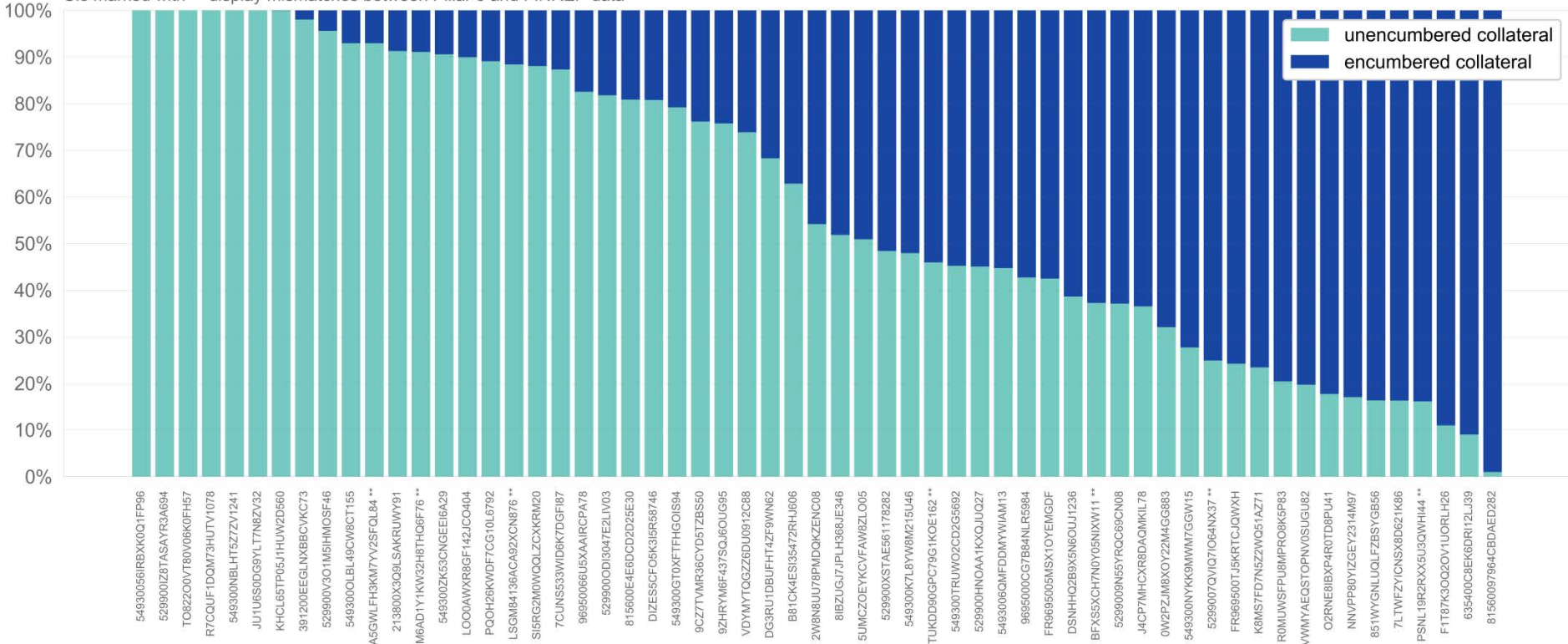
# Share of encumbered assets versus capital ratios

The bubble size corresponds to the total assets of each institution.



# Share of encumbered collateral across SSM SIs

SIs marked with \*\* display mismatches between Pillar 3 and FINREP data



## 5. Annex – links to documents

# Annex – Legal basis

- ECB Publication:  
<https://www.bankingsupervision.europa.eu/banking/statistics/html/index.en.html>
- [Regulation \(EU\) 2017/2295 with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets](#)
- EBA/GL/2016/11 04/08/2017: [Guidelines on disclosure requirements under Part Eight of Regulation \(EU\) No 575/2013](#)
- EBA-CP-2019-09 16 October 2019: [Consultation Paper Draft Implementing Technical Standards On public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation](#)