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ECB collateral framework

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Why is it necessary?

All loans awarded to banks from central banks (for the purpose of liquidity sourcing) must be collateralised with eligible collateral with the ECB or the national central bank (the Bundesbank in Germany). The Eurosystem (consisting of the ECB and currently 19 national central banks) uses a single framework for eligible collateral which makes a distinction between marketable assets (including debt instruments of specific rating categories, covered bonds) and non-marketable assets (e.g. credit claims). This framework is set out in [Guideline \(EU\) 2015/510](#), which was amended in the last few years through various other guidelines. Unless specified otherwise, we always refer to the Guideline mentioned above in the following. In principle, marketable assets are pledged by the counterparty – i.e. the credit institutions providing the collateral – while the transfer of non-marketable assets to the relevant national central bank takes place in the form of an undisclosed assignment. Liquidity can therefore be made available in the context of a marginal lending facility in the form of repo transactions; banks can take part in tender transactions or payment transactions can be secured. The collateral assets submitted by the Eurosystem's counterparties are brought together using a pool system or correspondent central banking model (CCMB) (depending on the requirements of the national central bank (NCB) in question)) in a list of eligible marketable assets. As part of the process, the adjusted (i.e. through haircuts) collateral value calculated must always at least cover the total amount of the loan drawn down by the counterparty. An up-to-date list of eligible marketable assets can be found on the ECB's [website](#) (Art. 61). In the following, we focus on common collateral assets and their potential valuation haircuts without any claim to completeness. The last change in the framework and other relevant guidelines took place at the beginning of 2018 and came into force with effect from 18 April 2018.

Requirements for eligibility of collateral (Art. 58)

Eligible assets shall either be provided by a transfer of ownership in the legal form of a repurchase agreement or through the creation of a security interest (i.e. a pledge, an assignment or charge granted over the relevant asset) in the legal form of collateralised loans. When analysing the quality of collateral assets, a distinction is made between marketable and non-marketable assets.

General aspects of the Eurosystem credit assessment framework (Art. 59)

Article 59 of the [Guideline \(EU\) 2015/510](#) moreover lists credit standard requirements applicable to eligible assets. The requirements are defined in the Eurosystem credit assessment framework (ECAF) which lists processes, rules and methods applicable to both types of assets (marketable and non-marketable). Similarly to the risk assessment involved in determining LCR eligibility and the calculation of the risk weight, credit quality requirements are defined in the form of credit quality steps. Accordingly, article 59(3b) of the Guideline (EU) 2015/510 stipulates the following: "All eligible assets for Eurosystem credit operations shall comply, as a minimum, with a credit quality requirement corresponding to credit quality step 3." The Eurosystem publishes information on the credit quality steps (harmonised rating scale) on the [ECB website](#).

Eligibility criteria for all types of marketable assets (Art. 60 et seq.)

The ECB updates the [list of central bank eligible marketable assets](#) on its website (Art.61).

The eligibility criteria can be broken down as follows:

1. Principle amount of marketable assets (Art. 62)

Debt instruments must have a fixed principal amount until their final redemption, repayment of which shall be unconditional. If the capital amount is unconditional upon final redemption and is only linked to one inflation index in the euro area at a single point in time that contains no other complex structures, this debt instrument shall also be central bank-eligible. Assets with warrants or similar rights attached are not eligible.

2. Acceptable coupon structures for marketable assets (Art. 63)

In order to be eligible, debt instruments must have one of the following coupon structures until their final redemption: either floating coupons, or fixed, zero or multi-step coupons. The coupon structure may not result in a negative cash flow. Acceptable coupon structures have no issuer optionalities. This means that changes in the coupon structure contingent upon an issuer's decision are not acceptable during the lifetime of an asset.

3. Non-subordination with respect to marketable assets (Art. 64)

Eligible debt instruments shall not give rise to rights to the principal and/or the interest that are subordinated to the rights of holders of other debt instruments of the same issuer.

4. Currency of denomination of marketable assets (Art. 65)

In order to be eligible, debt instruments shall be denominated in euro or in one of the former currencies of the Member States whose currency is the euro.

5. Place of issue of marketable assets (Art. 66)

In order to be eligible, debt instruments must be issued in the EEA with a central bank or with a securities settlement system (SSS) that has been positively assessed. In the case of debt securities issued or guaranteed by a non-financial corporation for which no credit assessment has been provided by an accepted ECAI (External Credit Assessment Institution) system for the issue, the issuer or the guarantor, the place of issue must be within the euro area. Other criteria are applicable for international debt instruments (e.g. for the type of form and time of issue).

6. Type of issuer or guarantor for marketable assets (Art. 69)

In order to be eligible, debt instruments must be issued or guaranteed by the following issuers:

- central banks of Member States
- public sector entities
- agencies
- credit institutions
- financial corporations other than credit institutions
- non-financial corporations (e.g. hospitals, care homes)
- multilateral development banks
- international organisations

In contrast, debt instruments issued or guaranteed by investment funds are not eligible.

7. *Place of establishment of the issuer or guarantor (Art. 70)*

Whereas guarantors of debt instruments must be established in the EEA, issuers can also be established in the EEA or in a G10 country outside the EEA. If a guarantee is not needed to establish the credit quality requirements for specific debt instruments, guarantors can also be established outside the EEA. This applies for example in the case of multilateral or international organisations. For asset-backed securities to be eligible, the issuer must be established in the EEA. Debt instruments issued by G10 countries shall only be considered eligible if the ECB has recognised the national central bank's legal system. Further exceptions also apply in the case of senior unsecured bonds and for non-rated issues of non-financial corporations.

There are further eligibility criteria in relation to settlement procedures (Art. 67) and acceptable markets (Art. 68).

Temporary admission of certain marketable debt instruments

Temporary admission of certain debt instruments if denominated in GBP, JPY or USD as eligible collateral for Eurosystem monetary policy operations

According to a [temporary guideline](#), marketable debt instruments denominated in GBP, JPY or USD are eligible collateral for monetary policy operations, provided that

- a) they are issued and held/settled in the eurozone,
- b) the issuer is established in the European Economic Area, and
- c) they fulfil all other eligibility criteria.

Specific valuation haircuts are applied to these securities:

16 % on assets denominated in GBP or USD

26 % on JPY-denominated assets.

Temporary acceptance of certain short-term debt instruments

Under the terms of the [temporary guideline](#), certain short-term debt instruments (maturity of no longer than 365 days at issuance) are acceptable as marketable securities, provided inter alia that

- a) they were issued by a non-financial corporation that is established in the euro area. The guarantor must also be a non-financial corporation established in the eurozone;
- b) they are not admitted to trading on a market regarded as acceptable by the Eurosystem;
- c) they are EUR-denominated, and
- d) fulfil the requirements of high credit standards.

Acceptance of certain government-guaranteed bank bonds

Under the terms of the temporary guideline, a national central bank shall NOT be obliged to accept as collateral for Eurosystem credit operations eligible unsecured bank bonds which:

- a) do not fulfil the Eurosystem's requirements of high credit standards
- b) are issued by the counterparty using them or by entities closely linked to the counterparty; and
- c) are fully guaranteed by a Member State,
whose credit assessment does not comply with the high credit standards and is compliant with a European Union/International Monetary Fund programme, as assessed by the ECB Governing Council.

Article 6 includes further requirements and exceptions.

Suspension of the requirements for credit quality thresholds for certain marketable instruments (Art. 8)

Another temporary measure was to suspend the Eurosystem's minimum requirements for credit quality thresholds (Section 6.3.2 of Annex I to Guideline ECB/2011/14). This was aimed at Greece and Cyprus. However, the measure

was rescinded again for both countries in [March 2018](#) and in [August 2018](#).

At the time, the Eurosystem's credit quality threshold did not apply to marketable debt instruments issued or guaranteed in full by a central government of a Member State of the euro area under a European Union/International Monetary Fund programme, unless the Governing Council had decided that the respective Member State did not comply with the conditionality of the financial support and/or the conditions tied to a macroeconomic programme. In addition, specific haircuts applied to Greece and Cyprus.

Specific features of covered bonds

Covered bonds can under certain circumstances have a privileged position of preferential treatment in relation to other bonds when it comes to asset eligibility in the Eurosystem. As mentioned earlier, the list of Eurosystem-eligible assets (i.e. central bank-eligible securities and/or eligible assets) also includes covered bonds with a dual recourse. Guideline (EU) 2015/510 Art. 2 (12) explains that:

'covered bonds' refer to debt instruments that have a dual recourse:

- a) directly or indirectly to a credit institution; and
- b) to a dynamic cover pool of underlying assets, and for which there is no tranching of risk.

The term includes also jumbo covered bonds Art. 2 (48) and other covered bonds including multi-cédulas Art. 2 (71 and 62). The types of covered bonds mentioned are defined as follows: 'jumbo covered bonds' (ref. Art. 2 (48)) refer to covered bonds issued in accordance with the requirements in Article 52 (4) of Directive 2009/65/EC of the European Parliament and of the Council (1), and with an issuing volume of at least EUR 1bn, for which at least three market-makers provide regular bid and ask quotes. 'Multi cédulas' (Art. 2 (71 and 62)) refer to debt instruments issued by specific Spanish SPVs (Fondo de Titulización de Activos, FTA), enabling a certain number of small-sized single cédulas (Spanish covered bonds) from several originators to be pooled together. In addition, there are also 'other covered bonds', which refers to multi cédulas and 'structured covered bonds', in other words covered bonds, with the exception of multi-cédulas which are not issued in accordance with the requirements under Article 52(4) of Directive 2009/65/EC of the European Parliament and Council. Finally, the Guidelines define UCITS compliant covered bonds, in other words covered bonds issued in accordance with the requirements under Article 52(4) of Directive 2009/65/EC.

Eligibility of covered bonds outside the Eurosystem

Covered bonds can also be used as eligible collateral outside the Eurosystem although there are huge variations in some cases in respect of eligibility criteria and restrictions. Central banks in jurisdictions in which covered bonds are an important funding instrument for the banking sector tend to stand out through their monetary policy frameworks which give covered bonds an important role. Covered bonds count as eligible assets under certain circumstances in the case of the Bank of England, for example (as Level B and Level C collateral, AAA rating or equivalent, regulated covered bonds and Pfandbriefe issued in the UK, France, Germany, Spain), the Swiss National Bank (especially repo transactions) and the Federal Reserve („AAA-rated German Jumbo Pfandbriefe“ denominated in USD or in an eligible foreign currency). Norges Bank, the Reserve Bank of Australia, Reserve Bank of New Zealand and the Bank of Canada regard covered bonds as fundamentally eligible as cover assets. Whereas in the case of the first three of these last banks mentioned, the use relates to repo transactions, Bank of Canada accepts covered bonds as collateral for standing liquidity facilities.

Changes applying to senior unsecured bonds (Art. 81a)

The [amendment of Article 108 of the BRRD in December 2017](#) which involved an amendment of the insolvency hierarchy meant that eligibility criteria for unsecured bank debt instruments also had to be amended. By virtue of the amendment of [Guideline \(EU\) 2018/570](#), the following subordinated unsecured debt instruments issued by credit institutions or investment firms, or by their closely linked entities will be eligible until maturity, provided they were issued before 31 December 2018 and they still meet all other eligibility criteria:

- debt instruments issued by recognised agencies. This refers to issuers classified as such by the Eurosystem for the purpose of purchases under the Public Sector Purchase Programme (PSPP, Decision (EU) 2015/774 of the ECB),
- debt instruments guaranteed by a Union public sector entity which has the right to levy taxes by way of a guarantee that complies with the features laid down in Article 114 (1 to 4) and Article 115.

Subordination may result neither from structural subordination (unsecured debt instruments issued by holding companies) nor from contractual subordination. Contractual subordination means subordination based on the terms and conditions of an unsecured debt instrument, irrespective of whether such subordination is statutorily recognised. Unsecured debt instruments which were eligible before 16 April 2018 but do not comply with the eligibility requirements set out through the change in Directive 2018/570 remain eligible until 31 December 2018, provided that they fulfil all of the other eligibility criteria for marketable assets. Under the terms of Guideline 2018/570 moreover, the debt instruments mentioned above (preferred senior unsecured bonds) must be issued by an issuer established in the European Union in order to be eligible. The place of establishment of the issuer or guarantor does not apply to multilateral development banks or international organisations (Art. 81(4), compare Art. 70 (4) and Art. 141 (3)).

Limits with respect to unsecured debt instruments issued by credit institutions

The limit set out for unsecured debt instruments issued by credit institutions and their closely linked institutions in Article 141 remains unchanged. Debt instruments (as described above) may not exceed 2.5% of the total value of the assets used as collateral by the counterparty after the applicable valuation haircut. This threshold shall not apply if the value of such assets does not exceed EUR 50m after any applicable haircut; if such assets are guaranteed by a public sector entity which has the right to levy taxes or if the issuer is a multilateral development bank or an international agency.

Credit quality requirements for marketable securities (Art.82 to 88)

1. Types and priority for marketable securities (Art.82 to 84)

Asset-backed securities shall have credit assessments that are provided by at least two different accepted ECAs systems expressed in the form of a public rating, with a minimum credit quality step 2 in the Eurosystem's harmonised rating scale. Only one public rating is required for all other marketable securities and a minimum credit quality step of 3. Article 83 defines the rating criteria for the ECA credit assessments used for credit quality assessments.

a) For marketable securities issued by central governments, regional governments, local governments, agencies, multilateral development banks or international organisations (Article 84b): at least one credit assessment; only issuer or guarantor ratings taken into account. If there are multiple issuers for example, the first-best of the ratings in question shall be taken into account, whereby the first-best must at least comply with the credit quality threshold. Art. 84(a) applies for the covered bonds of these issuers.

b) Other issuers and asset-backed securities (Article 84a): at least one rating; issue ratings are considered in priority to issuer or guarantor ratings. If there is no issue rating (or in the absence of an issue rating fulfilling requirements in the case of covered bonds), issuer or guarantor ratings may be considered. If for example, there are multiple issue ratings, then the first-best of those ratings shall be taken into account. In such cases, the first-best rating must at least reach the credit requirement threshold.

c) Asset-backed securities (Art. 84c) at least two issue ratings: if more than two issue ratings are available, the best second-best of such issue ratings shall be taken into account. However, additional credit quality requirements apply in the case of ABS (Art. 88).

2. Multi-issuer securities (Art. 85)

For marketable assets with more than one issuer, the applicable issuer rating shall be determined on the basis of each issuer's potential liability as follows: if, for the programme, or issuance series,

a) each issuer is jointly and severally liable for the obligations of all other issuers under the issue, the issuer rating to be considered shall be the highest rating amount the best issuer ratings;

b) any issuer is not jointly and severally liable for the obligations of all other issuers under the issue, the issuer rating to be considered shall be the lowest rating among the best issuer ratings of all the relevant issuers.

3. Non-euro ratings (Art. 86)

The foreign current rating of the issuer is acceptable if the asset is denominated in the local currency of the issuer.

4. Credit quality assessment criteria for marketable assets in the absence of a credit assessment provided by an accepted ECAI (Art. 87)

In the absence of an appropriate external credit assessment for the issue, issuer or guarantor as would be applicable under Art. 84, an implicit credit assessment of the marketable assets is derived by the Eurosystem. However, this is only possible in the case of debt instruments issued and guaranteed by a regional government or a local authority or CRR public sector entities. Asset-backed securities are therefore exempted. In the case of debt instruments issued or guaranteed by non-financial corporations, the credit assessment is based on the rules applying to credit claims (Art. 108 et seq. – Eurosystem's credit quality requirements for non-marketable assets).

Implicit credit quality assessments for issuers or guarantors without an ECAI credit quality assessment

	Allocation of issuers or guarantors under Regulation (EU) No 575/2013 (CRR (*))	ECAF derivation of the implicit credit quality assessment of the issuer or guarantor belonging to the corresponding class
Class 1	Regional governments, local authorities and CRR public sector entities (CRR PSEs) that are treated by the competent authorities in the same manner as the central government for capital requirements purposes pursuant to Articles 115(2) and 116(4) of Regulation (EU) No 575/2013	Allocated the ECAI credit quality assessment of the central government in whose jurisdiction the entity is established
Class 2	Other regional governments, local authorities and CRR PSEs	Allocated a credit quality assessment one credit quality step (**) below the ECAI credit quality assessment of the central government in whose jurisdiction the entity is established
Class 3	Public sector entities as defined in point (75) of Article 2 that are not CRR PSEs	Treated like private sector issuers or debtors

(*) Regulation (EU) No 575/2013, also referred to as the CRR for the purposes of this table.

(**) Information on the credit quality steps is published on the ECB's website.

Source: ECB, NORD/LB Fixed Income & Macro Research

Eurosystem's harmonised rating scale

ECAI credit assessment		Credit quality steps		
		1	2	3
Short-term	DBRS		R-1H, R-1M	R-1L, R-2H, R-2M, R2-L
	FitchRatings		F1+, F1	F2
	Moody's		P-1	P-2
	Standard & Poor's		A-1+, A-1	A-2
Long-term	DBRS	AAA/AAH/AA/AAL	AH/A/AL	BBBH/BBB/BBBL
	FitchRatings	AAA/AA+/AA/AA-	A+/A/A-	BBB+/BBB/BBB-
	Moody's	Aaa/Aa1/Aa2/Aa3	A1/A2/A3	Baa1/Baa2/Baa3
	Standard & Poor's	AAA/AA+/AA/AA-	A+/A/A-	BBB+/BBB/BBB-

Source: ECB, NORD/LB Fixed Income & Macro Research

5. Additional credit quality requirements for asset-backed securities (Art. 88)

ABS must have a public issue rating that is explained in a publicly available issue report (including inter alia a comprehensive analysis of structural and legal aspects, a detailed collateral pool assessment, an analysis of the transaction participants and any other relevant details of a transaction). These performance reports must be published no later than four weeks after the coupon payment date.

The [temporary guideline](#) also makes an exception for the admission of certain additional ABS, according to which ABS shall also qualify as eligible which do not fulfil the credit assessment requirements in full, provided inter alia they

have two ratings of at least triple B level (credit quality step 2) from an accepted external credit assessment institution and otherwise satisfy all the criteria. Higher valuation haircuts also apply to these additional ABS.

Eligibility criteria for non-marketable assets (Art. 89 to 107 et seq.)

In the case of non-marketable assets, a distinction is made between credit claims, non-marketable, retail mortgage-backed debt instruments (RMBDs) or non-marketable debt instruments backed by eligible credit claims (DECCs) and fixed-term deposits.

Eligibility criteria for credit claims (Art. 89 to 105f)

The eligibility criteria applying to credit claims include the following:

1. *Type of asset (Art. 89)*
A debt obligation of a debtor vis-à-vis a counterparty (including credit claims that have a reducing balance, current account overdrafts, letters of credit, undrawn credit lines, a syndicated loan share, claim inherent to certain leasing structures or factoring structures).
2. *Principal amount and coupons (Art. 90)*
Credit claims must have a fixed, unconditional principal amount. Moreover, the interest rate cannot result in a negative cash flow.
3. *Non-subordination (Art. 91)*
As in the case of eligible debt instruments (Art. 64), the credit claim may not afford rights to the principal amount or the interest that are subordinated to the rights of holders of other unsecured debt obligations of the debtor and to the rights of holders of debt instruments of the same issuer.
4. *Credit quality requirements for credit claims (Art. 92)*
The rules which apply in this case are those specified for non-marketable assets in Art. 108 and 109 et seq. (Chapter 2 of Title III of Part Four). For eligible credit claims, based on the credit quality of the debtor or guarantor, a minimum credit quality step of 3 is required. The assessment system or source of the counterparty can be used in this process, ensuring that the most recent credit quality assessment report is used and that the system/source remains the same for a period of at least 12 months. If there is a payment arrear or credit event, the relevant NCB must be informed within the course of the next business day at the latest. If necessary, an asset must be swapped on demand.
5. *Minimum size of credit claims for domestic use (Art. 93)*
Until further notice: to be laid down by the national central bank (NCB)
6. *Minimum size of credit claims for cross-border use (Art. 93)*
A minimum size threshold of EUR 500,000 shall apply in the Eurosystem
7. *Currency of denomination of credit claims (Art. 94)*
Euro or one of the former currencies of the Member States whose currency is the euro.
8. *Type of debtor/guarantor (Art. 95)*
Public sector entities, non-financial corporations, multilateral development banks and international organisations.
9. *Location of the debtor/guarantor (Art. 96)*
Euro area, except multilateral development banks and organisations to which this restriction does not apply.

10. Governing laws (Art. 97)

No more than two governing laws of a Member State may apply to the counterparty, creditor, debtor, guarantor, the agreement between the counterparty and the home NCB mobilising the credit claim as collateral.

11. Handling procedures (Art. 98)

Eurosystem procedures

Moreover, there are inter alia additional general requirements relating to the existence of credit claims, the agreement for the mobilisation of credit claims, the procedures used to submit credit claims to the NCB, legal requirements, the full effect of the mobilisation vis-à-vis third parties and restrictions concerning e.g. confidentiality (Art. 99 to 106). Article 4 of the ECB's [temporary guideline](#) defines a number of exceptions when certain credit claims can be accepted, but only provided they meet specific criteria.

Eligibility criteria for fixed-term deposits (Art. 106)

If a counterparty holds fixed-term deposits with the NCB (Art. 12), these are also eligible assets which can be used as collateral for Eurosystem credit operations.

Eligibility criteria for RMBD (Art. 107)

An RMBD shall be a promissory note or a bill of exchange that is secured by a pool of residential mortgages but falls short of full securitisation. Substitution of assets in the underlying pool shall be possible and a mechanism shall be in place to ensure that the home NCB enjoys priority over creditors other than those exempted for public policy reasons. As part of other requirements, RMBDs shall have a fixed, unconditional principal amount; they shall comply with specific credit quality requirements (rules for non-marketable assets Art. 108 and 109 et seq. (Chapter 2 of Title III of Part Four); minimum credit quality step of 2), they shall be denominated in euro and there will be a monthly review of the pool.

Eligibility criteria for DECC (Art. 107a to 107f)

- DECCs (non-marketable debt instruments backed by eligible credit claims – DECCs) are eligible debt instruments secured with non-marketable assets (Art. 2(70a)). They must meet the following criteria:
 - Principal amount: fixed principal amount
 - Currency: euro-denominated
 - DECC issuer shall be a special purpose entity
 - A specific DECC loan-level data template or an ABS loan-level template
 - Place of establishment: with the exception of issuers, debtors and originators (euro area), parties to the transaction must be established in the EEA
 - *No subordination (Art. 107b):*
DECCs shall not give rise to rights to the principal and/or the interest that are subordinated to the rights of holders of other debt instruments of the same issuer.
 - *Credit quality requirements (Art. 107c and 112a):*
DECC does not require a credit quality assessment. However, this is the case with claims in the cover pool. Their credit assessment must be provided by either by the guarantor or debtor with a minimum credit quality step of 3.
 - Acquisition of the underlying credit claims by the issuer (Art. 107d)
 - DECCs are also required to fulfil transparency requirements (Art. 107e) and only claims are recognised which meet both the eligibility criteria for non-marketable assets (Chapter 1 of Title III of Part Four) and the types of eligible underlying credit claims listed in Article 107f.

Exclusion of assets:

Furthermore, in the wake of amendments to the guidelines in April 2018, investment funds have now been excluded as eligible issuers and guarantors for the collateralisation of Eurosystem credit operations in view of the specific risks related to potential asset portfolio changes. The Eurosystem is also excluding commercial-mortgage-backed securities (CMBS) from collateral eligibility, owing to their relatively complex nature.

Eurosystem Credit Assessment Framework for eligible assets

Articles 119 to 126 describe accepted credit assessment sources and systems for eligible assets. These include both internal credit assessment methods and external credit assessment agencies (Eurosystem credit assessment framework – ECAF). The [ECB only recognises four agencies at present](#), namely: DBRS, Fitch, Moody's and S&P. The rating agency Scope is seeking recognition and has indicated that it is currently engaged in implementing recognition requirements.

Risk control and valuation framework of marketable and non-marketable assets

Articles 127 to 136 on risk control measures were established with the aim of protecting the Eurosystem against the risk of financial loss in the event of a counterparty's default. Risk control measures applied by the ECB for eligible assets (Art. 128) include:

- Valuation haircuts (Guideline (EU) 2016/65 of the European Central Bank (ECB/2015/35))
- variation margins (marking-to-market)
- limits in relation to the use of unsecured debt instruments where the submitting credit institution has close links with the issuer (as described in Article 137, 20% direct or indirect stake in the capital of the counterparty)
- valuation and markdowns (as set out in Guideline (EU) 2016/65 (ECB/2015/35))

There can be also be additional risk control measures:

- initial margins
- limits in relation to issuers, debtors or guarantors
- supplementary haircuts
- additional guarantees
- exclusion of certain assets

Acceptance of non-euro-denominated collateral in contingencies

In exceptional cases – and hence contrary to Art. 65 ("Currency of denomination of marketable assets" – , the ECB's Governing Council can decide to accept certain marketable assets issued by non-euro area G10 central governments in their national currency as collateral. General eligibility criteria shall apply, except in relation to the place of issue, currency and the fact that the assets in question may not have a coupon which would result in a negative cash flow. Article 137 outlines the details.

Rules for the use of eligible assets

Articles 138 to 147 mainly set out rules regarding close links (CB, ABS, guaranteed senior bonds), liquidity support in respect of asset-backed securities, non-acceptance of eligible assets for operational reasons, eligible assets with negative cash flow and notification, sanction and information sharing.

'Close links' (Art. 138) means i.a. when the counterparty and the issuer/debtor/guarantor of the eligible asset directly or indirectly or through one or more other undertakings owns 20% or more of the capital of that entity (whereby this applies in all directions). In the case of multi-cédulas, assessing close links will involve a 'look-through' transparency concept for all issuers.

Close link rules do not apply if a debt instrument is guaranteed or issued by a public sector entity that has the right to levy taxes. Likewise, covered bonds meeting the criteria set out in Art. 129(1) to (3) and (6) of Regulation (EU) No. 575/2013 (CRR) are also exempted. This applies for example to covered bonds secured by public claims or mortgages (private/commercial and which therefore meet specific requirements in terms of collateral value), loans secured by liens on ships. The 'close links' rule also exclude non-marketable RMBDs and multi-cédulas issued prior to 01 May 2015 (providing requirements under Art. 129(1) to (3) and (6) CRR are met).

Likewise with effect from 16 April 2018, covered bond issuers must provide compliance reports in relation to the submission of bonds benefiting from a government guarantee issued by the issuer itself. Banks must therefore be able to demonstrate that the cover pool does not include any unsecured bonds benefiting from a government guarantee issued by the issuer itself (or from a closely linked entity/issuer). In this respect, it is entirely conceivable that the use of bonds which benefit from a government guarantee is already excluded under national legislation or in the terms and conditions of the bond prospectus. As part of the amendments to Guideline (EU) 2015/510 of 08 February 2018 (ECB/2018/3), the ECB outlines additional reporting options for issuers (ref. new paragraphs 3 and 4 in Article 139, ECB/2018/3). These include regular reporting by the issuer (surveillance and performance reports), self-certification signed by the CEO, CFO or other manager of similar seniority or an ex post confirmation from external auditors or trustees.

Other issues

In the present, we are not looking in closer detail at monetary policy tools, sanctions, settlement procedures, minimum reserves, etc.

Valuation haircuts

Whereas all the articles quoted above – unless indicated otherwise – referred to Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework, valuation haircuts are included in the guidelines mentioned below. As part of the process of determining the value of eligible assets and in the context of the daily calculation of collateral values, it is important to bear in mind that assets mobilised as collateral have to be checked in respect of applicable valuation haircuts and valued accordingly.

As part of this process, the haircut which is relevant for a specific asset depends on its credit quality, residual maturity and the haircut category ascribable to the asset in question. In addition, when calculating the level of the valuation haircut, the ECB makes a distinction with regard to the coupon structure (i.e. fixed, floating or zero coupon). The valuation haircuts applicable in the implementation of the Eurosystem monetary policy framework ((EU) 2015/35) are regulated in detail through Guideline (EU) 2016/65 of the European Central Bank and were amended again in 2018 through Guideline (EU) 2018/571. In addition, differentiated haircuts were introduced for Category V in credit quality steps 1 and 2 through Guideline (EU) 2016/2299.

[Haircut categories](#) Overview

Category I	Category II	Category III	Category IV	Category V
Debt instruments issued by central governments	Debt instruments issued by local and regional governments	UCITS compliant covered bonds other than UCITS compliant jumbo covered bonds	Unsecured debt instruments issued by credit institutions	Asset-backed securities
ECB debt certificates	Debt instruments issued by entities classified as agencies by the Eurosystem	Other covered bonds	Unsecured debt instruments issued by financial corporations other than credit institutions	
Debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State	Debt instruments issued by multilateral development banks and international organisations UCITS compliant jumbo covered bonds	Debt instruments issued by non-financial corporations and corporations in the government sector		

Source: ECB, NORD/LB Fixed Income & Macro Research

Additional valuation haircuts for covered bonds

In addition, in accordance with Article 130 (4) (Guideline (EU) 2015/510), own-use covered bonds are subject to an additional valuation haircut. In this context, covered bonds allocated to credit quality steps 1 and 2 are subject to a valuation haircut of 8% of the total value of the issue of the individual debt instrument; in the case of own-use covered bonds allocated to credit quality step 3, the valuation haircut is 12%. In this context, 'own-use covered bonds' means covered bonds issued by either a counterparty or entities closely linked to it, and used in a percentage greater than 75% of the outstanding notional amount by that counterparty and/or its closely linked entities (Art. 130 (4)). The existence of close links is regulated in Article 138 ((Guideline (EU) 2015/510)). In addition, covered bonds which fail to meet specific requirements for preferential treatment in accordance with Article 129 of the Capital Requirements Regulation (CRR) shall no longer be eligible for submission for own use. Covered bonds meeting CRR requirements shall still be eligible; likewise non-marketable retail mortgage-backed debt instruments (RMBDs) and certain multi-cédulas (debt instruments issued by specific Spanish special purpose entities), for own-use respectively.

In addition, retained covered bonds with a soft bullet structure and conditional pass-through structures (CPT) shall now also be subject to specific valuation haircuts. The ECB justifies these higher haircuts for own-use covered bonds in light of risks in connection with the potential maturity extension of issues. When calculating the haircut, this means that the extended maturity is included on top of the original maturity.

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As a rule, in the case of a retained covered bond (own-use) with a soft bullet structure, the maturity is therefore likely to increase by one year whereas all CPT structures fall within the ">10-year" maturity segment in the context of the collateral-value calculation in view of a theoretically very long extension period. In general, covered bonds issued in jumbo format are allocated to haircut category II; in contrast, all other covered bonds come under haircut category III. As a result of the amendments described, CPT covered bonds in credit quality step 3 in particular, i.e. covered bonds generally issued by a non-investment-grade issuer, are therefore subject to a relatively higher nominal valuation haircut in terms of asset eligibility.

Valuation haircut levels applied to eligible marketable assets

Credit quality	Residual maturity (years)(*)	Haircut categories												Category V
		Category I			Category II			Category III			Category IV			
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	
Steps 1 and 2	0-1	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	1.0	7.5	7.5	7.5	4.0
	1-3	1.0	2.0	0.5	1.5	2.5	1.0	2.0	3.0	1.0	10.0	10.5	7.5	4.5
	3-5	1.5	2.5	0.5	2.5	3.5	1.0	3.0	4.5	1.0	13.0	13.5	7.5	5.0
	5-7	2.0	3.0	1.0	3.5	4.5	1.5	4.5	6.0	2.0	14.5	15.5	10.0	9.0
	7-10	3.0	4.0	1.5	4.5	6.5	2.5	6.0	8.0	3.0	16.5	18.0	13.0	13.0
	>10	5.0	7.0	2.0	8.0	10.5	3.5	9.0	13.0	4.5	20.0	25.5	14.5	20.0
Credit quality	Residual maturity (years)(*)	Haircut categories												Category V
		Category I			Category II			Category III			Category IV			
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	
Step 3	0-1	6.0	6.0	6.0	7.0	7.0	7.0	8.0	8.0	8.0	13.0	13.0	13.0	Not eligible
	1-3	7.0	8.0	6.0	9.5	13.5	7.0	12.0	15.0	8.0	22.5	25.0	13.0	
	3-5	9.0	10.0	6.0	13.5	18.5	7.0	16.5	22.0	8.0	28.0	32.5	13.0	
	5-7	10.0	11.5	7.0	14.0	20.0	9.5	18.5	26.0	12.0	30.5	35.0	22.5	
	7-10	11.5	13.0	9.0	16.0	24.5	13.5	19.0	28.0	16.5	31.0	37.0	28.0	
	>10	13.0	16.0	10.0	19.0	29.5	14.0	19.5	30.0	18.5	31.5	38.0	30.5	

(*) i.e. [0-1) residual maturity less than 1 year, [1-3) residual maturity equal to or greater than 1 year and less than 3 years, etc.

Note: Valuation haircuts do not include the additional own-use haircut of 8% for covered bonds in credit quality steps 1 and 2 and 12% for covered bonds in credit quality step 3. Valuation haircuts for eligible marketable assets denominated in Pound Sterling or US-Dollar have to use a haircut of 16% and 26 % of Yen denominated bonds.

Source: ECB, NORD/LB Fixed Income & Macro Research

Valuation haircut levels applied to eligible credit claims with fixed or floating interest payments

Credit quality	Residual maturity (years) (*)	Valuation methodology			
		Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Variable interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB	Variable interest payment and a valuation according to the outstanding amount assigned by the NCB
Steps 1 and 2 (AAA to A-)	0-1	10.0	10.0	12.0	12.0
	1-3	12.0	10.0	16.0	12.0
	3-5	14.0	10.0	21.0	12.0
	5-7	17.0	12.0	27.0	16.0
	7-10	22.0	14.0	35.0	21.0
	>10	30.0	17.0	45.0	27.0
Credit quality	Residual maturity (years) (*)	Valuation methodology			
		Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Variable interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB	Variable interest payment and a valuation according to the outstanding amount assigned by the NCB
Step 3 (BBB+ to BBB-)	0-1	17.0	17.0	19.0	19.0
	1-3	28.5	17.0	33.5	19.0
	3-5	36.0	17.0	45.0	19.0
	5-7	37.5	28.5	50.5	33.5
	7-10	38.5	36.0	56.5	45.0
	>10	40.0	37.5	63.0	50.5

(*) d. h. [0-1) bedeutet eine Restlaufzeit von weniger als einem Jahr, [1-3) bedeutet eine Restlaufzeit von mindestens einem Jahr und weniger als drei Jahren usw."

Source: ECB, NORD/LB Fixed Income & Macro Research

Valuation haircuts are not applied to fixed-term deposits. The haircut for RMBDs amounts to 31.5% in accordance with Guideline 2018/571 ((EU) 2016/65 (ECB/2015/35)).

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Extract from ECBs general framework

Eligibility criteria	Marketable assets	Non-marketable assets	
Type of collateral	ECB bonds, bonds issued by an NCB prior to the euro, other marketable debt instruments	Credit claims (Art. 89)	Retail mortgage-debt instruments (RMBDs) (Art. 107)
Credit quality requirements (Art. 71, 82ff, 92, 107)	The asset must comply with the credit quality requirements in accordance with ECAF rules for marketable assets	The debtor/guarantor must comply with credit quality requirements. Credit quality must comply with ECAF rules for credit claims.	The asset must comply with credit quality requirements. Credit quality requirements must comply with ECAF rules for RMBDs
Place of issue (Art. 66)	EEA Euro area in the case of debt instruments issued by non-financial companies with no credit assessment (issuer or guarantor)	-	-
Settlement procedures (Art. 67, 107)	Place of settlement: euro area Debt instruments must be held centrally in book-entry form through an account with an NCB or with an eligible SSS which meets standards and assessment procedures pursuant to the Eurosystem user assessment framework.	Eurosystem procedures	Eurosystem procedures
Type of issuer/debtor/guarantor (Art. 69, 96, 107)	NCBs, public sector entities, credit institutions, financial corporations other than credit institutions, non-financial corporations, international and supranational organisations	Public sector entities, non-financial corporations, international and supranational organisations	Credit institutions
Place of establishment of debtor or guarantor (Art. 70, 81a, 107)	Issuer/ABS: EEA or non-EEA G10 Guarantor: EEA Issuer/guarantor is a non-financial corporation for which no credit assessment exists: euro area Senior unsecured issued by credit institutions: EU Supranational and international organisations: not applicable	Euro area Criteria do not apply to supranational or international organisations	Euro area
Acceptable markets (Art. 68)	Regulated market Non-regulated markets acceptable to the ECB	-	-
Currency of denomination (Art. 65, 94)	Euro or former currency of the Member State whose currency is the euro	Euro or former currency of the Member States whose currency is the euro	Euro or former currency of the Member States whose currency is the euro
Minimum amount/principal amount (Art. 62, 72, 90, 93, 107)	Fixed and unconditional amount (except: linked to an inflation index) Not applicable for ABS	Fixed and unconditional principal amount; interest rate cannot result in a negative cash flow Minimum amount at the time of submitting the credit claim Domestic use: established by NCB Cross-border use: minimum amount of EUR 0.5m	Fixed and unconditional principal amount; interest rate cannot result in a negative cash flow
Governing laws (Art. 97)	In the case of ABS, the acquisition of the underlying assets can be government by the law of an EU Member State. The law governing the underlying credit claims must be the law of an EEA Member State.	Governing laws for the credit claim agreement and its use as collateral: law of a Member State. No more than two governing laws in total applicable to a) the counterparty, b) the creditor, c) the debtor, d) the guarantor (if relevant), e) the credit claim agreement, f) the agreement to mobilise the credit claim as collateral.	-
Coupon/interest rate structure (Art. 63, 90)	Fixed, variable, zero or multi-step	Interest rate cannot result in negative cash flow (zero, fixed, variable)	Interest rate cannot result in negative cash flow
Subordination (Art. 64, 81a, 91)	There may not be subordinated rights to the rights of other debt instruments of the issuer	There may not be subordinated rights of holders of unsecured debt instruments/bonds of the same issuer to other credit claims	
Cross-border use (Art. 148)	Yes	Yes	Yes
Misc.	ABS: various additional requirements apply to ABS (Art. 72 et seq.)	Additional verification of the existence and legal validity (Art. 99ff)	Issuer to certify at least monthly that the residential mortgages in the pool comply with NCB eligibility criteria (Art. 107)

Source: ECB, NORD/LB Fixed Income & Macro Research