
U.K. Entities – Asset Encumbrance

Pillar 3 Annual Disclosure Report 2016

As at 31.12.2015

13th June 2016

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1. Introduction

Background to the requirement

Article 443 of Regulation (EU) No 575/2013 ('CRR' henceforward) identifies EBA guidelines on the disclosure of encumbered assets (EBA/GL/2014/03- published 27th June 2014) as the legal source of requirements for the publication of information on Asset Encumbrance by firms.

This disclosure document has been produced in conjunction with those guidelines as well as in conjunction with the PRA Supervisory Statement 11/14 (published 19th Dec 2014) and FCA notes on the disclosure of encumbered and unencumbered assets (published on the FCA website 18th Dec 2014 1)

The disclosure on encumbrance of assets and its publication is made with respect to data for the reporting period, the year ending 31 December 2015, following the EBA guideline Title II, point 11: *"In accordance with Article 433 of the CRR, annual disclosure specified in these guidelines should be published in conjunction with the date of publication of the financial statements. This annual disclosure should be published no later than six months after the reference date of the financial statements."*

Scope of Application

These disclosures are made at the highest consolidated level of J.P. Morgan entities within the U.K and include disclosure for:

- J.P. Morgan Capital Holdings Ltd ('JPMCHL') which is regulated by the PRA and the FCA, the primary subsidiaries of which are J.P. Morgan Securities PLC., J.P. Morgan Europe Ltd., J.P. Morgan International Bank Ltd and J.P. Morgan Ltd.
- Bear Stearns United Kingdom Holdings Ltd. ('BSUKHL') which is regulated by the FCA and the primary subsidiary of which is J.P. Morgan Markets Ltd.
- J.P. Morgan Mansart Management Ltd. ('Mansart') which is regulated by the FCA and does not have a UK Parent entity
- J.P. Morgan Asset Management International Ltd. which is unregulated but contains the FCA regulated entity, J.P. Morgan Trustee and Administrative Services Ltd., and has therefore been included accordingly.

2. Disclosure on Asset Encumbrance

J.P. Morgan Capital Holdings Ltd

Template A - Assets

		Carrying amount of encumbered assets \$m	Fair value of encumbered assets \$m	Carrying amount of unencumbered assets \$m	Fair value of unencumbered assets \$m
		010	040	060	090
010	Assets of the reporting institution	84,708		480,504	
030	Equity instruments	31,398	31,398	9,524	9,524
040	Debt securities	28,545	28,545	28,193	28,193
120	Other assets	92		425,871	

Template B - Collateral Received

		Fair value of encumbered collateral received or own debt securities issued \$m	Fair value of collateral received or own debt securities issued available for encumbrance \$m
		010	040
130	Collateral received by the reporting institution	175,047	112,920
150	Equity instruments	31,273	7,704
160	Debt securities	140,985	105,216
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Template C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent \$m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered \$m
		010	030
010	Carrying amount of selected financial liabilities	160,149	177,996

Template D - Information on importance of encumbrance

The tables above represent the disclosure of encumbered and unencumbered assets as at November 30th 2015. As per the European Banking Authority guidelines (issued 27 June 2014), the median values of monthly data over the previous twelve months has been used to determine the correct months values to report.

Asset encumbrance for JP Morgan Capital Holdings Ltd is almost wholly driven by the subsidiary JP Morgan Securities Plc, whose key sources of encumbrance are repurchase agreements, trading liabilities as well as derivatives activities. The \$426bn of unencumbered 'other assets' at year end is primarily driven by reverse repo and stock borrowing receivables of \$192bn and derivative assets of \$202bn.

Assets and collateral have been encumbered using the definition provided within the European Capital Requirements Regulation (CRR) and accompanying Guidelines on Asset encumbrance (27.6.2014). Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use. The ratio of our encumbered assets and collateral over 2015 ranged from 26.28% to 32.66%, with the 31 December 2015 showing \$84.3bn of encumbered assets. This level of encumbrance has been maintained going into 2016.

Of the items included in the carrying amount of other assets, none would be considered by the entities to be available for encumbrance in the normal course of business.

The JPMCHL group does not practice overcollateralisation (i.e. do not post collateral in excess of that contractually required) with respect to external exposures on OTC derivatives, repos, stock borrows or any other trading asset class. For some significant inter-entity exposures of JPMS plc specific collateral arrangements are in place under which an additional 'buffer' amount is pledged, on top of collateral placed to cover economic and future exposure, to cover variance and volatility within the exposure amount.

The JPMCHL group primarily adopts standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements

Bear Stearns United Kingdom Holdings Ltd

Template A - Assets

		Carrying amount of encumbered assets \$m	Fair value of encumbered assets \$m	Carrying amount of unencumbered assets \$m	Fair value of unencumbered assets \$m
		010	040	060	090
010	Assets of the reporting institution	-		4,952	
030	Equity instruments	-	-	151	151
040	Debt securities	-	-	26	26
120	Other assets	-		4,502	

Template B - Collateral Received

		Fair value of encumbered collateral received or own debt securities issued \$m	Fair value of collateral received or own debt securities issued available for encumbrance \$m
		010	040
130	Collateral received by the reporting institution	3	3,947
150	Equity instruments	-	3
160	Debt securities	3	3,944
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Template C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent \$m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered \$m
		010	030
010	Carrying amount of selected financial liabilities	-	3

Template D - Information on importance of encumbrance

The tables above represent the disclosure of encumbered and unencumbered assets for Bear Stearns UK Holdings Ltd as at 31st March 2015 based on the median values of quarterly data for 2015

Assets and collateral have been encumbered using the definition provided within the European Capital Requirements Regulation (CRR) and accompanying Guidelines on Asset encumbrance (27.06.2014). Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use.

BSUKHL is almost wholly made up of JP Morgan Markets Ltd within which there is very little asset encumbrance. On balance sheet, there are no encumbered assets. The encumbered collateral of \$3m is an internal application to ensure three months operating expenses at 150% are provided for. This level of encumbrance has been maintained and no further sources of encumbrance are expected going forward.

The BSUKHL group does not practice overcollateralisation (i.e. do not post collateral in excess of that contractually required) with respect to external exposures on OTC derivatives, repos, stock borrows or any other trading asset class.

The BSUKHL group primarily adopts standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements..

J.P. Morgan Mansart Management Ltd

Template A - Assets

		Carrying amount of encumbered assets \$m	Fair value of encumbered assets \$m	Carrying amount of unencumbered assets \$m	Fair value of unencumbered assets \$m
		010	040	060	090
010	Assets of the reporting institution	-		22	
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	-	-
120	Other assets	-		-	

Template B - Collateral Received

		Fair value of encumbered collateral received or own debt securities issued \$m	Fair value of collateral received or own debt securities issued available for encumbrance \$m
		010	040
130	Collateral received by the reporting institution	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Template C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent \$m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered \$m
		010	030
010	Carrying amount of selected financial liabilities	-	-

Template D - Information on importance of encumbrance

The above is the disclosure of encumbered and unencumbered assets for J.P. Morgan Mansart Management Ltd as at 30th June 2015 based on the median values of quarterly data for 2015.

Assets and collateral have been encumbered with a manner consistent with the European Capital Requirements Regulation (CRR). Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use. This entity has no encumbrance to report.

J.P. Morgan Asset Management International Ltd

Template A - Assets

		Carrying amount of encumbered assets \$m	Fair value of encumbered assets \$m	Carrying amount of unencumbered assets \$m	Fair value of unencumbered assets \$m
		010	040	060	090
010	Assets of the reporting institution	22		2,725	
030	Equity instruments	-	-	1,395	-
040	Debt securities	-	-	-	-
120	Other assets	22		912	

Template B - Collateral Received

		Fair value of encumbered collateral received or own debt securities issued \$m	Fair value of collateral received or own debt securities issued available for encumbrance \$m
		010	040
130	Collateral received by the reporting institution	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Template C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent \$m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered \$m
		010	030
010	Carrying amount of selected financial liabilities	13	22

Template D - Information on importance of encumbrance

The above is the disclosure of encumbered and unencumbered assets as at December 31st 2015 as per the European Banking Authority (EBA) guidelines (issued 27 June 2014) and FCA guidelines (issued 18 December 2014).

Asset encumbrance for JPMorgan Asset Management International Limited (JPMAMIL) is almost wholly driven by the subsidiary JPMorgan Asset Management Holdings (UK) Limited whose source of encumbrance is derivative activity. The use of asset encumbrance has been relatively stable over time with types of encumbered assets remaining consistent. All collateral has been placed with affiliated entities outside the JPMAMIL regulatory consolidation group. The “other assets” balance is not considered available for encumbrance.

Assets and collateral have been determined as encumbered consistent with the definition provided in the EBA Guidelines on the Disclosure of Encumbered assets (EBA GL/2014/03). Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use.

The JPMAMIL group primarily adopts standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements. Transactions are not generally over-collateralised.