GUIDELINES

GUIDELINE (EU) 2023/831 OF THE EUROPEAN CENTRAL BANK

of 16 December 2022

amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework *(ECB/2022/48)*

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first indent of Article 127(2) thereof,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular the first indent of Article 3.1, Articles 9.2, 12.1, 14.3 and 18.2 and the first paragraph of Article 20 thereof,

Whereas:

(1) Achieving a single monetary policy entails defining the tools, instruments and procedures to be used by the Eurosystem in order to implement such a policy in a uniform manner throughout the Member States whose currency is the euro.

(2) In accordance with the second indent of Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank, the European Central Bank (ECB) and the national central banks of the Member States whose currency is the euro (hereinafter the 'NCBs') may conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral.

(3) With the aim of safeguarding the adequacy of Eurosystem collateral, eligible assets mobilised as collateral for Eurosystem credit operations are subject to specific risk control measures in order to protect the Eurosystem against financial losses in circumstances in which its collateral has to be realised due to an event of default of a counterparty. The Eurosystem risk control framework is regularly reviewed in order to ensure adequate protection.

(4) As a result of the regular review of the risk control framework for Eurosystem credit operations, and considering that the risk profile of other legislative covered bonds and of *multi cédulas* is similar to that of jumbo covered bonds, the Governing Council decided on 15 July 2022 that they should be subject to the same haircut valuations, and therefore all legislative covered bonds and *multi cédulas* should be included in haircut category II. Consequently, since there is no longer a distinction between jumbo covered bonds and other types of legislative covered bonds in the Eurosystem monetary policy framework, references to jumbo covered bonds should be removed from Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60) [1].

(5) Therefore, Guideline (EU) 2015/510 (ECB/2014/60) should be amended accordingly,

HAS ADOPTED THIS GUIDELINE:

Article 1

Amendments

Guideline (EU) 2015/510 (ECB/2014/60) is amended as follows:

(1) in Article 2, point (48) is deleted;

(2) Annex XII is amended in accordance with the Annex to this Guideline.

[1] Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (General Documentation Guideline) (ECB/2014/60) (OJ L 91, 2.4.2015, p. 3).

Article 2

Taking effect and implementation

1. This Guideline shall take effect on the day of its notification to the NCBs.

2. The NCBs shall take the necessary measures to comply with this Guideline and apply them from 29 June 2023. They shall notify the ECB of the texts and means relating to those measures by 17 February 2023 at the latest.

Article 3

Addressees

This Guideline is addressed to all Eurosystem central banks.

Done at Frankfurt am Main, 16 December 2022.

For the Governing Council of the ECB
The President of the ECB
Christine LAGARDE

ANNEX

In Annex XII to Guideline (EU) 2015/510 (ECB/2014/60), Section VI is replaced by the following:

'VI. EXAMPLE 6: RISK CONTROL MEASURES

1. This example illustrates the risk control framework applied to assets mobilised as collateral in the Eurosystem credit operations. It is based on the assumption that, in the calculation of the need for a margin call, accrued interest on the liquidity provided is taken into account and a trigger point of 0,5 % of the liquidity provided is applied. The example is based on the assumption that a counterparty participates in the following Eurosystem monetary policy operations:
   (a) a main refinancing operation starting on 21 September 2022 and ending on 28 September 2022 where the counterparty is allotted EUR 50 million at an interest rate of 1,25 %;
   (b) a longer-term refinancing operation starting on 22 September 2022 and ending on 21 December 2022 where the counterparty is allotted EUR 45 million at an interest rate of 1,25 %;
   (c) a main refinancing operation starting on 28 September 2022 and ending on 5 October 2022 where the counterparty is allotted EUR 35 million at an interest rate of 1,25 %.

2. The characteristics of the marketable assets mobilised by the counterparty to cover these operations are specified in Table 1.

Table 1

Marketable assets mobilised in the transactions

Characteristics

Name	Asset class	Maturity date	Coupon definition	Coupon frequency	Residual maturity	CQS	Haircut (%)
Asset A	Covered bond	21.12.2026	Fixed rate	6 months	4 years	1-2	2,50
Asset B	Central government bond	24.2.2027	Variable rate	12 months	4 years	1-2	1,50
Asset C	Corporate bond	24.1.2035	Zero coupon rate		12 years	1-2	10,00

Prices in percentages (including accrued interest) (*)

21.9.2022	22.9.2022	23.9.2022	26.9.2022	27.9.2022	28.9.2022	29.9.2022
101,61	101,21	99,50	99,97	99,73	100,01	100,12
	98,62	97,95	98,15	98,56	98,59	98,57
					53,71	53,62

(*) The prices shown for a specific valuation date correspond to the most representative price on the business day preceding this valuation date.

EARMARKING SYSTEM

First, it is assumed that the transactions are carried out with a national central bank (NCB) using a system where underlying assets are earmarked for each transaction. The valuation of assets mobilised as collateral is carried out on a daily basis. The risk control framework can then be described as follows (see also Table 2 below):

1. On 21 September 2022, the counterparty enters into a collateralised lending transaction with the NCB, which receives EUR 50,6 million of Asset A. Asset A is a covered bond with a fixed coupon maturing on 21 December 2026 and allocated to credit quality step 1-2. It thus has a residual maturity of four years, therefore requiring a valuation haircut of 2,5 %. The market price of Asset A on its reference market on that day is 101,61 %, which includes the accrued interest on the coupon. The counterparty is required to provide an amount of Asset A, which, after deduction of the 2,5 % valuation haircut, exceeds the allotted amount of EUR 50 million. The counterparty therefore delivers Asset A for a nominal amount of EUR 50,6 million, the haircut-adjusted market value of which is EUR 50 129 294 on that day.

2. On 22 September 2022, the counterparty enters into a repurchase transaction with the NCB, which purchases EUR 21 million of Asset A (market price 101,21 %, valuation haircut 2,5 %) and EUR 25 million of Asset B (market price 98,62 %). Asset B is a central government bond with variable rate coupon payments and allocated to credit quality step 1-2, to which a 1,5 % valuation haircut is applied. The haircut-adjusted market value of Asset A and Asset B on that day is EUR 45 007 923, thus exceeding the required amount of EUR 45 000 000.

3. On 22 September 2022, the assets underlying the main refinancing operation initiated on 21 September 2022 are revalued. With a market price of 101,21 %, the haircut-adjusted market value of Asset A is still within the lower and upper trigger amounts. The collateral that was mobilised initially is consequently considered to cater for both the initial amount of liquidity provided and the accrued interest amounting to EUR 1 736.

4. On 23 September 2022, the underlying assets are revalued: the market price of Asset A is 99,50 % and the market price of Asset B is 97,95 %. Accrued interest amounts to EUR 3 472 on the main refinancing operation initiated on 21 September 2022 and EUR 1 563 on the longer-term refinancing operation initiated on 22 September 2022. As a result, the haircut-adjusted market value of Asset A in the first transaction falls below the transaction's amount to be covered, i.e. the liquidity provided plus the accrued interest, by EUR 915 147, but also below the lower trigger level of EUR 49 753 455.

   The counterparty delivers EUR 950 000 of Asset A in nominal value terms, which, after deducting a 2,5 % haircut from the market value based on a price of 99,50 %, restores sufficient collateral coverage. NCBs may perform margin calls in cash rather than securities.

   A margin call is also needed on the second transaction since the haircut-adjusted market value of the underlying assets used in this transaction (EUR 44 492 813) is below the lower trigger level (EUR 44 776 555). The counterparty therefore provides EUR 550 000 of Asset B with an haircut-adjusted market value of EUR 530 644.

5. On 26 September 2022, the underlying assets are revalued, without resulting in any margin call for the transactions entered on 21 and 22 September 2022.

   On 27 September 2022, the revaluation of assets underlying the long-term refinancing operation initiated on 22 September 2022 reveals that the haircut-adjusted market value of the assets provided exceeds the upper trigger level and leads to the NCB returning EUR 300 000 of Asset B in nominal value to the counterparty. If a margin had to be paid to the counterparty by the NCB in relation to the second transaction, such a margin could, in certain cases, be netted out with the margin paid to the NCB by the counterparty in relation to the first transaction. As a result, there would only be one margin settlement.

6. On 28 September 2022, the counterparty repays the liquidity provided under the main refinancing operation initiated on 21 September 2022, including the accrued interest of EUR 12 153. The NCB returns EUR 51 550 000 of Asset A in nominal value.

On the same day the counterparty enters into a new collateralised lending transaction with the NCB, which purchases EUR 72,5 million of Asset C in nominal value terms. Since Asset C is a zero-coupon corporate bond with a residual maturity of 12 years and allocated to credit quality step 1-2, requiring a valuation haircut of 10 %, the corresponding haircut-adjusted market value on that day is of EUR 35 045 775.

POOLING SYSTEM

Second, it is assumed that the transactions are carried out with an NCB using a pooling system where assets included in the pool of assets used by the counterparty are not earmarked for specific transactions:

1. The same sequence of transactions is used in this example as in the above example illustrating an earmarking system. The main difference is that, on the revaluation dates, the haircut-adjusted market value of all the assets in the pool has to cover the total amount of all of the counterparty's outstanding operations with the NCB. The margin call of EUR 1 423 897 occurring on 23 September 2022 is identical in this example to the one required in the earmarking system case. The counterparty delivers EUR 1 500 000 of Asset A in nominal value terms, which, after deducting a 2,5 % haircut from the market value based on a price of 99,50 %, restores sufficient collateral coverage.

2. Moreover, on 28 September 2022, when the main refinancing operation entered into on 21 September 2022 matures, the counterparty may keep the assets on its pool account. An asset can also be exchanged for another asset as shown in the example, where EUR 52,1 million of Asset A in nominal value are replaced with EUR 72,5 million of Asset C in nominal value to cover the liquidity provided and the accrued interest under all refinancing operations.

3. The risk control framework in the pooling system is described in Table 3.

Table 2

Earmarking System

Date	Outstanding transactions	Start date	End date	Interest rate (%)	Liquidity provided	Accrued interest	Total amount to be covered	Lower trigger amount	Upper trigger amount	Haircut-adjusted market value	Margin call
21.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	—	50 000 000	49 750 000	50 250 000	50 129 294	
22.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	1 736	50 001 736	49 751 727	50 251 745	49 931 954	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	—	45 000 000	44 775 000	45 225 000	45 007 923	
23.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	3 472	50 003 472	49 753 455	50 253 490	49 088 325	– 915 147
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	1 563	45 001 563	44 776 555	45 226 570	44 492 813	– 508 750
26.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	8 681	50 008 681	49 758 637	50 258 724	50 246 172	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	6 250	45 006 250	44 781 219	45 231 281	45 170 023	
27.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	10 417	50 010 417	49 760 365	50 260 469	50 125 545	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	7 813	45 007 813	44 782 773	45 232 852	45 515 311	507 499
28.9.2022	Main refinancing	28.9.2022	5.10.2022	1,25	35 000 000	—	35 000 000	34 825 000	35 175 000	35 045 775,00	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	9 375	45 009 375	44 784 328	45 234 422	44 997 612,88	
29.9.2022	Main refinancing	28.9.2022	5.10.2022	1,25	35 000 000	1 215	35 001 215	34 826 209	35 176 221	34 987 050,00	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	10 938	45 010 938	44 785 883	45 235 992	45 015 161,13	

Table 3

Pooling System

Date	Outstanding transactions	Start date	End date	Interest rate (%)	Liquidity provided	Accrued interest	Total amount to be covered	Lower trigger amount (1)	Upper trigger amount (2)	Haircut-adjusted market value	Margin call
21.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	—	50 000 000	49 750 000	Not applicable	50 129 294	
22.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	1 736	95 001 736	94 526 727	Not applicable	94 939 876	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	—					
23.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	3 472	95 005 035	94 530 010	Not applicable	93 581 138	– 1 423 897
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	1 563					
26.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	8 681	95 014 931	94 539 856	Not applicable	95 420 556	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	6 250					
27.9.2022	Main refinancing	21.9.2022	28.9.2022	1,25	50 000 000	10 417	95 018 229	94 543 138	Not applicable	95 350 464	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	7 813					
28.9.2022	Main refinancing	28.9.2022	5.10.2022	1,25	35 000 000	—	80 009 375	79 609 328	Not applicable	79 800 610	

	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	9 375					
29.9.2022	Main refinancing	28.9.2022	5.10.2022	1,25	35 000 000	1 215	80 012 153	79 612 092	Not applicable	79 759 483	
	Longer-term refinancing	22.9.2022	21.12.2022	1,25	45 000 000	10 938					

(1) In a pooling system, the lower trigger amount is the lowest threshold for margin calls. In practice most NCBs require additional collateral whenever the haircut-adjusted market value of the collateral pool falls below the total amount to be covered.

(2) In a pooling system, the notion of upper trigger amount is not relevant, since the counterparty will constantly target an excess amount of collateral provided in order to minimise operational transactions.’