BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA

DIRECTIVE NO 8

in terms of the

CENTRAL BANK OF MALTA ACT (CAP. 204)

ON MONETARY POLICY INSTRUMENTS & PROCEDURES

Ref: CBM/08

Contents

DIRECTIVE NO 8

ON MONETARY POLICY INSTRUMENTS & PROCEDURES

Issued on 1 May 2015, amended 2 November 2015, 25 January 2016, and 1 January 2017

PART ONE

SUBJECT MATTER, SCOPE AND DEFINITIONS

Article 1

Subject matter and scope

1. In terms of article 60A in conjunction with article 5(1)(a) of the Central Bank of Malta Act (Cap. 204) (hereinafter referred to as “the Act”), the Central Bank of Malta (hereinafter referred to as “the Bank”) has been empowered to make directives in respect of, *inter alia*, the implementation of monetary policy. For the purposes of this Directive, terms used in this Directive shall have the same meaning as is assigned to them under the Act.

2. This Directive comprises the terms and conditions applicable to counterparties for monetary policy operations with the Bank and is based and compiled in conformity with the contents of the *‘Guideline ECB/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). This Directive forms part of the Eurosystem’s legal framework for monetary policy instruments and procedures.

3. This Directive governs the legal relationship between the Bank and the counterparties in respect of the implementation of monetary policy established by the Eurosystem.

4. The tools, instruments, requirements, criteria and procedures for the execution of monetary policy operations by the Eurosystem may be changed from time to time by the Governing Council of the European Central Bank.

5. The Eurosystem reserves the right to request and obtain any relevant information from counterparties that is needed to carry out its tasks and achieve its objectives in relation to monetary policy operations. This right is without prejudice to any other existing specific rights of the Eurosystem to request information relating to monetary policy operations.

6. A credit institution intending to become an eligible counterparty of the Bank in connection with Eurosystem monetary policy operations shall request the Bank in writing to commence participation in Eurosystem monetary policy operations. The credit institution must also submit its three year business model plan for the Bank's review and assessment. The Bank shall, after taking into consideration that all the requirements for eligibility have been met and the required documents have been submitted, communicate its decision in writing to such a request. In case of a positive decision by the Bank, the credit institution must sign the pledge agreements attached in Annex 13 prior to the commencement of monetary policy operations. The Counterparty whose request is acceded to by the Bank shall be bound to adhere to the provisions of this Directive.

7. Relationships with Counterparties which were already recognized by the Bank prior to the coming into force of this provision shall be governed by the provisions of this Directive as a matter of law.

8. This Directive may be amended from time to time to implement changes in Eurosystem monetary policy operations as decided by the ECB Governing Council. Counterparties may raise objections on questions of law on any amendments to this Directive within fourteen (14) days of notification under article 161 of this Directive. The Bank may, until the matter is resolved, suspend access to monetary policy operations to that Counterparty.

9. This Directive includes several annexes as listed to in the table of contents and these form an integral part thereof.

10. All times referred in this documentation are in Central European Time (CET).

Article 2

Definitions

For the purposes of this Directive, the following definitions shall apply:

(1) ‘actual/360 day-count convention’ means the convention applied in Eurosystem monetary policy operations which determines the actual number of calendar days included in the calculation of interest by using a 360-day year as the basis;

(2) ‘agency’ means entities that the Eurosystem has classified as agencies. The list of entities classified as agencies is published on the ECB’s website;

(3) ‘asset-backed securities’ (ABSs) means debt instruments that are backed by a pool of ring fenced financial assets (fixed or revolving), that convert into cash within a finite time period. In addition, rights or other assets may exist that ensure the servicing or timely distribution of proceeds to the holders of the security. Generally, asset-backed securities are issued by a specially created investment vehicle which has acquired the pool of financial assets from the originator or seller. In this regard, payments on the asset-backed securities depend primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as liquidity facilities, guarantees or other features generally known as credit enhancements;

(4)‘bilateral procedure’ means a procedure whereby the NCBs or, in exceptional circumstances the ECB, conduct fine-tuning operations or outright transactions, directly with one or more counterparties, or through stock exchanges or market agents, without making use of tender procedures;

(5) ‘book-entry system’ means a system that enables transfers of securities and other financial assets which do not involve the physical movement of paper documents or certificates, e.g. the electronic transfer of securities;

(6) ‘business day’ means: (a) in relation to an obligation to make a payment, any day on which TARGET2 is operational to effect such a payment; or (b) in relation to an obligation to deliver assets, any day on which the SSS through which delivery is to be made is open for business in the place where delivery of the relevant securities is to be effected;

(7) ‘central securities depository’ (CSD) means an entity that: (a) enables securities transactions to be processed and settled by book entry; (b) provides custodial services (e.g. the administration

of corporate actions and redemptions); (c) plays an active role in ensuring the integrity of securities issues. Securities can be held in a physical, but immobilised, form or in a dematerialised form (i.e. they exist only as electronic records);

(8) 'collateralised loan' means an arrangement between an NCB and a counterparty whereby liquidity is provided to a counterparty by way of a loan that is secured by an enforceable security interest granted by that counterparty to the NCB in the form of e.g. a pledge, assignment or charge granted over that asset;

(9) 'collection of fixed-term deposits' means an instrument used in conducting open market operations, whereby the Eurosystem invites counterparties to place fixed-term deposits on accounts with their home NCBs in order to absorb liquidity from the market;

(10) 'competent authority' means a public authority or body officially recognised by national law that is empowered by national law to supervise institutions as part of the supervisory system in the relevant Member State, including the ECB with regard to the tasks conferred on it by Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions;

(11) 'counterparty' means an institution fulfilling the eligibility criteria laid down in Part Three entitling it to access the Eurosystem's monetary policy operations;

(12) 'covered bond' means a debt instrument that is 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.

(13) 'credit claim' means a claim for the repayment of money, which constitutes a debt obligation of a debtor vis-à-vis a counterparty. Credit claims also include *Schuldscheindarlehen* and Dutch-registered private claims on the government or other eligible debtors that are covered by a government guarantee, e.g. housing associations;

(14) 'credit institution' means a credit institution within the meaning of Article 2(5) of Directive 2013/36/EU of the European Parliament and of the Council and point (1) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, which is either subject to supervision by a competent authority or is a publicly-owned credit institution within the meaning of Article 123(2) of the Treaty that is subject to supervision of a standard comparable to supervision by a competent authority;

(15) ‘credit rating’ has the same meaning as in Article 3(1)(a) of Regulation (EC) No 1060/2009 of 16 September 2009 on credit rating agencies;

(16) ‘cross-border use’ means the submission, as collateral, by a counterparty to its home NCB of:

(a) marketable assets held in another Member State whose currency is the euro;

(b) marketable assets issued in another Member State and held in the Member State of the home NCB;

(c) credit claims where the credit claim agreement is governed by the laws of another Member State whose currency is the euro other than that of the home NCB;

(d) retail mortgage-backed debt instruments (RMBDs) in accordance with the applicable procedures of the CCBM;

(e) non-marketable debt instruments backed by eligible credit claims (DECCs) issued and held in another Member State whose currency is the euro other than that of the home NCB.

(17) ‘currency hedge’ means an agreement entered into between a securities issuer and a hedge counterparty, pursuant to which a portion of the currency risk arising from the receipt of cash flows in a non-euro currency is mitigated by swapping the cash flows for euro currency payments to be made by the hedge counterparty, including any guarantee by the hedge counterparty of those payments;

(18) ‘custodian’ means an entity which undertakes the safekeeping and administration of securities and other financial assets on behalf of others;

(19) ‘default market value’ means, with regard to any assets on any date:

(a) the market value of such assets at the default valuation time calculated on the basis of the most representative price on the business day preceding the valuation date;

(b) in the absence of a representative price for a particular asset on the business day preceding the valuation date, the last trading price is used. If no trading price is available, the NCB undertaking the operation will define a price, taking into account the last price identified for the asset in the reference market;

(c) in the case of assets for which no market value exists, any other reasonable method of valuation;

(d) if the NCB has sold the assets or equivalent assets at the market price before the default valuation time, the net proceeds of sale, after deducting all reasonable costs, fees and expenses incurred in connection with such sale, such calculation being made and amounts determined by the NCB;

(20) 'delivery-versus-payment' or 'delivery-against-payment system' means a mechanism in an exchange-for-value settlement system which ensures that the final transfer (i.e. the delivery) of assets occurs only upon the occurrence of a corresponding final transfer of other asset(s) (i.e. the payment);

(21) 'deposit facility' means a standing facility offered by the Eurosystem which counterparties may use to make overnight deposits at the Eurosystem through an NCB, which are remunerated at a pre-specified interest rate;

(22) 'deposit facility rate' means the interest rate applied to the deposit facility;

(23) 'domestic use' means the submission, as collateral, by a counterparty established in a Member State whose currency is the euro, of: (a) marketable assets issued and held in the same Member State as that of its home NCB; (b) credit claims where the credit claim agreement is governed by the laws of the Member State of its home NCB; (c) RMBDs issued by entities established in the Member State of the home NCB; (d) non-marketable debt instruments backed by eligible credit claims issued and held in the same Member State as that of its home NCB.

(24) 'earmarking system' means a system for NCBs' collateral management whereby liquidity is provided against specified, identifiable assets earmarked as collateral for specified Eurosystem credit operations. The substitution of these assets with other specific eligible assets may be permitted by the home NCB provided that they are earmarked as collateral and are adequate for the specific operation;

(25) 'eligible assets' means assets that fulfil the criteria laid down in Part Four and are accordingly eligible as collateral for Eurosystem credit operations;

(26) 'end-of-day' means the time of the business day following closure of TARGET2 at which the payments processed in TARGET2 are finalised for the day;

(27) ‘euro area inflation index’ means an index provided by Eurostat or a national statistical authority of a Member State whose currency is the euro, e.g. the Harmonised Index of Consumer Prices (HICP);

(28) ‘European Economic Area’ (EEA) means all Member States, regardless of whether or not they have formally acceded to the EEA, together with Iceland, Liechtenstein and Norway;

(29) ‘Eurosystem’ means the ECB and the NCBs;

(30) ‘Eurosystem business day’ means any day on which the ECB and at least one NCB are open for the purpose of conducting Eurosystem monetary policy operations;

(31) ‘Eurosystem credit operations’ means: (a) liquidity-providing reverse transactions, i.e. liquidity-providing Eurosystem monetary policy operations excluding foreign exchange swaps for monetary policy purposes and outright purchases; and (b) intraday credit;

(32) ‘Eurosystem monetary policy operations’ means open market operations and standing facilities;

(33) ‘Eurosystem User Assessment Framework’ means the framework, which is available on the ECB’s website, for the assessment of SSSs and links to determine their eligibility for use in Eurosystem credit operations;

(34) ‘final transfer’ means an irrevocable and unconditional transfer which effects the discharge of the obligation to make the transfer;

(35) ‘financial corporation’ has the same meaning as in Regulation (EU) No 549/2013 of the European Parliament and of the Council;

(36) ‘fine-tuning operations’ means a category of open market operations executed by the Eurosystem, particularly to deal with liquidity fluctuations in the market;

(37) ‘fixed coupons’ means debt instruments with a predetermined periodic interest payment;

(38) ‘fixed-rate tender procedure’ means a tender procedure whereby the ECB specifies the interest rate, price, swap point or spread in advance of the tender procedure and participating counterparties bid the amount they want to transact at that fixed interest rate, price, swap point or spread;

(39) ‘floating coupon’ means a coupon linked to a reference interest rate with a resetting period corresponding to this coupon of no longer than one year;

(40) ‘foreign exchange swap for monetary policy purposes’ is an instrument used in conducting open market operations whereby the Eurosystem buys or sells euro spot against a foreign currency and, at the same time, sells or buys it back in a forward transaction on a specified repurchase date;

(41) ‘home NCB’ means the NCB of the Member State whose currency is the euro in which the counterparty is established;

(42) ‘indicative calendar for the Eurosystem’s regular tender operations’ means a calendar prepared by the Eurosystem, as endorsed by the ECB’s Governing Council, which indicates the timing of the reserve maintenance period, as well as the announcement, allotment and maturity of main refinancing operations and regular longer-term refinancing operations;

(42a) ‘in-kind recapitalisation with public debt instruments’ means any form of increase in the subscribed capital of a credit institution where all or part of the consideration is provided through a direct placement with the credit institution of sovereign or public sector debt instruments that have been issued by the sovereign state or public sector entity providing the new capital to the credit institution;

(43) ‘international central securities depository’ (ICSD) means a CSD that is active in the settlement of internationally traded securities from various national markets, typically across currency areas;

(44) ‘international organisation’ means an entity listed in Article 118 of Regulation (EU) No 575/2013, whereby exposures to such an entity are assigned a 0 % risk weight;

(45) ‘international securities identification number’ (ISIN) means the international identification code assigned to securities issued in financial markets;

(46) ‘intraday credit’ means credit extended for a period of less than one business day as defined in Guideline ECB/2012/27;

(46a) ‘investment firm’ means an investment firm with the meaning of point (2) of Article 4(1) of Regulation (EU) No 575/2013;

(47) ‘issuance of ECB debt certificates’ means a monetary policy instrument used in conducting open market operations, whereby the ECB issues debt certificates which represent a debt obligation of the ECB in relation to the certificate holder;

(48) ‘jumbo covered bond’ means a covered bond with an issuing volume of at least EUR 1 billion, for which at least three market-makers provide regular bid and ask quotes;

(49) ‘leasing receivables’ means the scheduled and contractually mandated payments by the lessee to the lessor under the terms of a lease agreement. Residual values are not leasing receivables. Personal Contract Purchase (PCP) agreements, i.e. agreements pursuant to which the obligor may exercise its option: (a) to make a final payment to acquire full legal title of the goods or (b) to return the goods in settlement of the agreement; are assimilated to leasing agreements;

(50) ‘liquidity support’ means any structural, actual or potential feature that is designed or deemed appropriate to cover any temporary cash flow shortfall that may occur during the lifetime of an ABS transaction;

(51) ‘longer-term refinancing operations’ (LTROs) means a category of open market operations that are executed by the Eurosystem in the form of reverse transactions that are aimed at providing liquidity with a maturity longer than that of the main refinancing operations to the financial sector;

(52) ‘main refinancing operations’ (MROs) means a category of regular open market operations that are executed by the Eurosystem in the form of reverse transactions;

(53) ‘maintenance period’ has the same meaning as defined in Regulation (EC) No 1745/2003 (ECB/2003/9);

(54) ‘margin call’ means a procedure relating to the application of variation margins, implying that if the value of the assets mobilised as collateral by a counterparty, as regularly measured, falls below a certain level, the Eurosystem requires the counterparty to supply additional eligible assets or cash. For pooling systems, a margin call is performed only in cases of under-collateralisation, and for earmarking systems symmetric margin calls are performed, each method as further specified in the national documentation of the home NCB;

(55) ‘marginal interest rate’ means the lowest interest rate in liquidity-providing variable rate tender procedures at which bids are fulfilled, or the highest interest rate in liquidity-absorbing variable rate tender procedures at which bids are fulfilled;

(56) ‘marginal lending facility’ means a standing facility offered by the Eurosystem which counterparties may use to receive overnight credit from the Eurosystem through an NCB at a pre-specified interest rate subject to a requirement for sufficient eligible assets as collateral;

(57) ‘marginal lending facility rate’ means the interest rate applied to the marginal lending facility;

(58) ‘marginal swap point quotation’ means the swap point quotation at which the total tender allotment is exhausted;

(59) ‘marketable assets’ means debt instruments that are admitted to trading on a market and that fulfil the eligibility criteria laid down in Part Four;

(60) ‘maturity date’ means the date on which a Eurosystem monetary policy operation expires. In the case of a repurchase agreement or swap, the maturity date corresponds to the repurchase date;

(61) ‘Member State’ means a member state of the Union;

(62) ‘*multi cédulas*’ means 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;

(63) ‘multilateral development bank’ means an entity listed in Article 117(2) of Regulation (EU) No 575/2013, whereby exposures to such an entity are assigned a 0% risk weight;

(64) ‘multiple rate auction (American auction)’ means an auction in which the allotment interest rate or price or swap point equals the interest rate or price or swap point offered in each individual bid;

(65) ‘multi-step coupon’ means a coupon structure where the margin part (x) increases more than once during the life of the asset according to a predetermined schedule on predetermined dates, usually the call date or the coupon payment date;

(66) ‘national central bank’ (NCB) means a national central bank of a Member State whose currency is the euro;

(67) ‘NCB business day’ means any day on which an NCB is open for the purpose of conducting Eurosystem monetary policy operations, including days when branches of such an NCB may be closed due to local or regional bank holidays. The term ‘CBM business day’ means any day on

which the Central Bank of Malta is open for the purpose of conducting Eurosystem monetary policy operations including any day on which TARGET2 is operational;

(68) ‘non-EEA G10 countries’ means the countries participating in the Group of Ten (G10) that are not EEA countries, i.e. the United States of America, Canada, Japan and Switzerland;

(69) ‘non-financial corporation’ has the same meaning as in Regulation (EU) No 549/2013;

(70) ‘non-marketable asset’ means any of the following assets: fixed-term deposits, credit claims RMBDs and non-marketable debt instruments backed by eligible credit claims;

(70a) Non-marketable debt instruments backed by eligible credit claims (hereinafter “DECCs) means debt instruments:

(a) that are backed, directly or indirectly, by credit claims that satisfy all Eurosystem eligibility criteria for credit claims in accordance with Section 1, Chapter 1 of Title III of Part Four, subject to the provisions of Article 107f;

(b) that offer dual recourse to: (i) a credit institution that is the originator of the underlying credit claims; and (ii) the dynamic cover pool of underlying credit claims referred to in point (a);

(c) for which there is no tranching of risk;

(71) ‘other covered bonds’ means structured covered bonds or *multi cédulas*;

(72) ‘outright transaction’ means an instrument used in conducting open market operations, whereby the Eurosystem buys or sells eligible marketable assets outright in the market (spot or forward), resulting in a full transfer of ownership from the seller to the buyer with no connected reverse transfer of ownership;

(73) ‘pooling system’ means a system for NCBs’ collateral management, whereby a counterparty maintains a pool account with an NCB to deposit assets collateralising that counterparty’s related Eurosystem credit operations, whereby the assets are recorded in such a way that an individual eligible asset is not linked to a specific Eurosystem credit operation and the counterparty may substitute eligible assets on a continuous basis;

(74) ‘public credit rating’ means a credit rating which is : (a) issued or endorsed by a credit rating agency registered in the Union that is accepted as an external credit assessment institution by the Eurosystem; and (b) disclosed publicly or distributed by subscription;.

(75) ‘public sector entity’ means an entity that is classified by a national statistics authority as a unit within the public sector for the purposes of Regulation (EU) No 549/2013;

(76) ‘quick tender’ means a tender procedure, which is normally executed within a time frame of 105 minutes from the announcement of the tender to the certification of the allotment result, and which can be restricted to a limited set of counterparties, as further specified in Part Two;

(77) ‘repurchase agreement’ means an arrangement whereby an eligible asset is sold to a buyer without any retention of ownership on the part of the seller, while the seller simultaneously obtains the right and the obligation to repurchase an equivalent asset at a specific price on a future date or on demand;

(78) ‘repurchase date’ means the date on which the buyer is obliged to sell back equivalent assets to the seller in relation to a transaction under a repurchase agreement;

(79) ‘repurchase price’ means the price at which the buyer is obliged to sell back equivalent assets to the seller in relation to a transaction under a repurchase agreement. The repurchase price equals the sum of the purchase price and the price differential corresponding to the interest on the advanced liquidity over the maturity of the operation;

(80) ‘reverse transaction’ means an instrument used in conducting open market operations and when providing access to the marginal lending facility whereby an NCB buys or sells eligible assets under a repurchase agreement or conducts credit operations in the form of collateralised loans;

(81) ‘safe custody account’ means a securities account managed by an ICSD, CSD or NCB on which credit institutions can place securities eligible for Eurosystem credit operations;

(82) ‘securities settlement system’ (SSS) means a system which allows the transfer of securities, either free of payment (FOP), or against payment (delivery-versus-payment);

(83) ‘settlement date’ means the date on which a transaction is settled;

(84) ‘single rate auction (Dutch auction)’ means an auction in which the allotment interest rate or price or swap point applied for all satisfied bids is equal to the marginal interest rate or price or swap point;

(85) ‘Special Purpose Vehicle’ (SPV) means a securitisation special purpose entity as defined in point 66 of Article 4(1) of Regulation (EU) No 575/2013;

(86) ‘standard tender’ means a tender procedure which is normally carried out within a time frame of 24 hours from the announcement of the tender to the certification of the allotment result;

(87) ‘structural operations’ means a category of open market operations executed by the Eurosystem to adjust the structural liquidity position of the Eurosystem vis-à-vis the financial sector or pursue other monetary policy purposes as further specified in Part Two;

(88) ‘structured covered bond’ means a covered bond, with the exception of *multi-cédulas*, which is not issued in accordance with the requirements under Article 52(4) of Directive 2009/65/EC;

(89) ‘swap point’ means the difference between the exchange rate of the forward transaction and the exchange rate of the spot transaction in a foreign exchange swap, quoted according to general market conventions;

(90) ‘tap issuance’ or ‘tap issue’ means an issue forming a single series with an earlier issuance or issue;

(91) ‘TARGET2’ means the real-time gross settlement system for the euro, providing settlement of payments in euro in central bank money, regulated under Guideline ECB/2012/27;

(92) ‘tender procedure’ means a procedure whereby the Eurosystem provides liquidity to, or withdraws liquidity from, the market whereby the NCB enters into transactions by accepting bids submitted by counterparties after a public announcement;

(93) ‘trade date (T)’ means the date on which a trade, i.e. an agreement on a financial transaction between two counterparties, is struck. The trade date might coincide with the settlement date for the transaction (same-day settlement) or precede the settlement date by a specified number of business days (the settlement date is specified as T + the settlement lag);

(94) ‘UCITS compliant covered bond’ means a covered bond, which is issued in accordance with the requirements under Article 52(4) of Directive 2009/65/EC of the European Parliament and the Council[1];

[1] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulation and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)(OJ L 302, 17.11.2009, p.32).

(95) ‘tri-party agent’ (TPA) means an operator of an SSS that has entered into a contract with an NCB whereby such operator is to provide certain collateral management services as an agent of that NCB;

(96) ‘Union’ means the European Union;

(97) ‘valuation haircut’ means a percentage decrease applied to the market value of an asset mobilised as collateral in Eurosystem credit operations;

(98) ‘valuation markdown’ means a certain percentage decrease in the market value of assets, mobilised as collateral in Eurosystem credit operations, prior to the application of any valuation haircut;

(99) ‘variable rate tender procedure’ means a tender procedure whereby participating counterparties bid both the amount they want to transact and the interest rate, swap point or price at which they want to enter into transactions with the Eurosystem in competition with each other, and whereby the most competitive bids are satisfied first until the total amount offered is exhausted;

(100) ‘zero coupon’ means a debt instrument with no periodic coupon payments.

PART TWO

THE EUROSYSTEM MONETARY POLICY TOOLS, OPERATIONS, INSTRUMENTS AND PROCEDURES

Article 3

Eurosystem monetary policy implementation framework

1. The tools used by the Eurosystem in the implementation of monetary policy shall consist of:

(a) open market operations;

(b) standing facilities;

(c) minimum reserve requirements.

2. The minimum reserve requirements are specified in Council Regulation (EC) No 2531/98 and Regulation (EC) No 1745/2003 (ECB/2003/9). Certain features of the minimum reserve requirements are illustrated in Annex 1 for information purposes.

Article 4

Indicative characteristics of the Eurosystem monetary policy operations

An overview of the characteristics of the Eurosystem monetary policy operations is set out in Table 1.

TABLE 1: OVERVIEW OF CHARACTERISTICS OF THE EUROSYSTEM MONETARY POLICY OPERATIONS

Categories of the monetary policy operations		**Types of instruments**		**Maturity**	**Frequency**	**Procedure**
		Provision of liquidity	Absorption of liquidity			
market operatio	Main refinancing operations	Reverse transactions	-	One week	Weekly	Standard tender procedures
	Longer-term refinancing operations	Reverse transactions	-	Three months*	Monthly*	Standard tender procedures
	Fine-tuning operations	Reverse transactions Foreign exchange	Reverse transactions Foreign exchange	Non-standardised	Non-standardised	Tender procedures Bilateral procedures

		swaps	swaps Collection of fixed-term deposits			
	Structural operations	Reverse transactions	Reverse transactions	Non-standardised	Non-standardised	Standard tender procedures
		-	Issuance of ECB debt certificates	Less than 12 months	Non-standardised	
		Outright purchases	Outright sales	-	Non-standardised	Tender procedures Bilateral procedures
Standing facilities	Marginal lending facility	Reverse transactions	-	Overnight	Access at the discretion of counterparties	
	Deposit facility	-	Deposits	Overnight	Access at the discretion of counterparties	

*Subject to Article 7(4).

TITLE I – Open market operations

Chapter 1- Overview of open market operations

Article 5

Overview of categories and instruments in respect of open market operations

1. The Eurosystem may conduct open market operations to steer interest rates, manage the liquidity situation in the financial market and signal the stance of monetary policy.

2. Depending on their specific purpose, open market operations can be grouped under the following categories:

(a) main refinancing operations;

(b) longer-term refinancing operations;

(c) fine-tuning operations;

(d) structural operations.

3. Open market operations shall be conducted by means of the following instruments:

(a) reverse transactions;

(b) foreign exchange swaps for monetary policy purposes;

(c) the collection of fixed-term deposits;

(d) the issuance of ECB debt certificates;

(e) outright transactions.

4. As regards the specific categories of open market operations laid down in paragraph 2, the following instruments referred to in paragraph 3 shall be applicable:

(a) MROs and LTROs are conducted exclusively by means of reverse transactions;

(b) fine-tuning operations may be conducted by means of:

(i) reverse transactions;

(ii) foreign exchange swaps for monetary policy purposes;

(iii) the collection of fixed-term deposits;

(c) structural operations may be conducted by means of:

(i) reverse transactions;

(ii) the issuance of ECB debt certificates;

(iii) outright transactions.

5. The ECB shall initiate open market operations and shall also decide on the terms and conditions for their execution and on the instrument to be used.

Chapter 2 – Categories of open market operations

Article 6

Main refinancing operations

1. The Eurosystem shall conduct MROs by means of reverse transactions.

2. As regards their operational features, MROs:

   (a) are liquidity-providing operations;

   (b) are normally conducted each week in accordance with the indicative calendar for the Eurosystem's regular tender operations;

   (c) normally have a maturity of one week, as indicated in the indicative calendar for the Eurosystem's regular tender operations, subject to the exception laid down in paragraph 3;

   (d) are executed in a decentralised manner by the NCBs;

   (e) are executed by means of standard tender procedures;

   (f) are subject to the eligibility criteria laid down in Article 55 of this Directive which must be fulfilled by all counterparties submitting bids for such operations;

   (g) are based on eligible assets as collateral.

3. The maturity of MROs may differ on the grounds of varying bank holidays in Member States whose currency is the euro.

4. The ECB's Governing Council shall decide on the interest rates for the MROs on a regular basis. The revised interest rates shall become effective from the beginning of the new reserve maintenance period.

5. Notwithstanding paragraph 4, the ECB's Governing Council may change the interest rate for the MROs at any point in time. Such decision shall become effective at the earliest from the following Eurosystem business day.

6. MROs are executed by means of fixed rate tender procedures or variable rate tender procedures, as decided by the Eurosystem.

Article 7

Longer-term refinancing operations

1. The Eurosystem shall conduct LTROs by means of reverse transactions to provide counterparties with liquidity with a maturity longer than that of the MROs.

2. As regards their operational features, LTROs:

(a) are liquidity-providing reverse operations;

(b) are conducted regularly each month in accordance with the indicative calendar for the Eurosystem's regular tender operations, subject to the exception laid down in paragraph 4;

(c) normally have a maturity of three months in accordance with the indicative calendar for the Eurosystem's regular tender operations, subject to the exceptions laid down in paragraphs 3 and 4;

(d) are executed in a decentralised manner by the NCBs;

(e) are executed by means of standard tender procedures;

(f) are subject to the eligibility criteria specified in Article 55 which must be fulfilled by all counterparties submitting bids for such operations;

(g) are based on eligible assets as collateral.

3. The maturity of LTROs may differ on the grounds of varying bank holidays in Member States whose currency is the euro.

4. The Eurosystem may conduct, on a non-regular basis, LTROs with a maturity other than three months. Such operations are not specified in the indicative calendar for the Eurosystem's regular tender operations.

5. LTROs with a maturity of more than three months that are conducted on a non-regular basis, as referred to in paragraph 4, may have an early repayment clause. Such an early repayment clause may represent either an option or a mandatory obligation for counterparties under which they repay all or part of the amounts they were allotted in a given operation. Mandatory early repayment clauses shall be based on explicit and predefined conditions. The dates on which the early repayments become effective shall be announced by the Eurosystem at the time of the announcement of the operations. The Eurosystem may decide in exceptional circumstances to

suspend early repayments on specific dates on the grounds of, inter alia, bank holidays in Member States whose currency is the euro.

6. LTROs are executed by means of variable rate tender procedures, unless it is decided by the Eurosystem to execute them by means of a fixed-rate tender procedure. In such a case, the rate applicable to fixed-rate tender procedures may be indexed to an underlying reference rate (e.g. average MRO rate) over the life of the operation, with or without a spread.

Article 8

Fine-tuning operations

1. The Eurosystem may conduct fine-tuning operations by means of reverse transactions, foreign exchange swaps for monetary policy purposes or the collection of fixed-term deposits, in particular to deal with liquidity fluctuations in the market.

2. As regards their operational features, fine-tuning operations:

(a) may be conducted either as a liquidity-providing or as a liquidity-absorbing operation;

(b) have a frequency and maturity that is normally not standardised;

(c) are normally executed by means of quick tender procedures, unless the Eurosystem decides to conduct the specific fine-tuning operation by other means (standard tender procedure or bilateral procedure) in the light of specific monetary policy considerations or in order to react to market conditions;

(d) are executed in a decentralised manner by the NCBs, without prejudice to Article 45(3);

(e) are subject to the eligibility criteria for counterparties as specified in Part Three, depending on:

(i) the specific type of instrument for conducting fine-tuning operations; and

(ii) the applicable procedure for that specific type of instrument;

(f) when conducted by means of reverse transactions, they are based on eligible assets as collateral.

3. The ECB may conduct fine-tuning operations on any Eurosystem business day to counter liquidity imbalances in the reserve maintenance period. If the trade day, settlement day and reimbursement day are not CBM business days, the Bank is not required to conduct such operations.

4. The Eurosystem shall retain a high degree of flexibility as regards its choice of procedures and operational features in the conduct of fine-tuning operations, in order to react to market conditions.

Article 9

Structural operations

1. The Eurosystem may conduct structural operations by means of reverse transactions, the issuance of ECB debt certificates or outright transactions to adjust the structural position of the Eurosystem vis-à-vis the financial system, or pursue other monetary policy implementation purposes.

2. As regards their operational features, structural operations:

(a) are liquidity-providing or liquidity-absorbing operations;

(b) have a frequency and maturity that is not standardised;

(c) are executed by means of tender or bilateral procedures, depending on the specific type of instrument for conducting the structural operation;

(d) are executed in a decentralised manner by the NCBs;

(e) are subject to the eligibility criteria for counterparties as specified in Part Three depending on: (i) the specific type of instrument for conducting structural operations; and (ii) the applicable procedure for that specific type of instrument;

(f) liquidity-providing structural operations are based on eligible assets as collateral, with the exception of outright purchases.

3. The Eurosystem shall retain a high degree of flexibility as regards its choice of procedures and operational features in the conduct of structural operations in order to react to market conditions and other structural developments.

Chapter 3 – Instruments for open market operations

Article 10

Reverse transactions

1. Reverse transactions are specific instruments to conduct open market operations whereby an NCB buys or sells eligible assets under a repurchase agreement or conducts credit operations in the form of collateralised loans depending on the relevant contractual or regulatory arrangements applied by the NCBs.

2. Repurchase agreements and collateralised loans shall comply with the additional requirements for such instruments set out in Part Seven.

3. Liquidity-providing reverse transactions shall be based on eligible assets as collateral, pursuant to Part Four.

4. The operational features of reverse transactions shall depend on the category of open market operation for which they are used.

5. Liquidity-absorbing reverse transactions shall be based on assets provided by the Eurosystem. The eligibility criteria of those assets shall be identical to those applied for eligible assets used in liquidity-providing reverse transactions, pursuant to Part Four. No valuation haircuts shall be applied in liquidity-absorbing reverse transactions.

6. The Bank shall conduct reverse transactions mostly on the basis of collateralised lending (See Annex 13).

Article 11

Foreign exchange swaps for monetary policy purposes

1. Foreign exchange swaps for monetary policy purposes consist of simultaneous spot and forward transactions in euro against a foreign currency.

2. Foreign exchange swaps for monetary policy purposes shall comply with the additional requirements for such instruments set out in Part Seven.

3. Unless decided otherwise by the ECB’s Governing Council, the Eurosystem shall operate only in widely traded currencies and in accordance with standard market practice.

4. In each foreign exchange swap for monetary policy purposes, the Eurosystem and the counterparties shall agree on the swap points for the transaction that are quoted in accordance with general market conventions. The exchange rate terms of foreign exchange swaps for monetary policy purposes are specified in Table 2.

5. As regards their operational features, foreign exchange swaps for monetary policy purposes:

(a) may be conducted either as liquidity-providing or as liquidity-absorbing operations;

(b) have a frequency and maturity that is not standardised;

(c) are executed by means of quick tender procedures or bilateral procedures, unless the Eurosystem decides to conduct the specific operation by other means (standard tender procedure), in the light of specific monetary policy considerations or in order to react to market conditions;

(d) are executed in a decentralised manner by the Bank, without prejudice to Article 45(3).

6. Counterparties participating in foreign exchange swaps for monetary policy purposes shall be subject to the eligibility criteria specified in Part Three, depending on the applicable procedure for the relevant operation.

TABLE 2: THE EXCHANGE RATE TERMS OF FOREIGN EXCHANGE SWAPS FOR MONETARY POLICY PURPOSES

S	=	spot (on the transaction date of the foreign exchange swap) of the exchange rate between the euro (EUR) and a foreign currency ABC $S = \frac{x \times ABC}{1 \times EUR}$
FM	=	forward exchange rate between the euro and a foreign currency ABC on the repurchase date of the swap (M) $F_M = \frac{y \times ABC}{1 \times EUR}$
ΔM	=	forward points between the euro and ABC at the repurchase date of the swap (M) $\Delta_M = F_M - S$
N(.)	=	spot amount of currency; $N(.)_M$ is the forward amount of currency: $N(ABC) = N(EUR) \times S$ or $N(EUR) = \frac{N(ABC)}{S}$ $N(ABC)_M = N(EUR)_M \times F_M$ or $N(EUR)_M = \frac{N(ABC)_M}{F_M}$

Article 12

Collection of fixed-term deposits

1. The Eurosystem may invite counterparties to place fixed-term deposits with their home NCBs.

2. The deposits accepted from counterparties shall be for a fixed term and a fixed rate of interest shall be applied.

3. The interest rates applied to fixed-term deposits may be: (a) positive; (b) set at zero per cent; (c) negative.

4. The interest rate applied to the fixed-term deposit shall be a simple interest rate based on the actual/360 day-count convention. The interest shall be paid at maturity of the deposit. In cases of a negative interest rate, its application to fixed-term deposits shall entail a payment obligation of the deposit holder to the home NCB, including the right of that NCB to debit the account of the counterparty accordingly. The NCBs shall not provide any collateral in exchange for the fixed-term deposits.

5. Fixed-term deposits shall be held in accounts with the home NCB, even where such operations are to be executed in a centralised manner by the ECB under Article 45(3).

6. As regards their operational features, the collection of fixed-term deposits:

(a) is conducted in order to absorb liquidity;

(b) may be conducted on the basis of a pre-announced schedule of operations with pre-defined frequency and maturity or may be conducted ad hoc to react to liquidity condition developments, e.g. the collection of fixed-term deposits may be conducted on the last day of a reserve maintenance period to counter liquidity imbalances which may have accumulated since the allotment of the last main refinancing operation;

(c) is executed by means of quick tender procedures, unless it is decided by the ECB to conduct the specific operation by other means (bilateral procedure or standard tender procedure), in the light of specific monetary policy considerations or in order to react to market conditions;

(d) is executed in a decentralised manner by the Bank, without prejudice to Article 45(3).

7. Counterparties participating in the collection of fixed term deposits shall be subject to the eligibility criteria specified in Part Three, depending on the applicable procedure for the relevant operation.

Article 13

Issuance of ECB debt certificates

1. ECB debt certificates constitute a debt obligation of the ECB in relation to the certificate holder.

2. ECB debt certificates shall be issued and held in book-entry form in securities depositories in Member States whose currency is the euro.

3. The ECB shall not impose any restrictions on the transferability of ECB debt certificates.

4. The ECB may issue ECB debt certificates at:

(a) a discounted issue amount that is below the nominal amount; or

(b) an amount above the nominal amount,

which are to be redeemed at maturity at a nominal amount.

The difference between the issue and the nominal (redemption) amount shall equal the interest accrued on the issue amount, at the agreed interest rate, over the maturity of the certificate. The interest rate applied shall be a simple interest rate based on the actual/360 day-count convention. The calculation of the issue amount shall be made in accordance with Table 3.

Table 3 Issuance of ECB debt certificates

The issue amount is:	$$P_T = N \times \frac{1}{1 + \frac{r_I \times D}{36{,}000}}$$
where:	
N =	nominal amount of the ECB debt certificate
r_I =	interest rate (in %)
D =	maturity of the ECB debt certificate (in days)
P_T =	issue amount of the ECB debt certificate

5. As regards the operational features of ECB debt certificates:

(a) they are issued as a liquidity-absorbing open market operation;

(b) they may be issued on a regular or a non-regular basis;

(c) they have a maturity that is less than 12 months;

(d) they are issued by means of standard tender procedures;

(e) they are tendered and settled in a decentralised manner by the NCBs.

6. Counterparties participating in the standard tender procedure for the issuance of ECB debt certificates shall be subject to the eligibility criteria specified in Part Three.

Article 14

Outright transactions

1. An outright transaction shall involve a full transfer of ownership from the seller to the buyer with no connected reverse transfer of ownership.

2. In the execution of outright transactions and the calculation of prices, the Eurosystem shall act in accordance with the most widely accepted market convention for the debt instruments used in the transaction.

3. As regards their operational features, outright transactions:

(a) may be conducted as liquidity-providing operations (outright purchases) or liquidity-absorbing operations (outright sales);

(b) have a frequency that is not standardised;

(c) are executed by means of bilateral procedures, unless the ECB decides to conduct the specific operation by quick or standard tender procedures;

(d) are executed in a decentralised manner by the NCBs, without prejudice to Article 45(3);

(e) are based only on eligible marketable assets as specified in Part Four.

4. Counterparties participating in outright transactions shall be subject to the eligibility criteria specified in Part Three.

Article 15

Obligations of collateralisation and settlement in reverse transactions and foreign exchange swaps for monetary policy purposes

1. With regard to liquidity-providing reverse transactions and liquidity-providing foreign exchange swaps for monetary policy purposes, counterparties shall:

(a) transfer a sufficient amount of eligible assets in the case of reverse transactions or the corresponding foreign currency amount in the case of foreign exchange swaps to settle on the settlement day;

(b) ensure adequate collateralisation of the operation until its maturity;

(c) when applicable as regards point (b), provide adequate collateralisation by way of corresponding margin calls by means of sufficient eligible assets or cash.

2. With regard to liquidity-absorbing reverse transactions and liquidity-absorbing foreign exchange swaps for monetary policy purposes, counterparties shall:

(a) transfer a sufficient amount of cash to settle the amounts they have been allotted in the relevant liquidity absorbing operation;

(b) ensure adequate collateralisation of the operation until its maturity;

(c) when applicable as regards point (b), provide adequate collateralisation by way of corresponding margin calls by means of sufficient eligible assets or cash.

3. The failure to meet the requirements referred to in paragraphs 1 and 2 shall be sanctioned, as applicable, under Articles 154 to 157.

Article 16

Obligations for settlement for outright purchases and sales, the collection of fixed-term deposits and the issuance of ECB debt certificates

1. In open market operations executed by means of outright purchases and sales, collection of fixed term deposits and issuance of ECB debt certificates, counterparties shall transfer a sufficient amount of eligible assets or cash to settle the amount agreed in the transaction.

2. The failure to meet the requirement as referred to in paragraph 1 shall be sanctioned, as applicable, under Articles 154 to 157.

TITLE II – Standing facilities

Article 17

Standing facilities

1. The NCBs shall grant access to the standing facilities offered by the Eurosystem at their counterparties' initiative.

2. Standing facilities shall consist of the following categories:

(a) the marginal lending facility;

(b) the deposit facility.

3. The terms and conditions of the standing facilities shall be identical in all Member States whose currency is the euro.

4. The NCBs shall only grant access to the standing facilities in accordance with the ECB's objectives and general monetary policy considerations.

5. The ECB may adapt the conditions of the standing facilities or suspend them at any time.

6. The ECB's Governing Council shall decide on the interest rates for the standing facilities on a regular basis. The revised interest rates shall become effective from the beginning of the new reserve maintenance period, as defined in Article 7 of Regulation (EC) No 1745/2003 (ECB/2003/9). The ECB publishes a calendar of the reserve maintenance periods at least three months before the start of each calendar year.

7. Notwithstanding paragraph 6, the ECB's Governing Council may change the interest rate for the standing facilities at any point in time. Such decision shall become effective at the earliest from the following Eurosystem business day.

Chapter 1 – Marginal lending facility

Article 18

Characteristics of the marginal lending facility

1. Counterparties may use the marginal lending facility to obtain overnight liquidity from the Eurosystem through a reverse transaction with their home NCB at a pre-specified interest rate using eligible assets as collateral.

2. The Bank shall provide liquidity under the marginal lending facility by means of collateralised loans as specified in Annex 13.

3. There shall be no limit on the amount of liquidity that may be provided under the marginal lending facility, subject to the requirement to provide adequate collateral under paragraph 4.

4. Counterparties are required to present sufficient eligible assets as collateral prior to using the marginal lending facility. These assets should be either pre-deposited with the Bank or delivered with the request for access to the marginal lending facility.

Article 19

Access conditions for the marginal lending facility

1. Institutions fulfilling the eligibility criteria under Article 55 and which have access to an account with the Bank where the transaction can be settled, notably in TARGET2, may access the marginal lending facility.

2. Access to the marginal lending facility shall be granted only on days when TARGET2 is operational. On days when the SSSs are not operational, access to the marginal lending facility shall be granted on the basis of eligible assets which have already been pre-deposited with the Bank.

3. If the Bank is not open for the purpose of conducting monetary policy operations on certain Eurosystem business days due to national bank holidays, the Bank shall inform its counterparties in advance of the arrangements to be made for access to the marginal lending facility on that bank holiday.

4. Access to the marginal lending facility can be granted either based on a specific request of the counterparty or automatically, as specified in paragraph 5 and 6 respectively.

5. A counterparty may send a request to the Bank for access to the marginal lending facility. The request is to be made to the Bank's Payment and Banking Operations Office by free-format authenticated SWIFT or via email sent to backofficeoperations@centralbankmalta.org or by fax on +356 21 247 487 backed by a fax call-back. Provided that the request is received by the home NCB at the latest 15 minutes following the TARGET2 closing time, the Bank shall process the request on the same day in TARGET2. The deadline for requesting access to the marginal

lending facility shall be postponed by an additional 15 minutes on the last Eurosystem business day of a reserve maintenance period. The request for access to the marginal lending facility shall specify the amount of credit required. The counterparty shall deliver sufficient eligible assets as collateral for the transaction, unless such assets have already been pre-deposited by the counterparty with the Bank pursuant to Article 18(4).

At the end of each business day, a negative balance on a counterparty's settlement account with the Bank after finalisation of the end-of-day control procedures shall automatically be considered as a request for recourse to the marginal lending facility. In order to meet the requirement in Article 18(4), counterparties shall have pre-deposited sufficient eligible assets as collateral for the transaction with the Bank prior to such an automatic request arising. Failure to comply with this access condition shall be subject to sanctions in accordance with Articles 154 to 157.

Article 20

Maturity and interest rate of the marginal lending facility

1. The maturity of credit extended under the marginal lending facility shall be overnight. For counterparties participating directly in TARGET2, the credit shall be repaid on the next day on which: (a) TARGET2; and (b) the relevant SSSs are operational, at the time at which those systems open.

2. The interest rate remunerating the marginal lending facility shall be announced in advance by the Eurosystem and shall be calculated as a simple interest rate based on the actual/360 day-count convention. The interest rate applied to the marginal lending facility is referred to as the marginal lending facility rate.

3. Interest under the marginal lending facility shall be payable together with repayment of the credit.

Chapter 2 – Deposit facility

Article 21

Characteristics of the deposit facility

1. Counterparties may use the deposit facility to make overnight deposits with the Eurosystem through the home NCB, to which a pre-specified interest rate shall be applied.

2. The interest rate applied to the deposit facility may be: (a) positive; (b) set at zero per cent; (c) negative.

3. The NCBs shall not give any collateral in exchange for the deposits.

4. There shall be no limit on the amount a counterparty may deposit under the deposit facility.

Article 22

Access conditions to the deposit facility

1. Institutions fulfilling the eligibility criteria under Article 55 and which have access to an account with the Bank where the transaction can be settled, notably in TARGET2, may access the deposit facility. Access to the deposit facility shall be granted only on days when TARGET2 is operational.

2. To be granted access to the deposit facility, the counterparty shall send a request to the home NCB. The request is to be made to the Bank's Payment and Banking Operations Office by free-format authenticated SWIFT or via email sent to backofficeoperations@centralbankmalta.org or by fax on +356 21 247 487 backed by a fax call-back. Provided that the request is received by the home NCB at the latest 15 minutes following the TARGET2 closing time, the Bank shall process the request on the same day in TARGET2. The deadline for requesting access to the deposit facility shall be postponed by an additional 15 minutes on the last Eurosystem business day of a reserve maintenance period. The request shall specify the amount to be deposited under the facility.

3. Due to the existence of different account structures across the NCBs, the Bank, subject to the ECB's prior approval, may apply access conditions which are different from those referred to

in this Article. The Bank shall provide information to the counterparties on any such deviations from the access conditions described in this Article.

Article 23

Maturity and interest rate of the deposit facility

1. The maturity of deposits under the deposit facility shall be overnight. For counterparties participating directly in TARGET2, deposits held under the deposit facility shall mature on the next day on which TARGET2 is operational, at the time at which this system opens.

2. The interest rate that applies to the deposit shall be announced in advance by the Eurosystem and shall be calculated as a simple interest rate based on the actual/360 day-count convention.

3. Interest on the deposits shall be payable on maturity of the deposit. In cases of negative interest rates, the application of the interest rate to the deposit facility shall entail a payment obligation of the deposit holder to the home NCB, including the right of that NCB to debit the account of the counterparty accordingly.

TITLE III – Procedures for Eurosystem monetary policy operations

Chapter 1 - Tender and bilateral procedures for Eurosystem open market operations

Article 24

Types of procedures for open market operations

Open market operations shall be executed through tender procedures or bilateral procedures.

Section 1 - Tender Procedures

Article 25

Overview of tender procedures

1. Tender procedures shall be performed in six operational steps, as specified in Table 4.

Table 4: Operational steps for tender procedures

Step 1	Tender announcement
	(a)ECB public announcement
	(b)NCBs' public announcement and direct announcement to individual counterparties (if deemed necessary)
Step 2	Counterparties' preparation and submission of bids
Step 3	Compilation of bids by the Eurosystem
Step 4	Tender allotment and announcement of tender results
	(a)ECB tender allotment decision
	(b)ECB public announcement of the allotment results
Step 5	Certification of individual allotment results
Step 6	Settlement of the transactions

2. Tender procedures shall be conducted in the form of standard tender procedures or quick tender procedures. The operational features of standard and quick tender procedures are identical, except for the time frame (Tables 3 and 4) and the range of counterparties.

'Table 5

Indicative time frame for the operational steps in standard tender procedures (times are stated in Central European Time (1))

T-1	Trade day (T)	T+1

Table 6

Indicative time frame for the operational steps in quick tender procedures (times are stated in CET)

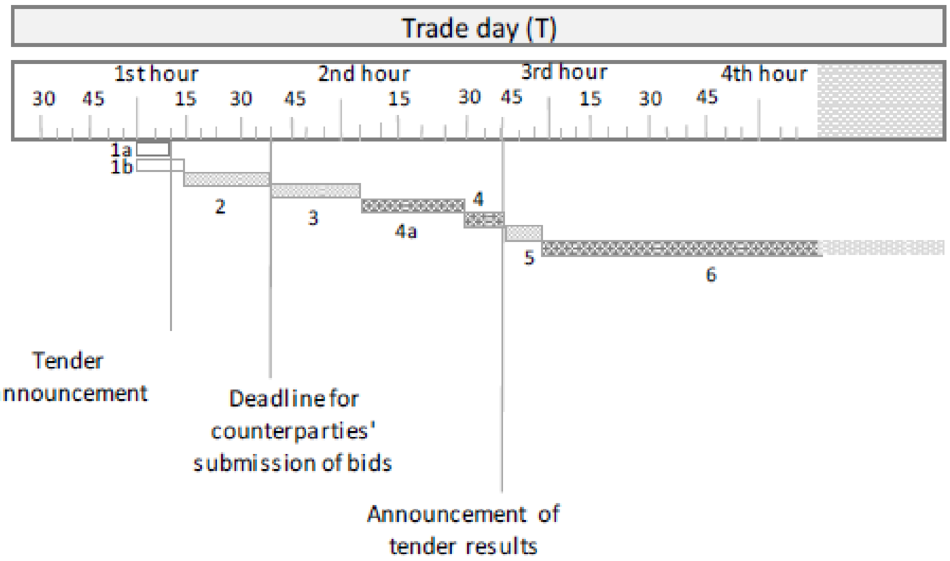
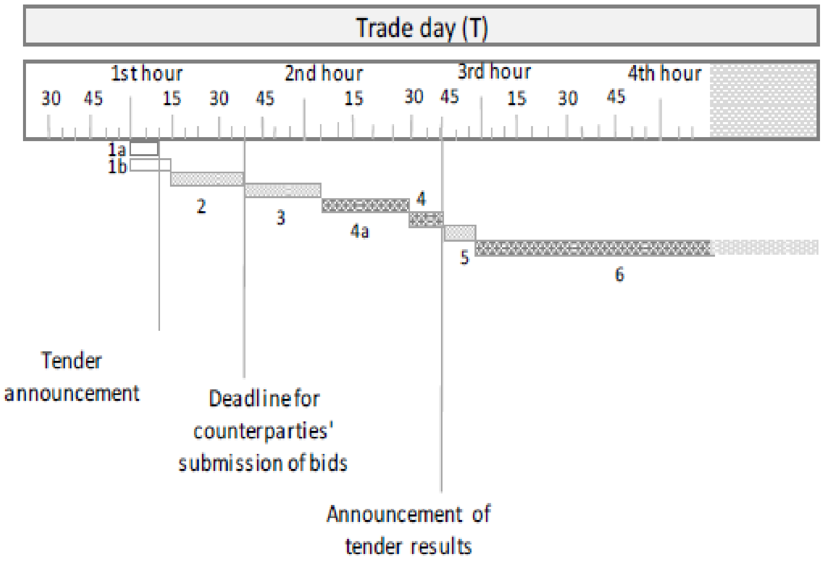


Table 6

Indicative time frame for the operational steps in quick tender procedures (times are stated in CET)



The Eurosystem may conduct either fixed-rate or variable rate tender procedures.

Article 26

Standard tender procedures

1. The Eurosystem shall use standard tender procedures for the execution of: (a) MROs; (b) LTROs; (c) specific structural operations, i.e. structural reverse operations and the issuance of ECB debt certificates.

2. The Eurosystem may also use standard tender procedures to conduct fine-tuning operations and structural operations executed by means of outright transactions in the light of specific monetary policy considerations or in order to react to market conditions.

3. For standard tender procedures, as a rule: (a) a maximum of 24 hours shall elapse from the announcement of the tender procedure to the certification of the allotment result; and (b) the time

between the submission deadline and the announcement of the allotment result is approximately two hours.

4. The ECB may decide to adjust the time frame in individual operations, if deemed appropriate.

Article 27

Quick tender procedures

1. The Eurosystem normally uses quick tender procedures for the execution of fine-tuning operations, but may also use quick tender procedures for structural operations executed by means of outright transactions in the light of specific monetary policy considerations or in order to react to market conditions.

2. Quick tender procedures are executed within 105 minutes of the announcement of the tender procedure, with certification taking place immediately after the public announcement of the allotment result.

3. The ECB may decide to adjust the time frame in individual operations, if deemed appropriate.

4. The Eurosystem may select, according to the criteria and procedures specified in Article 57, a limited number of counterparties to participate in quick tender procedures.

Article 28

Execution of standard tender procedures for MROs and regular LTROs, based on the tender calendar

1. The tender procedures for MROs and regular LTROs shall be executed in accordance with the indicative calendar for the Eurosystem's regular tender operations.

2. The indicative calendar for the Eurosystem's regular tender operations is published on the website of the ECB at least three months before the start of the calendar year for which it is valid. The Bank shall inform the counterparties of such publication.

3. The indicative trade days for MROs and regular LTROs are specified in Table 7.

TABLE 7: NORMAL TRADE DAYS FOR MROS AND REGULAR LTROS

Category of open market operations	Normal trade day (T)
MROs	Each Tuesday*
Regular LTROs	The last Wednesday of each calendar month**

*Special scheduling can take place due to holidays.

**Due to the holiday period, the December operation is normally brought forward by one week, i.e. to the preceding Wednesday of the month.

Article 29

Execution of tender procedures for fine-tuning and structural operations without a tender operation calendar

1. Fine-tuning operations are not executed according to any pre-specified calendar. The ECB may decide to conduct fine-tuning operations on any Eurosystem business day. The Bank shall participate in such operations if the trade date, the settlement date and the reimbursement date are CBM business days.

2. Structural operations executed by means of standard tender procedures are not performed according to any pre-specified calendar. They are normally conducted and settled on days which are NCB business days in all Member States whose currency is the euro.

Operational steps for tender procedures

Subsection 1 - Announcement of tender procedures

Article 30

Announcement of standard and quick tender procedures

1. Standard tender procedures shall be publicly announced by the ECB in advance. In addition, the NCBs may announce standard tender procedures publicly and directly to counterparties, if deemed necessary.

2. Quick tender procedures may be publicly announced by the ECB in advance. In quick tender procedures that are publicly announced in advance, the NCB may contact the selected counterparties directly if deemed necessary. In quick tender procedures that are not announced publicly in advance, the selected counterparties shall be contacted directly by the NCBs.

3. The tender announcement represents an invitation to counterparties to submit bids, which are legally binding. The announcement does not represent an offer by the ECB or the NCBs.

4. The information to be included in the public announcement of a tender procedure is laid down in Annex 2.

5. The ECB may take any action it deems appropriate to correct any error in the announcement of tender procedures, including cancelling or interrupting a tender procedure under execution.

Subsection 2 - Preparation and submission of bids by counterparties

Article 31

Form and place of submission of bids

1. The bids must be submitted to the Bank. The bids of an institution may only be submitted to the home NCB by one establishment in each Member State whose currency is the euro where the institution is established, i.e. either by the head office or by a designated branch.

2. Counterparties shall submit bids in a format as specified in Annex 13.

Article 32

Submission of bids

1. In fixed-rate tender procedures, counterparties shall state in their bids the amount that they are willing to transact with the Bank.

2. In fixed-rate foreign exchange swap tender procedures, the counterparties shall state the amount of currency kept fixed that they intend to sell and buy back, or buy and sell back, at that rate.

3. In variable rate tender procedures, counterparties may submit bids for up to 10 different interest rates, prices or swap points. Under exceptional circumstances, the Eurosystem may impose a limit on the number of bids that may be submitted by each counterparty. In each bid, counterparties shall state the amount that they are willing to transact and the relevant interest rate or price or swap point. A bid for an interest rate or swap point shall be expressed as multiples of 0,01 percentage points. A bid for a price shall be expressed as multiples of 0,001 percentage points.

4. For variable rate foreign exchange swap tender procedures, the counterparties shall state the amount of the currency to be kept fixed and the swap point quotation at which they intend to enter into the operation.

5. For variable rate foreign exchange swap tender procedures, the swap points shall be quoted in accordance with standard market conventions and bids shall be expressed as multiples of 0,01 swap points.

6. With regard to the issuance of ECB debt certificates, the ECB may decide that bids shall be expressed in the form of a price rather than an interest rate. In such cases, prices shall be quoted as a percentage of the nominal amount, with three decimal places.

Article 33

Minimum and maximum bid amounts

1. For MROs, the minimum bid amount shall be EUR1, 000, 000. Bids exceeding this amount shall be expressed as multiples of EUR 100, 000. The minimum bid amount shall apply to each individual interest rate level.

2. For LTROs, the minimum bid amount shall be EUR100,000. Bids exceeding the minimum bid amount shall be expressed as multiples of EUR10, 000. The minimum bid amount shall be applied to each individual interest rate level.

3. For fine-tuning and structural operations, the minimum bid amount shall be EUR1, 000, 000. Bids exceeding this amount shall be expressed as multiples of EUR100, 000. The minimum bid amount shall apply to each individual interest rate, price or swap point, depending on the specific type of transaction.

4. The ECB may impose a maximum bid amount, which is the largest acceptable bid from an individual counterparty, to prevent disproportionately large bids. If imposed, the ECB shall include details of such a maximum bid amount in the public tender announcement.

Article 34

Minimum and maximum bid rate

1. In liquidity-providing variable rate tender procedures, the ECB may impose a minimum bid rate, which is a lower limit to the interest rate at which counterparties may submit bids.

2. In liquidity-absorbing variable rate tender procedures, the ECB may impose a maximum bid rate, which is an upper limit to the interest rate at which counterparties may submit bids.

Article 35

Deadline for submission of bids

1. Counterparties may revoke their bids at any time up to the deadline for the submission of bids.

2. Bids submitted after the deadline shall not be considered and shall be treated as ineligible.

3. The Bank shall determine if a counterparty has complied with the deadline for the submission of bids.

Article 36

Rejection of bids

1. The Bank shall reject:

   (a) all of a counterparty's bids, if the aggregate amount bid exceeds any maximum bid limit established by the ECB;

   (b) any bid of a counterparty, if the bid is below the minimum bid amount;

   (c) any bid of a counterparty, if the bid is below the minimum accepted interest rate, price, or swap point or above the maximum accepted interest rate, price or swap point.

2. The Bank may reject bids that are incomplete or do not follow the appropriate template.

3. If the Bank decides to reject a bid, it shall inform the counterparty of such decision prior to the tender allotment.

Subsection 3 - Tender allotment

Article 37

Allotment in liquidity-providing and liquidity-absorbing fixed-rate tender procedures

1. In a fixed-rate tender procedure, the bids of counterparties shall be allotted in the following manner:

   (a) The bids shall be added together.

   (b) If the aggregate amount bid exceeds the total amount of liquidity to be allotted, the submitted bids shall be satisfied pro rata, based on the ratio of the amount to be allotted to the aggregate amount bid, in accordance with Table 1 of Annex 3.

   (c) The amount allotted to each counterparty shall be rounded to the nearest euro.

2. The ECB may decide to allot:

   (a) a minimum allotment amount, which is a lower limit on the amount that may be allotted to each bidder; or

   (b) a minimum allotment ratio, which is a lower limit, expressed in percentage terms, on the ratio of bids at the marginal interest rate that may be allotted to each bidder.

Article 38

Allotment in liquidity-providing variable rate tender procedures in euro

1. In a liquidity-providing variable rate tender procedure in euro, the bids of counterparties shall be allotted in the following manner:

   (a) Bids shall be listed in descending order of offered interest rates or ascending order of offered prices.

(b) Bids with the highest interest rate (lowest price) levels shall be satisfied first and subsequently bids with successively lower interest rates (higher price) shall be accepted, until the total liquidity to be allotted is exhausted.

(c) If at the marginal interest rate (highest accepted price), the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount shall be allocated pro rata among the bids based on the ratio of the remaining amount to be allotted to the total amount bid at the marginal interest rate (highest accepted price), in accordance with Table 2 of Annex 3.

(d) The amount allotted to each counterparty shall be rounded to the nearest euro.

2. The ECB may decide to allot a minimum allotment amount to each successful bidder.

Article 39

Allotment in liquidity-absorbing variable rate tender procedures in euro

1. In a liquidity-absorbing variable rate tender procedure in euro, used for the issuance of ECB debt certificates and the collection of fixed term deposits, the bids of counterparties shall be allotted in the following manner:

(a) Bids shall be listed in ascending order of offered interest rates or descending order of offered prices.

(b) Bids with the lowest interest rate (highest price) levels shall be satisfied first and subsequently bids with successively higher interest rates (lower price bids) shall be accepted until the total liquidity to be absorbed is exhausted.

(c) If at the marginal interest rate (lowest accepted price), the aggregate bid amount exceeds the remaining amount to be allotted, the remaining amount shall be allocated pro rata among the bids, based on the ratio of the remaining amount to be allotted to the total bid amount at the marginal interest rate (lowest accepted price), in accordance with Table 2 of Annex 3.

(d) The amount allotted to each counterparty shall be rounded to the nearest euro. With regard to the issuance of ECB debt certificates, the allotted nominal amount shall be rounded to the nearest multiple of EUR100, 000.

2. The ECB may decide to allot a minimum allotment amount to each successful bidder.

Article 40

Allotment in liquidity-providing variable rate foreign exchange swap tender procedures

1. In a liquidity-providing variable rate foreign exchange swap tender procedure, the bids of counterparties shall be allotted in the following manner:

(a) Bids shall be listed in ascending order of swap point quotations by taking into account the sign of the quotation.

(b) The sign of quotation depends on the sign of the interest rate differential between the foreign currency and the euro. For the maturity of the swap:

(i) if the foreign currency interest rate is higher than the corresponding interest rate for the euro, the swap point quotation is positive, i.e. the euro is quoted at a premium to the foreign currency; and

(ii) if the foreign currency interest rate is lower than the corresponding interest rate for the euro, the swap point quotation is negative, i.e. the euro is quoted at a discount to the foreign currency.

(c) The bids with the lowest swap point quotations shall be satisfied first and subsequently successively higher swap point quotations shall be accepted until the total amount of the fixed currency to be allotted is exhausted.

(d) If, at the highest swap point quotation accepted, i.e. the marginal swap point quotation, the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount shall be allocated pro rata among the bids, based on the ratio of the remaining amount to be allotted to the total amount bid at the marginal swap point quotation, in accordance with Table 3 of Annex 3.

(e) The amount allotted to each counterparty shall be rounded to the nearest euro.

2. The ECB may decide to allot a minimum allotment amount to each successful bidder.

Article 41

Allotment in liquidity-absorbing variable rate foreign exchange swap tender procedures

1. In a liquidity-absorbing variable rate foreign exchange swap tender procedure, the bids of counterparties shall be allotted in the following manner:

(a) Bids shall be listed in descending order of offered swap point quotations by taking into account the sign of the quotation.

(b) The sign of the quotation depends on the sign of the interest rate differential between the foreign currency and the euro. For the maturity of the swap:

(i) if the foreign currency interest rate is higher than the corresponding interest rate for the euro, the swap point quotation is positive, i.e. the euro is quoted at a premium to the foreign currency; and

(ii) if the foreign currency interest rate is lower than the corresponding interest rate for the euro, the swap point quotation is negative, i.e. the euro is quoted at a discount to the foreign currency.

(c) Bids with the highest swap point quotations shall be satisfied first and subsequently successively lower swap point quotations shall be accepted until:

(i) the total amount of the fixed currency to be absorbed is exhausted; and

(ii) at the lowest swap point quotation accepted, i.e. the marginal swap point quotation, the aggregate amount bid exceeds the remaining amount to be allotted.

(d) The remaining amount shall be allocated pro rata among the bids, based on the ratio of the remaining amount to be allotted to the total amount bid at the marginal swap point quotation, in accordance with Table 3 of Annex 3. The amount allotted to each counterparty shall be rounded to the nearest euro.

2. The ECB may decide to allot a minimum allotment amount to each successful bidder.

Article 42

Type of auction for variable rate tender procedures

For variable rate tender procedures, the Eurosystem may apply either a single rate auction (Dutch auction) or multiple rate auction (American auction).

Subsection 4 - Announcement of tender results

Article 43

Announcement of tender results

1. The ECB shall publicly announce its tender allotment decision with respect to the tender results . In addition, the Bank may announce the ECB’s tender allotment decision publicly and directly to counterparties if it deems it necessary.

2. The information to be included in the public announcement with respect to the tender results is laid down in Annex 4.

3. If the allotment decision contains erroneous information with respect to any of the information contained in the public tender result announcement referred to in paragraph 1, the ECB may take any action it deems appropriate to correct such erroneous information.

4. After the public announcement of the ECB’s tender allotment decision on the tender results as referred to in paragraph 1, the Bank shall directly certify the individual allotment results to

counterparties, whereby each counterparty shall receive an individual and certain confirmation of its success in the tender procedure and the exact amount allotted to it.

Section 2 - Bilateral procedures for Eurosystem open market operations

Article 44

Overview of bilateral procedures

1. The Eurosystem may execute any of the following open market operations by means of bilateral procedures:

(a) fine-tuning operations (reverse transactions, foreign exchange swaps or the collection of fixed-term deposits); or

(b) structural operations (outright transactions).

2. Bilateral procedures, depending on the specific transaction, may be executed by means of direct contact with counterparties, as laid down in Article 45, or through stock exchanges and market agents, as laid down in Article 46.

Article 45

Bilateral procedures executed by means of direct contact with counterparties

1. Bilateral procedures for fine-tuning operations and structural operations conducted by means of outright transactions may be executed by means of direct contact with counterparties.

2. The Bank shall directly contact one or more institutions selected in accordance with the eligibility criteria laid down in Article 57. The Bank shall follow the ECB’s instructions in deciding whether to enter into a transaction with those institutions.

3. Without prejudice to paragraph 2, the ECB’s Governing Council may decide that, under exceptional circumstances, the ECB or one or more NCBs, acting as the ECB’s operating arm,

shall conduct fine-tuning operations or structural operations conducted by means of outright transactions executed through bilateral procedures. In such an event, the procedures for those operations shall be adapted accordingly. The ECB shall decide whether to enter into a transaction with the contacted institutions.

Article 46

Bilateral procedures executed by means of stock exchanges and market agents

1. Without prejudice to Article 45, bilateral procedures for structural operations conducted by means of outright transactions may be executed through stock exchanges and market agents.

2. The range of counterparties shall not be restricted, as provided for in Article 57.

3. The procedures shall be adapted to the market conventions for the debt instruments transacted.

Article 47

Announcement of operations executed by means of bilateral procedures

1. Fine-tuning operations or structural operations conducted by means of outright transactions executed by means of bilateral procedures are not announced publicly in advance, unless the ECB decides otherwise.

2. The ECB may decide not to announce the results of such bilateral procedures publicly.

Article 48

Operating days for bilateral procedures

1. The ECB may decide to conduct bilateral procedures for fine-tuning operations on any Eurosystem business day. The Bank shall participate in such operations if the trade date, the settlement date and the reimbursement date are CBM business days.

2. Bilateral procedures for structural operations conducted by means of outright transactions are normally executed and settled on days which are NCB business days in all Member States whose currency is the euro.

Chapter 2 - Settlement procedures for eurosystem monetary policy operations

Article 49

Overview of settlement procedures

1. Payment orders relating to the participation in open market operations or for the use of the standing facilities shall be settled by the counterparties through their direct participation with the Bank in TARGET2 or on the accounts of a settlement bank participating in TARGET2.

2. Payment orders relating to the participation in open market liquidity-providing operations or use of the marginal lending facility shall only be settled at the moment of or after the final transfer of the eligible assets as collateral to the operation. For this purpose, the Bank shall request counterparties to pre-deposit the eligible assets.

Article 50

Settlement of open market operations

1. The Eurosystem shall endeavour to settle transactions related to its open market operations at the same time in all Member States whose currency is the euro with all counterparties that have provided sufficient eligible assets as collateral. However, owing to operational constraints and technical features (e.g. of SSSs), the timing within the day of the settlement of open market operations may differ across the Member States whose currency is the euro.

2. The indicative settlement dates are summarised in table 8.

TABLE 8: INDICATIVE SETTLEMENT DATES FOR EUROSYSTEM OPEN MARKET OPERATIONS*

Monetary policy instrument	Settlement date for open market operations based on standard tender procedures	Settlement date for open market operations based on quick tender procedures or bilateral procedures
Reverse transactions	T+1	T
Outright transactions	According to market convention for the eligible assets	
Issuance of ECB debt certificates	T+2	-
Foreign exchange swaps	T, T+1 or T+2	
Collection of fixed-term deposits	T	

* The settlement date refers to Eurosystem business days. T refers to the trade day.

Article 51

Settlement of open market operations executed by means of standard tender procedures

1. The Eurosystem shall endeavour to settle open market operations executed by means of standard tender procedures, on the first day following the trade day on which TARGET2 and all relevant SSSs are open.

2. The settlement dates for MROs and regular LTROs are specified in advance in the indicative calendar for the Eurosystem's regular tender operations. If the normal settlement date coincides with a bank holiday, the ECB may decide to apply a different settlement date, with the option of same-day settlement. The Eurosystem shall endeavour to ensure that the time of settlement of MROs and regular LTROs coincides with the time of reimbursement of a previous operation of corresponding maturity.

3. The issuance of ECB debt certificates shall be settled on the second day following the trade day on which TARGET2 and all relevant SSSs are open.

Article 52

Settlement of open market operations conducted by means of quick tender procedures or bilateral procedures

1. The Eurosystem shall endeavour to settle open market operations executed by means of quick tender procedures and bilateral procedures on the trade day. Other settlement dates may be applied, in particular for outright transactions and foreign exchange swaps.

2. Fine-tuning operations and structural operations conducted by means of outright transactions executed by means of bilateral procedures shall be settled in a decentralised manner through the Bank.

Article 53

Further provisions relating to settlement and end-of-day procedures

1. Without prejudice to the requirements laid down in this Chapter, additional provisions relating to settlement are laid down in Annex 13 for the specific monetary policy tool.

2. The end-of-day procedures are specified in the documentation relating to the TARGET2 framework.

Article 54

Reserve holdings and excess reserves

1. Pursuant to Article 6(1) of Regulation (EC) No 1745/2003 (ECB/2003/9), a counterparty's settlement account with the Bank may be used as a reserve account. Reserve holdings on settlement accounts may be used for intraday settlement purposes. The daily reserve holding of a

counterparty shall be calculated as the end-of-day balance on its reserve account. For the purposes of this Article, ‘reserve account’ shall have the same meaning as that in Regulation (EC) No 1745/2003 (ECB/2003/9).

2. Reserve holdings that exceed the minimum reserves required pursuant to Regulation (EC) No 2531/98 and Regulation (EC) No 1745/2003 (ECB/2003/9) shall be remunerated at zero per cent or the deposit facility rate, whichever is lower.

PART THREE
ELIGIBLE COUNTERPARTIES

Article 55

Eligibility criteria for participation in Eurosystem monetary policy operations

With regard to Eurosystem monetary policy operations, subject to Article 57, the Eurosystem shall only allow participation by institutions that fulfil the following criteria.

(a) they shall be subject to the Eurosystem’s minimum reserve system pursuant to Article 19.1 of the Statute of the ESCB and shall not have been granted an exemption from their obligations under the Eurosystem’s minimum reserve system pursuant to Regulation (EC) No 2531/98 and Regulation (EC) No 1745/2003 (ECB/2003/9).

(b) they shall be one of the following:

   (i) subject to at least one form of harmonised Union/EEA supervision by competent authorities in accordance with Directive 2013/36/EU and Regulation (EU) No 575/2013;

   (ii) publicly-owned credit institutions, within the meaning of Article 123(2) of the Treaty, subject to supervision of a standard comparable to supervision by competent authorities under Directive 2013/36/EU and Regulation (EU) No 575/2013;

   (iii) institutions subject to non-harmonised supervision by competent authorities of a standard comparable to harmonised Union/EEA supervision by competent authorities under Directive 2013/36/EU and Regulation (EU) No 575/2013, e.g. branches established in Member States whose currency is the euro of institutions incorporated outside the EEA;

(c) they must be financially sound within the meaning of Article 55a;

(d) they shall fulfil any operational requirements specified in the contractual or regulatory arrangements applied by the home NCB or ECB with respect to the specific instrument or operation.

Article 55a

Assessment of the financial soundness of institutions

1. In its assessment of the financial soundness of individual institutions for the purposes of this Article, the Eurosystem may take into account the following prudential information:

   a) Quarterly information on capital, leverage and liquidity ratios reported under Regulation (EU) No 575/2013 on an individual and consolidated basis, in accordance with the supervisory requirements; or

   b) Where applicable, prudential information of a standard comparable to information under point (a).

2. If such prudential information is not made available to an institution's home NCB and the ECB by the institution's supervisor, either the home NCB or the ECB may require the institution to make such information available. When such information is provided directly by an institution, the institution shall also submit an assessment of the information carried out by the relevant supervisor. An additional certification from an external auditor may also be required.

3. In the case of branches, the information reported under paragraph 1 shall relate to the institution to which the branch belongs.

4. As regards the assessment of the financial soundness of institutions that have been subject to in-kind recapitalisation with public debt instruments, the Eurosystem may take into account the methods used for and the role played by such in-kind recapitalisations, including the type and liquidity of such instruments and the market access of the issuer of such instruments, in ensuring the fulfilment of the capital ratios reported under Regulation (EU) No 575/2013.

5. Asset management vehicles resulting from a resolution action in the form of the application of an asset separation tool pursuant to Article 26 of Regulation (EU) 806/2014 of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund or national legislation implementing Article 42 of Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms shall not be eligible to access Eurosystem monetary policy operations.

Article 56

Access to open market operations executed by means of standard tender procedures and to standing facilities

1. Institutions fulfilling the eligibility criteria under Article 55 shall have access to any of the following Eurosystem monetary policy operations:

(a) standing facilities;

(b) open market operations executed by means of standard tender procedures.

2. Access to the standing facilities or open market operations executed by means of standard tender procedures shall only be granted to institutions fulfilling the eligibility criteria under Article 55 through their home NCB.

3. Where an institution fulfilling the eligibility criteria under Article 55 has establishments, e.g. head office or branches, in more than one Member State whose currency is the euro, each establishment fulfilling the eligibility criteria under Article 55 may access the standing facilities

or the open market operations executed by means of standard tender procedures through its home NCB.

4. Bids for open market operations executed by means of standard tender procedures and for recourse to the standing facilities shall be submitted by only one establishment in each Member State whose currency is the euro, i.e. either by the head office or by a designated branch.

Article 57

Selection of counterparties for access to open market operations executed by means of quick tender procedures or bilateral procedures

1. For open market operations executed by means of quick tender procedures or bilateral procedures, counterparties shall be selected in accordance with paragraphs 2 to 4.

2. For structural operations conducted by means of outright transactions that are executed by means of bilateral procedures, there shall be no restriction on the range of counterparties. For structural operations conducted by means of outright transactions, which are executed by means of quick tender procedures, the eligibility criteria laid down in Article 57(3)(b) shall apply.

3. For fine-tuning operations that are executed by means of quick tender procedures or bilateral procedures, counterparties shall be selected as follows.

(a) For fine-tuning operations that are conducted by means of foreign exchange swaps for monetary policy purposes and executed by means of quick tender or bilateral procedures, the range of counterparties shall be identical to the range of entities that are selected for Eurosystem foreign exchange intervention operations and are established in the Member States whose currency is the euro. Counterparties for foreign exchange swaps for monetary policy purposes by means of quick tender or bilateral procedures do not need to fulfil the criteria laid down in Article 55. The selection criteria for counterparties participating in Eurosystem foreign exchange intervention operations are based on the principles of prudence and efficiency, as laid down in Annex 5. The Bank may apply limit-based systems in order to control credit exposures vis-à-vis individual counterparties participating in foreign exchange swaps for monetary policy purposes.

(b) For fine-tuning operations conducted by means of reverse transactions or through the collection of fixed-term deposits and executed by means of quick tender procedures or bilateral procedures, the Bank shall select, for a specific transaction, a set of counterparties from among the institutions that fulfil the eligibility criteria laid down in Article 55 and are established in its Member State whose currency is the euro. The selection shall be primarily based on the relevant institution's activity in the money market. Additional selection criteria may be applied by the Bank, such as the efficiency of the trading desk and the bidding potential.

4. If the ECB's Governing Council, pursuant to Article 45(3), decides that the ECB shall conduct, by itself or by means of one or more NCBs fine-tuning operations executed by means of bilateral procedures, the ECB shall select its counterparties in accordance with a rotation scheme among the counterparties that are eligible to participate in quick tender procedures and bilateral procedures.

5. Without prejudice to paragraphs 1 to 4, open market operations executed by means of quick tender procedures or bilateral procedures may also be conducted with a broader range of counterparties than those indicated in paragraphs 2 to 4, if the ECB's Governing Council so decides.

PART FOUR

ELIGIBLE ASSETS

TITLE I – General principles

Article 58

Eligible assets and accepted collateralisation techniques to be used for Eurosystem credit operations

1. The Eurosystem shall apply a single framework for eligible assets common to all Eurosystem credit operations as laid down in this Guideline.

2. In order to participate in Eurosystem credit operations, counterparties shall provide the Eurosystem with assets that are eligible as collateral for such operations. Given that Eurosystem credit operations include intraday credit, collateral provided by counterparties in respect of intraday credit shall also comply with the eligibility criteria laid down in this Directive, as outlined in Guideline ECB/2012/27.

3. Counterparties shall provide eligible assets by the creation of a security interest by means of a pledge which takes the legal form of a collateralised loan.

4. Where counterparties provide eligible assets as collateral, the Bank shall require pooling of eligible assets.

5. No distinction shall be made between marketable and non-marketable assets with regard to the quality of the assets and their eligibility for the various types of Eurosystem credit operations.

6. Without prejudice to the obligation in paragraph 2 that counterparties provide the Eurosystem with assets that are eligible as collateral, the Eurosystem may, upon request, provide counterparties with advice regarding the eligibility of marketable assets if they have already been issued or regarding the eligibility of non-marketable assets when they have already been requested for submission. The Eurosystem shall not provide any advice in advance of these events.

Article 59

General aspects of the Eurosystem credit assessment framework for eligible assets

1. As one of the criteria for eligibility, assets shall meet the high credit standards specified in the Eurosystem credit assessment framework (ECAF).

2. The ECAF shall lay down the procedures, rules and techniques to ensure that the Eurosystem's requirement for high credit standards for eligible assets is maintained and that eligible assets comply with the credit quality requirements defined by the Eurosystem.

3. For the purposes of the ECAF, the Eurosystem shall define credit quality requirements in the form of credit quality steps by establishing threshold values for the probability of default (PD) over a one-year horizon, as follows.

(a) The Eurosystem considers, subject to regular review, a maximum probability of default over a one-year horizon of 0,10 % as equivalent to the credit quality requirement of credit quality step 2 and a maximum probability of default over a one-year horizon of 0,40 % as equivalent to the credit quality requirement of credit quality step 3.

(b) All eligible assets for Eurosystem credit operations shall comply, as a minimum, with a credit quality requirement corresponding to credit quality step 3. Additional credit quality requirements for specific assets shall be applied by the Eurosystem in accordance with Titles II and III of Part Four.

4. The Eurosystem shall publish information on credit quality steps on the ECB website in the form of the Eurosystem's harmonised rating scale, including the mapping of credit assessments, provided by the accepted external credit assessment institutions (ECAIs) and third-party rating tools (RTs) providers, to credit quality steps.

5. In the assessment of the credit quality requirements, the Eurosystem takes into account credit assessment information from credit assessment systems belonging to one of four sources in accordance with Title V of Part Four.

6. As part of its assessment of the credit standard of a specific asset, the Eurosystem may take into account institutional criteria and features ensuring similar protection for the asset holder, such as guarantees. The Eurosystem reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils the Eurosystem's credit quality requirements on the basis of any information that the Eurosystem may consider relevant for ensuring adequate risk protection of the Eurosystem.

7. The ECAF follows the definition of 'default' laid down in Directive 2013/36/EU and Regulation (EU) No 575/2013.

TITLE II – Eligibility criteria and credit quality requirements for marketable assets

Chapter 1 – Eligibility criteria for marketable assets

Article 60

Eligibility criteria relating to all types of marketable assets

In order to be eligible as collateral for Eurosystem credit operations, marketable assets shall be debt instruments fulfilling the eligibility criteria laid down in Section 1, except in the case of certain specific types of marketable assets, as laid down in Section 2.

Article 61

List of eligible marketable assets and reporting rules

1. The ECB shall publish an updated list of eligible marketable assets on its website, in accordance with the methodologies indicated on its website and shall update it every day on which TARGET2 is operational. Marketable assets included on the list of eligible marketable assets become eligible for use in Eurosystem credit operations upon their publication on the list. As an exception to this rule, in the specific case of short-term debt instruments with same-day value settlement, the Eurosystem may grant eligibility from the date of issue. Assets assessed in accordance with Article 87(3) shall not be published on this list of eligible marketable assets.

2. As a rule, the NCB reporting a specific marketable asset to the ECB is the NCB of the country in which the marketable asset is admitted to trading.

Section 1 - General eligibility criteria for marketable assets

Article 62

Principal amount of marketable assets

1. In order to be eligible, until their final redemption, debt instruments shall have:

   (a) a fixed and unconditional principal amount; or

   (b) an unconditional principal amount that is linked, on a flat basis, to only one euro area inflation index at a single point in time, containing no other complex structures.

2. Debt instruments with a principal amount linked to only one euro area inflation index at a single point in time shall also be permissible, given that the coupon structure is as defined in Article 63(1)(b)(i) fourth indent and is linked to the same euro area inflation index.

3. Assets with warrants or similar rights attached shall not be eligible.

Article 63

Acceptable coupon structures for marketable assets

1. In order to be eligible, debt instruments shall have either of the following coupon structures until final redemption:

   (a) fixed, zero or multi-step coupons with a pre-defined coupon schedule and pre-defined coupon values; or

   (b) floating coupons that have the following structure: coupon rate = (reference rate * l) ± x, with f ≤ coupon rate ≤ c, where:

      (i) the reference rate is only one of the following at a single point in time:

         - a euro money market rate, e.g. EURIBOR, LIBOR or similar indices;

- a constant maturity swap rate e.g. CMS, EIISDA, EUSA;

- the yield of one or an index of several euro area government bonds that have a maturity of one year or less;

- a euro area inflation index;

(ii) f (floor), c (ceiling), l (leveraging/deleveraging factor) and x (margin) are, if present, numbers that are either pre-defined at issuance, or may change over time only according to a path pre-defined at issuance, where l is greater than zero throughout the entire lifetime of the asset. For floating coupons with an inflation index reference rate, l shall be equal to one.

2. Any coupon structure that does not comply with paragraph 1 shall not be eligible, including instances where only part of the remuneration structure, such as a premium, is non-compliant.

3. For the purpose of this Article, if the coupon is either of a fixed multi-step type or of a floating multi-step type, the assessment of the relevant coupon structure shall be based on the entire lifetime of the asset with both a forward- and backward-looking perspective.

4. Acceptable coupon structures shall have no issuer optionalities, i.e. during the entire lifetime of the asset, based on a forward- and backward-looking perspective, changes in the coupon structure that are contingent on an issuer's decision shall not be acceptable.

Article 64

Non-subordination with respect to marketable assets

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.

Article 65

Currency of denomination of marketable assets

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.

Article 66

Place of issue of marketable assets

1. Subject to paragraph 2, in order to be eligible, debt instruments shall be issued in the EEA with a central bank or with an SSS that has been positively assessed pursuant to the Eurosystem User Assessment Framework.

2. In respect of debt instruments issued or guaranteed by a non-financial corporation for which no credit assessment has been provided by an accepted ECAI system for the issue, issuer or guarantor, the place of issue must be within the euro area.

3. International debt instruments issued through the ICSDs Euroclear Bank and Clearstream Banking Luxembourg shall comply with the following criteria, as applicable.

(a) International debt instruments in global bearer form shall be issued in the form of New Global Notes (NGNs) and shall be deposited with a common safekeeper which is an ICSD or a CSD that has been positively assessed pursuant to the Eurosystem User Assessment Framework. By way of derogation, this shall not apply to international debt instruments issued in global bearer form issued in the form of classical global notes prior to 1 January 2007 and fungible tap issuances of such notes issued under the same ISIN irrespective of the date of the tap-issuance.

(b) International debt instruments issued in global registered form shall be issued under the new safekeeping structure for international debt instruments. By way of derogation, this shall not apply to international debt instruments issued in global registered form prior to 1 October 2010.

(c) International debt instruments in individual note form shall not be eligible unless they were issued in individual note form prior to 1 October 2010.

Article 67

Settlement procedures for marketable assets

1. In order to be eligible, debt instruments shall be transferable in book-entry form and shall be held and settled in Member States whose currency is the euro through an account with an NCB or with an SSS that has been positively assessed pursuant to the Eurosystem User Assessment Framework, so that perfection and realisation of collateral are subject to the law of a Member State whose currency is the euro.

2. If the CSD/SSS where the asset is issued and the CSD/SSS where the asset is held are not identical, for the purposes of eligibility, the two must be connected by an eligible link positively assessed pursuant to the Eurosystem User Assessment Framework in accordance with Article 150.

Article 68

Acceptable markets for marketable assets

1. In order to be eligible, debt instruments shall be those which are admitted to trading on a regulated market as defined in Directive 2014/65/EU of the European Parliament and of the Council[2], or admitted to trading on certain acceptable non-regulated markets.

2. The ECB shall publish the list of acceptable non-regulated markets on its website and shall update it at least once a year.

3. The assessment of non-regulated markets by the Eurosystem shall be based on the following principles of safety, transparency and accessibility.

(a) Safety refers to certainty with regard to transactions, in particular certainty in relation to the validity and enforceability of transactions.

(b) Transparency refers to unimpeded access to information on the market's rules of procedure and operation, the financial features of the assets, the price formation

[2] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and 2011/61/EU (recast) (OJ L 173, 12.6.2014, p.1).

mechanism, and the relevant prices and quantities, e.g. quotes, interest rates, trading volumes, outstanding amounts.

(c) Accessibility refers to the ability of the Eurosystem to take part in and access the market. A market is considered accessible if its rules of procedure and operation allow the Eurosystem to obtain information and conduct transactions when needed for collateral management purposes.

4. The selection process for non-regulated markets shall be defined exclusively in terms of the performance of the Eurosystem collateral management function and should not be regarded as an assessment by the Eurosystem of the intrinsic quality of any market.

Article 69

Type of issuer or guarantor for marketable assets

1. In order to be eligible, debt instruments shall be issued or guaranteed by central banks of Member States, public sector entities, agencies, credit institutions, financial corporations other than credit institutions, non-financial corporations, multilateral development banks or international organisations.

2. In addition to those banks and organisations identified in Article 117(2) and Article 118 of Regulation (EU) No 575/2013, the Eurosystem may recognise any entity as a multilateral development bank or international organisation for the purposes of the Eurosystem's monetary policy operations based upon an assessment relating to all of the following criteria:

(a) it is an organisation with a global or regional mandate, transcending national boundaries;

(b) it is funded predominantly by contributions from national governments, or organisations or entities linked with national governments;

(c) the mission of the entity is in line with the Union's policies.

Article 70

Place of establishment of the issuer or guarantor

1. In order to be eligible, debt instruments shall be issued by an issuer established in the EEA or in a non-EEA G10 country, subject to the exceptions in paragraphs 3 to 6.

2. In order to be eligible, guarantors of debt instruments shall be established in the EEA, unless a guarantee is not needed to establish the credit quality requirements for specific debt instruments, subject to the exceptions laid down in paragraphs 3 and 4. The possibility to use an ECAI guarantor rating to establish the relevant credit quality requirements for specific debt instruments is laid down in Article 84.

3. For debt instruments issued or guaranteed by non-financial corporations for which no credit assessment from an accepted ECAI system exists for the issue, the issuer or the guarantor, the issuer or guarantor shall be established in a Member State whose currency is the euro.

4. For debt instruments issued or guaranteed by multilateral development banks or international organisations, the criterion in respect of place of establishment shall not apply and they shall be eligible irrespective of their place of establishment.

5. For asset-backed securities, the issuer must be established in the EEA in accordance with Article 74.

6. Debt instruments issued by issuers established in non-EEA G10 countries shall only be considered eligible if the Eurosystem has ascertained to its satisfaction that its rights would be protected in an appropriate manner under the laws of the relevant non-EEA G10 country. For this purpose, a legal assessment shall be submitted to the Bank, in a form and substance acceptable to the Eurosystem, before the relevant debt instruments may be considered eligible.

Article 71

Credit quality requirements for marketable assets

In order to be eligible, debt instruments shall meet the credit quality requirements specified in Chapter 2, except where otherwise stated.

Section 2 - Specific eligibility criteria for certain types of marketable assets

Subsection 1 - Specific eligibility criteria for asset-backed securities

Article 72

Eligibility criteria for asset-backed securities

In order to be eligible for Eurosystem credit operations, asset-backed securities shall comply with the general eligibility criteria relating to all types of marketable assets laid down in Section 1, with the exception of the requirements laid down in Article 62 relating to the principal amount, and in addition, the specific eligibility criteria laid down in this subsection.

Article 73

Homogeneity and composition of the cash-flow generating assets

1. In order for ABSs to be eligible, all cash-flow generating assets backing the ABSs shall be homogenous, i.e. it shall be possible to report them according to one of the existing loan-level templates, which shall be one of the following:

(a) residential mortgages;

(b) commercial real estate mortgages;

(c) loans to small and medium-sized enterprises (SMEs);

(d) auto loans;

(e) consumer finance loans;

(f) leasing receivables;

(g) credit card receivables.

2. The Eurosystem may consider an ABS not to be homogenous upon assessment of the data submitted by a counterparty.

3. ABSs shall not contain any cash-flow generating assets originated directly by the SPV issuing the ABSs.

4. The cash-flow generating assets shall not consist, in whole or in part, actually or potentially, of tranches of other ABSs. This criterion shall not exclude ABSs where the issuance structure includes two SPVs and the ‘true sale’ criterion is met in respect of those SPVs so that the debt instruments issued by the second SPV are directly or indirectly backed by the original pool of assets and all cash flows from the cash-flow generating assets are transferred from the first to the second SPV.

5. The cash-flow generating assets shall not consist, in whole or in part, actually or potentially, of credit-linked notes, swaps or other derivatives instruments, synthetic securities or similar claims. This restriction shall not encompass swaps used in ABS transactions strictly for hedging purposes.

6. Without prejudice to the eligibility criteria of this subsection, the cash-flow generating assets backing commercial mortgage-backed securities shall not contain loans which are at any time structured, syndicated or leveraged. For the purposes of this criterion, ‘structured loan’ means a structure involving subordinated tranches, ‘syndicated loan’ means a loan provided by a group of lenders in a lending syndicate and ‘leveraged loan’ means a loan provided to a company that already has a considerable degree of indebtedness, such as buy-out or take-over-financing, where the loan is used for the acquisition of the equity of a company which is also the obligor of the loan.

Article 74

Geographical restrictions concerning asset-backed securities and cash-flow generating assets

1. The issuer of ABSs shall be an SPV established in the EEA.

2. The cash-flow generating assets shall be originated by an originator incorporated in the EEA and sold to the SPV by the originator or by an intermediary incorporated in the EEA.

3. For the purpose of paragraph 2, a mortgage trustee or receivables trustee shall be considered to be an intermediary. ABSs on the list of eligible marketable assets as on 1 May 2015 that do not comply with paragraph 2 as regards the place of incorporation of a mortgage trustee or receivables trustee shall remain eligible until 1 May 2016 provided all other applicable eligibility criteria are met.

4. The obligors and the creditors of the cash-flow generating assets shall be incorporated, or, if they are natural persons, shall be resident in the EEA. Any related security shall be located in the EEA and the law governing the cash-flow generating assets shall be the law of an EEA country.

Article 75

Acquisition of cash-flow generating assets by the SPV

1. The acquisition of the cash-flow generating assets by the SPV shall be governed by the law of a Member State.

2. The cash-flow generating assets shall have been acquired by the SPV from the originator or from an intermediary as laid down in Article 74(2) in a manner which the Eurosystem considers to be a 'true sale' that is enforceable against any third party, and which is beyond the reach of the originator and its creditors or the intermediary and its creditors, including in the event of the originator's or the intermediary's insolvency.

Article 76

Assessment of clawback rules for asset-backed securities

1. ABSs shall only be considered eligible if the Eurosystem has ascertained that its rights would be protected in an appropriate manner against clawback rules considered relevant by the Eurosystem under the law of the relevant EEA country. For this purpose, before the ABSs may be considered eligible, the Eurosystem may require:

(a) an independent legal assessment in a form and substance acceptable to the Eurosystem that sets out the applicable clawback rules in the relevant country; and/or

(b) other documents, such as a solvency certificate from the transferor for the suspect period, which is a certain period of time during which the sale of cash-flow generating assets backing the ABSs may be invalidated by a liquidator.

2. Clawback rules, which the Eurosystem considers to be severe and therefore not acceptable, shall include:

(a) rules under which the sale of cash-flow generating assets backing the ABSs can be invalidated by a liquidator solely on the basis that the sale was concluded within the suspect period, as referred to in paragraph 1(b), before the declaration of insolvency of the seller; or

(b) rules where such invalidation can only be prevented by the transferee if they can prove that they were not aware of the insolvency of the seller at the time of the sale.

For the purposes of this criterion, the seller may be the originator or intermediary, as applicable.

Article 77

Non-subordination of tranches for asset-backed securities

1. Only tranches or sub-tranches of ABSs that are not subordinated to other tranches of the same issue over the lifetime of the ABS shall be considered eligible.

2. A tranche or sub-tranche shall be considered to be non-subordinated to other tranches or sub-tranches of the same issue if, in accordance with the post-enforcement priority of payments, and if applicable, the post-acceleration priority of payments as set out in the prospectus, no other tranche or sub-tranche shall be given priority over that tranche or sub-tranche in respect of receiving payment, i.e. principal and interest, and thereby such tranche or sub-tranche shall be last in incurring losses among the different tranches or sub-tranches.

Article 77a

Restrictions on investments for asset-backed securities

Any investments of monies standing to the credit of the issuer's or of any intermediary SPV's bank accounts under the transaction document shall not consist, in whole or in part, actually or potentially, of tranches of other ABSs, credit-linked notes, swaps or other derivative instruments, synthetic securities or similar claims.

Article 78

Availability of loan level data for asset-backed securities

1. Comprehensive and standardised loan-level data on the pool of cash-flow generating assets backing the ABSs shall be made available in accordance with the procedures set out in Annex 8, which include the information on the required data quality score and the requirements for the Eurosystem's designation of loan-level data repositories. In its eligibility assessment, the Eurosystem takes account of: (a) any failure to deliver data; and (b) how frequently individual loan-level data fields are found not to contain meaningful data.

2. Notwithstanding the required scoring values set out in Annex 8 in respect of loan-level data, the Eurosystem may accept as collateral asset-backed securities with a score lower than the required scoring value (A1) after completion of the relevant transitional period applicable in accordance with Annex 8, on a case-by-case basis and subject to the provision of adequate explanations for the failure to achieve the required score. For each adequate explanation, the Eurosystem shall specify a maximum tolerance level and a tolerance horizon, as further specified on the ECB's website. The tolerance horizon shall indicate the time period within which the data quality for the ABSs must improve.

Article 79

Data requests for asset-backed securities

The Eurosystem shall reserve the right to request from any third party it considers relevant, including but not restricted to, the issuer, the originator and/or the arranger, any clarification and/or legal confirmation that it considers necessary to assess the eligibility of ABSs and with regard to the provision of loan-level data. If a third party fails to comply with a particular request, the Eurosystem may decide not to accept the ABSs as collateral or may decide to suspend the eligibility of such collateral.

Subsection 2 - Specific eligibility criteria for covered bonds backed by asset-backed securities

Article 80

Eligibility criteria for covered bonds backed by asset-backed securities

1. In the case of covered bonds backed by asset-backed securities, the cover pool of the covered bond shall only contain ABSs that comply with all of the following.

   (a) The cash-flow generating assets backing the ABSs meet the criteria laid down in Article 129(1) (d) to (f) of Regulation (EU) No 575/2013 in respect of ABSs backing covered bonds.

   (b) The cash-flow generating assets were originated by an entity closely linked to the issuer of the covered bonds, as described in Article 138.

   (c) They are used as a technical tool to transfer mortgages or guaranteed real estate loans from the originating entity into the cover pool of the respective covered bond.

2. Subject to paragraph 4, the Bank shall use the following measures to verify that the cover pool of covered bonds backed by ABSs does not contain ABSs that do not comply with paragraph 1.

(a) On a quarterly basis, the Bank shall request a self-certification and undertaking of the issuer confirming that the cover pool of covered bonds backed by ABSs does not contain ABSs that do not comply with paragraph 1. The Bank's request shall specify that the self-certification must be signed by the issuer's Chief Executive Officer (CEO), Chief Financial Officer (CFO) or a manager of similar seniority, or by an authorised signatory on their behalf.

(b) On an annual basis, the Bank shall request an *ex-post* confirmation by external auditors or cover pool monitors from the issuer, confirming that the cover pool of covered bonds backed by ABSs does not contain ABSs that do not comply with paragraph 1 for the monitoring period.

3. If the issuer fails to comply with a particular request or if the Eurosystem deems the content of a confirmation incorrect or insufficient to the extent that it is not possible to verify that the cover pool of covered bonds backed by ABSs comply with criteria in paragraph 1, the Eurosystem shall decide not to accept the covered bonds as eligible collateral or to suspend their eligibility.

4. Where the applicable legislation or prospectus exclude the inclusion of ABSs that do not comply with paragraph 1 as cover pool assets, no verification pursuant to paragraph 2 shall be required.

5. For the purposes of paragraph 1(b), the close links shall be determined at the time that the senior units of the asset-backed securities are transferred into the cover pool of the covered bond.

Subsection 3 - Specific eligibility criteria for debt certificates issued by the Eurosystem

Article 81

Eligibility criteria for debt certificates issued by the Eurosystem

1. Debt certificates issued by the ECB and debt certificates issued by the NCBs prior to the date of adoption of the euro in their respective Member State whose currency is the euro shall be eligible as collateral for Eurosystem credit operations.

2. Debt certificates issued by the Eurosystem shall not be subject to the criteria laid down in this Chapter.

Subsection 4 – Specific eligibility criteria for certain unsecured debt instruments

Article 81a

Eligibility criteria for certain unsecured debt instruments

1. To be eligible for Eurosystem credit operations, unsecured debt instruments issued by credit institutions or investment firms, or by their closely-linked entities as defined in Article 138 (2), shall comply with the general eligibility criteria relating to all types of marketable assets laid down in Section 1, with the exception of the requirement laid down in Article 64 to the extent that the unsecured debt instrument is subject to statutory subordination.

2. For the purposes of this subsection, statutory subordination means the subordination, based on a statutory framework applicable to the issuer, of an unsecured debt instrument that is not subject to subordination pursuant to the terms and conditions of the debt instrument, i.e. contractual subordination.

Chapter 2 - Eurosystem's credit quality requirements for marketable assets

Article 82

Eurosystem's credit quality requirements for marketable assets

1. Further to the general rules set out in Article 59 and to the specific rules set out in Article 84, marketable assets shall comply with the following credit quality requirements in order to be eligible as collateral for Eurosystem credit operations:

(a) With the exception of ABSs, all marketable assets shall have a credit assessment provided by at least one accepted ECAI system, expressed in the form of a public credit rating, in compliance with, as a minimum, credit quality step 3 in the Eurosystem's harmonised rating scale.

(b) ABSs shall have credit assessments that are provided by at least two different accepted ECAI systems expressed in the form of two public credit ratings, one provided by each of these ECAI systems, in compliance with, as a minimum, credit quality step 2 in the Eurosystem's harmonised rating scale.

2. The Eurosystem may request any clarification that it considers necessary as regards the public credit rating referred to in paragraph 1.

Article 83

Types of ECAI credit assessments used for credit quality assessments of marketable assets

The following types of ECAI credit assessments from accepted ECAIs shall be used in determining compliance with the credit quality requirements applicable to marketable assets.

(a) An ECAI issue rating: this rating refers to an ECAI credit assessment assigned to either an issue or, in the absence of an issue rating from the same ECAI, the programme or issuance series under which an asset is issued. An ECAI assessment for a programme or issuance series shall only be relevant if it applies to the particular asset in question and is explicitly and unambiguously matched with the asset's ISIN code by the ECAI, and a different issue rating from the same ECAI does not exist. For ECAI issue ratings, the Eurosystem shall make no distinction in respect of the original maturity of the asset.

(b) An ECAI issuer rating: this rating refers to an ECAI credit assessment assigned to an issuer. For ECAI issuer ratings, the Eurosystem shall make a distinction in respect of the original maturity of the asset as regards the acceptable ECAI credit assessment. The distinction shall be made between:

(i) short-term assets, i.e. those assets with an original maturity of up to and including 390 days; and

(ii) long-term assets, i.e. those assets with an original maturity of more than 390 days. For short-term assets, ECAI short-term and long-term issuer ratings shall be acceptable. For long-term assets, only ECAI long-term issuer ratings shall be acceptable.

(c) An ECAI guarantor rating: this rating refers to an ECAI credit assessment assigned to a guarantor, if the guarantee meets the requirements of Title IV. For ECAI guarantor ratings, the Eurosystem shall make no distinction in respect of the original maturity of the asset. Only ECAI long-term guarantor ratings shall be acceptable.

Article 84

Priority of ECAI credit assessments in respect of marketable assets

For marketable assets, ECAI credit assessments which determine the compliance of the asset with the credit quality requirements shall be taken into account by the Eurosystem in accordance with the following rules:

(a) For marketable assets other than marketable assets issued by central governments, regional governments, local governments, agencies, multilateral development banks or international organisations and ABSs, the following rules shall apply.

(i) The Eurosystem shall consider ECAI issue ratings in priority to ECAI issuer or ECAI guarantor ratings. Without prejudice to the application of this priority rule, in accordance with Article 82(1)(a), at least one ECAI credit assessment must comply with the Eurosystem's applicable credit quality requirements.

(ii) If multiple ECAI issue ratings are available for the same issue, then the first-best of those ECAI issue ratings shall be taken into account by the Eurosystem. If the first-best ECAI issue rating does not comply with the Eurosystem's credit quality threshold for marketable assets, the asset shall not be eligible, even if a guarantee that is acceptable under Title IV exists.

(iii) In the absence of any ECAI issue rating, an ECAI issuer or ECAI guarantor rating may be considered by the Eurosystem. If multiple ECAI issuer and/or ECAI guarantor ratings are available for the same issue, then the first-best of those ratings shall be taken account by the Eurosystem.

(b) For marketable assets issued by central governments, regional governments, local governments, agencies, multilateral development banks or international organisations, the following rules shall apply.

(i) In accordance with Article 82(1)(a), at least one ECAI credit assessment must comply with the Eurosystem's applicable credit quality requirements. The Eurosystem shall only consider ECAI issuer or ECAI guarantor ratings.

(ii) If multiple ECAI issuer and ECAI guarantor ratings are available, the first-best of those ratings shall be taken into account by the Eurosystem.

(iii) Covered bonds issued by agencies shall not be assessed in accordance with the rules in this point and shall instead be assessed in accordance with point (a).

(c) For ABSs, the following rules shall apply.

(i) In accordance with Article 82(1)(b), at least two ECAI credit assessments shall comply with the Eurosystem's applicable credit quality requirements. The Eurosystem shall only consider ECAI issue ratings.

(ii) If more than two ECAI issue ratings are available, the first- and second-best of such ECAI issue ratings shall be taken into account by the Eurosystem.

Article 85

Multi-issuer securities

1. For marketable assets with more than one issuer (multi-issuer securities), the applicable ECAI issuer rating shall be determined on the basis of each issuer's potential liability as follows:

(a) If each issuer is jointly and severally liable for the obligations of all other issuers under the issue or, if applicable, for the programme/issuance series, the ECAI issuer rating to be considered shall be the highest rating among the first-best ECAI issuer ratings of all the relevant issuers; or

(b) If any issuer is not jointly and severally liable for the obligations of all other issuers under the issue or, if applicable, for the programme/issuance series, the ECAI issuer rating to be considered shall be the lowest rating among the first-best ECAI issuer ratings of all the relevant issuers.

Article 86

Non-euro ratings

For the purpose of ECAI issuer ratings, a foreign currency rating shall be acceptable. If the asset is denominated in the domestic currency of the issuer, the local currency rating shall also be acceptable.

Article 87

Credit quality assessment criteria for marketable assets in the absence of a credit assessment provided by an accepted ECAI

1. In the absence of an appropriate credit assessment provided by an accepted ECAI for the issue, issuer or guarantor, as would be applicable pursuant to Article 84(a) or (b), an implicit credit assessment of marketable assets (with the exception of ABSs) shall be derived by the Eurosystem in accordance with the rules laid down in paragraphs 2 and 3. This implicit credit assessment is required to comply with the Eurosystem's credit quality requirements.

2. If the debt instruments are issued or guaranteed by a regional government or a local authority or a 'public sector entity' as defined in Article 4(8) of Regulation (EU) No 575/2013 (hereinafter a 'CRR public sector entity') established in a Member State whose currency is the euro, the credit assessment shall be performed by the Eurosystem in accordance with the following rules.

(a) If the issuers or guarantors that are regional governments, local authorities or CRR public sector entities which according to competent authorities are treated for capital requirements purposes pursuant to Articles 115(2), 116(1) and 116(4) of Regulation (EU) No 575/2013 equally to the central government in whose jurisdiction they are established: the debt instruments issued or guaranteed by these entities shall be allocated the credit quality step corresponding to the best credit rating provided by an accepted ECAI to the central government in whose jurisdiction these entities are established.

(b) If the issuers or guarantors that are regional governments, local authorities and CRR public sector entities which according to competent authorities are treated for capital requirements purposes pursuant to Articles 115(1) and 116(2) of Regulation (EU) No 575/2013 equally to credit institutions: the debt instruments issued or guaranteed by these entities shall be allocated the credit step corresponding to one credit quality step below the best credit rating provided by an accepted ECAI in relation to the central government in which jurisdiction these entities are established.

(c) If the issuers or guarantors are CRR public sector entities that are not referred to in points (a) and (b), no implicit credit assessment is derived and they shall be treated equally to private sector entities.

2. If the debt instruments are issued or guaranteed by non-financial corporations established in a Member State whose currency is the euro, the credit quality assessment shall be performed by the Eurosystem based on the credit quality assessment rules applicable to the credit quality assessment of credit claims in Chapter 2 of Title III. Assets in relation to which the credit quality is assessed in accordance with the rules contained in this paragraph shall not be included in the public list of eligible marketable assets.

TABLE 9: IMPLICIT CREDIT QUALITY ASSESSMENTS FOR ISSUERS OR GUARANTORS WITHOUT AN ECAI CREDIT ASSESSMENT

	Allocation of issuers or guarantors under Regulation (EU) No 575/2013	**ECAF derivation of the implicit credit 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, according to the competent authorities, can be treated in the same manner as the central government for capital requirements purposes	Allocated the ECAI credit assessment of the central government of the country in which it is established
Class 2	Regional governments, local authorities and	Allocated a credit assessment one credit quality

	CRR PSEs that according to competent authorities can be treated equally to credit institutions for capital requirements purposes	step* below the ECAI credit assessment of the central government of the country in which it is established
Class 3	Other CRR PSEs	Treated like private sector issuers or debtors

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

Article 88

Additional credit quality requirements for asset-backed securities

1. For ABSs, the credit quality assessment shall be based on a public issue rating that is explained in a publicly available credit rating report, i.e. a new issue report. The publicly available credit rating report shall include, inter alia, a comprehensive analysis of structural and legal aspects, a detailed collateral pool assessment, an analysis of the transaction participants, as well as an analysis of any other relevant details of a transaction.

2. Further to the requirement in paragraph 1, regular surveillance reports published by the accepted ECAIs are required for asset-backed securities. The publication of these reports shall take place no later than four weeks after the coupon payment date of the ABSs. The reference date of these reports shall be the most recent coupon payment date except for ABSs paying the coupon on a monthly basis, in which case the surveillance report shall be published at least quarterly. The surveillance reports shall contain, as a minimum, the key transaction data, e.g. composition of the collateral pool, transaction participants, capital structure, as well as performance data.

TITLE III – Eligibility criteria and credit quality requirements for non-marketable assets

Chapter 1 - Eligibility criteria for non-marketable assets

Section 1 - Eligibility criteria for credit claims

Article 89

Eligible type of asset

1. The eligible type of asset shall be a credit claim that is a debt obligation of a debtor vis-à-vis a counterparty.

2. Types of credit claims that have a ‘reducing balance’, i.e. where the principal and interest are paid off according to a pre-agreed schedule, as well as drawn credit lines, shall be eligible types of credit claim.

3. Current account overdrafts, letters of credit and undrawn credit lines, e.g. undrawn facilities of revolving credit claims, which authorise the use of credit but are not credit claims per se, shall not be eligible types of credit claim.

4. A syndicated loan share shall be an eligible type of credit claim. For the purposes of this Section, a syndicated loan share means a credit claim resulting from the participation of a lender in a loan provided by a group of lenders in a lending syndicate.

5. A credit claim granted in a context other than a mere lending relationship may constitute an eligible type of asset. A claim inherent to certain leasing or factoring structures may qualify as an eligible type of asset, if it constitutes a credit claim. Claims purchased under a factoring only qualify as an eligible type of asset to the extent they actually constitute credit claims as opposed to other claims, such as purchase price claims.

Article 90

Principal amount and coupons of credit claims

In order to be eligible, credit claims shall comply, until final redemption, with the following requirements:

(a) a fixed, unconditional principal amount; and

(b) an interest rate that cannot result in a negative cash flow, whereby the interest rate shall be one of the following:

   (i) a ‘zero-coupon’;

(ii) fixed;

(iii) floating, i.e. linked to another interest rate reference or to the inflation rate.

Article 91

Non-subordination

Credit claims may not afford rights to the principal and/or the interest that are subordinated to: (a) the rights of holders of other unsecured debt obligations of the debtor including other shares or sub-shares in the same syndicated loan; and (b) the rights of holders of debt instruments of the same issuer.

Article 92

Credit quality requirements for credit claims

The credit quality of credit claims is assessed on the basis of the credit quality of the debtor or guarantor. The relevant debtor or guarantor shall comply with the Eurosystem's credit quality requirements as specified in the ECAF rules for credit claims laid down in Chapter 2 of Title III of Part Four.

Article 93

Minimum size of credit claims

For domestic use, credit claims shall, at the time of their submission as collateral by the counterparty, meet a minimum size threshold of EUR2,000,000. For cross-border use, a minimum size threshold of EUR 500, 000 shall apply.

Article 94

Currency of denomination of credit claims

Credit claims shall be denominated in euro or in one of the former currencies of the Member States whose currency is the euro.

Article 95

Type of debtor or guarantor

1. The debtors and guarantors of eligible credit claims shall be non-financial corporations, public sector entities, multilateral development banks or international organisations. For the purposes of this Article, a multilateral development bank or an international organisation may be recognised by the Eurosystem in the same manner as described in Article 69(2).

2. If a credit claim has more than one debtor, each debtor shall be individually and severally liable for the full repayment of the entire credit claim.

Article 96

Location of the debtor or guarantor

1. The debtor in respect of a credit claim shall be established in a Member State whose currency is the euro.

2. The guarantor in respect of a credit claim shall also be established in a Member State whose currency is the euro, unless a guarantee is not needed to establish the credit quality requirements for non-marketable assets because there is an adequate credit assessment of the debtor.

3. For debtors or guarantors that are multilateral development banks or international organisations, the rules in paragraphs 1 and 2, respectively, shall not apply and they shall be eligible irrespective of their place of establishment.

Article 97

Governing laws

The credit claim agreement and the agreement between the counterparty and the home NCB mobilising the credit claim as collateral shall both be governed by the law of a Member State whose currency is the euro. Furthermore, there shall be no more than two governing laws in total that apply to the:

(a) counterparty;

(b) creditor;

(c) debtor;

(d) guarantor (if relevant);

(e) credit claim agreement;

(f) the agreement between the counterparty and the home NCB mobilising the credit claim as collateral.

Article 98

Handling procedures

Credit claims shall be handled in accordance with the procedures established by the Bank as per Annex 13.

Article 99

Additional legal requirements for credit claims

1. In order to ensure that a valid security is created over credit claims and that the credit claim can be swiftly realised in the event of a counterparty default, additional legal requirements shall be met. These legal requirements relate to:

(a) verification of the existence of credit claims;

(b) validity of the agreement for the mobilisation of credit claims;

(c) full effect of the mobilisation vis-à-vis third parties;

(d) an absence of restrictions concerning mobilisation and realisation of credit claims;

(e) an absence of restrictions concerning banking secrecy and confidentiality.

2. The content of these legal requirements is set out in Articles 100 to 105. Further details of the specific features are provided in Annex 13.

Article 100

Verifications of the procedures used to submit credit claims

The Bank shall conduct a one-off verification of the appropriateness of the procedures used by the counterparty to submit the information on credit claims to the Eurosystem.

Article 101

Verification of existence of credit claims

1. The Bank shall, as a minimum, take all of the following steps to verify the existence of credit claims mobilised as collateral:

(a) It shall obtain a written confirmation from counterparties, at least each quarter, by which counterparties shall confirm:

(i) the existence of the credit claims (this confirmation could be replaced with cross-checks of information held in central credit registers, where these exist);

(ii) the compliance of credit claims with the eligibility criteria applied by the Eurosystem;

(iii) that such credit claim is not used simultaneously as collateral to the benefit of any third party and that the counterparty shall not mobilise such credit claim as collateral to any third party;

(iv) that the counterparty will undertake to communicate to the Bank no later than within the course of the next business day, any event that materially affects the contractual relationship between the counterparty and the Bank , in particular early, partial or total repayments, downgrades and material changes in the conditions of the credit claim.

(b) The Bank shall perform random checks in respect of the quality and accuracy of the written confirmation of counterparties, by means of delivery of physical documentation or through on-site visits. The information checked in relation to each credit claim shall cover as a minimum the characteristics that determine the existence and the eligibility of credit claims. For counterparties with ECAF-approved internal ratings-based (IRB) systems, additional checks on the credit quality assessment of credit claims shall be carried out involving checks of PDs with respect to debtors of credit claims that are used as collateral in Eurosystem credit operations.

2. For the checks that are undertaken in accordance with Article 100 or paragraphs 1(a) and (b) of this Article, the Bank shall carry out these investigations in accordance with the provisions of this Directive.

Article 102

Validity of the agreement for the mobilisation of credit claims

The agreement for the mobilisation of the credit claim as collateral shall be valid as between the counterparty and the Bank as specified in Annex 13. All the necessary legal formalities to ensure the validity of the agreement and to ensure the mobilisation of a credit claims as collateral shall be fulfilled by the counterparty and/or the transferee, as appropriate.

Article 103

Full effect of the mobilisation vis-à-vis third parties

1. The agreement for the mobilisation of the credit claim as collateral should be valid vis-à-vis third parties under the Maltese law. All legal formalities necessary to ensure valid mobilisation shall be fulfilled by the counterparty and/or the transferee, as appropriate.

2. As regards notification of the debtor, the following shall apply, depending on the applicable national law.

(a) In accordance with article 5(3) of the Financial Collateral Arrangements Regulations, 2004 (S.L.459.01) the Bank's counterparties must give prior notice to their debtors of the provision of credit claims as collateral for central bank purposes. The Bank also requires the written acknowledgement by the debtor prior to the provision of a credit claim as collateral.

(b) The Bank reserves the right not to accept the *ex ante* written acknowledgement of the debtor submitted by the counterparty if this does not meet the Bank's requirements.

For credit claims that are bearer instruments, the Bank may require that such bearer instruments are physically transferred to it or to a third party in advance, or at the time of actual mobilisation as collateral. The notification requirements set out in points (a) and (b) shall not apply to credit claims that are bearer instruments.

3. Further details in relation to the notification requirements are provided in Annex 13.

Article 104

Absence of restrictions concerning mobilisation and realisation of credit claims

1. Credit claims shall be fully transferable and capable of being mobilised without restriction for the benefit of the Eurosystem. The credit claim agreement or other contractual arrangements between the counterparty and the debtor shall not contain any restrictive provisions on

mobilisation as collateral, unless national legislation provides that such contractual restrictions are without prejudice to the Eurosystem with respect to the mobilisation of collateral.

2. The credit claim agreement or other contractual arrangements between the counterparty and the debtor shall not contain any restrictive provisions regarding the realisation of the credit claim used as collateral for Eurosystem credit operations, including any form, time or other requirement with regard to realisation.

3. Notwithstanding paragraphs 1 and 2, the provisions restricting the assignment of syndicated loan shares to banks, financial institutions and entities which are regularly engaged in or established for the purpose of creating, purchasing or investing in loans, securities or other financial assets shall not be considered as a restriction on the realisation of the credit claim.

3a. From 1 January 2018, the Bank shall employ a mechanism to ensure that set-off risk has been excluded or significantly mitigated when it accepts as collateral credit claims originated after that date. Credit claims originated before 1 January 2018 which have not been subject to that mechanism may be mobilised as collateral until 31 December 2019 provided that all other eligibility criteria are fulfilled.

4. Notwithstanding paragraphs 1 and 2, a facility agent for the collection and distribution of payments and administration of the loan shall not be considered as a restriction on the mobilisation and realisation of a syndicated loan share, provided that: (a) the facility agent is a credit institution located in the Union; and (b) the service relationship between the relevant syndicate member and the facility agent can be transferred alongside or as part of the syndicated loan share.

Article 105

Absence of restrictions concerning banking secrecy and confidentiality

The counterparty and the debtor shall have agreed contractually that the debtor unconditionally consents to disclosure by the counterparty to the Eurosystem of details in respect of the credit claim and on the debtor that are required by the Bank for the purpose of ensuring that a valid security is created over credit claims and that the credit claims can be swiftly realised in the event of a counterparty default

Section 2 - Eligibility criteria for fixed-term deposits

Article 106

Eligibility criteria for fixed-term deposits

Fixed-term deposits, as described in Article 12, that are held by a counterparty shall be eligible assets as collateral for Eurosystem credit operations.

Section 3 - Eligibility criteria for RMBDs

Article 107

Eligibility criteria for RMBDs

1. A 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. The Bank shall enjoy priority over creditors in respect of this pool in accordance with the terms of article 17(7) of the Act.

2. RMBDs shall have a fixed, unconditional principal amount and an interest rate that cannot result in a negative cash flow.

3. RMBDs shall comply with the Eurosystem's credit quality requirements specified in the ECAF rules for RMBDs as laid down in Chapter 2 of Title III of this Part Four.

4. RMBDs shall be issued by credit institutions that are counterparties which are established in a Member State whose currency is the euro.

5. RMBDs shall be denominated in euro or in one of the former currencies of Member States whose currency is the euro.

6. An issuer of RMBDs shall self-certify, as a minimum on a monthly basis that the residential mortgages that form the cover pool comply with the eligibility criteria specified in this Directive

7. The mobilisation, use and handling procedures in respect of RMBDs shall be subject to the Eurosystem procedures as defined in this Directive.

Section 4 – Eligibility criteria for DECCs

Article 107a

Eligible type of asset

1. The eligible type of asset shall be debt instruments within the definition of DECCs given in Article 2(70a).

3. DECCs shall have a fixed unconditional principal amount and a coupon structure that complies with the criteria set forth in Article 63. The cover pool shall only contain credit claims for which either:
   (a) a specific DECC loan-level data template; or
   (b) an ABS loan-level data template in accordance with Article 73;
   is available.

4. The underlying credit claims shall be those granted to debtors established in a Member State whose currency is the euro. The originator shall be a Eurosystem counterparty established in a Member State whose currency is the euro and the issuer shall have acquired the credit claim from the originator.

5. The DECC issuer shall be a special purpose entity established in a Member State whose currency is the euro. Parties to the transaction, other than the issuer, the debtors of the underlying credit claims, and the originator, shall be established in the EEA.

6. The DECCs shall be denominated in euro or in one of the former currencies of the Member States whose currency is the euro.

7. After having carried out a positive assessment, the Eurosystem shall approve the DECC structure as being eligible as Eurosystem collateral.

8. The governing law applicable to the DECC, the originator, the debtors and, where relevant, the guarantors of the underlying credit claims, the underlying credit claim agreements and any agreements ensuring the direct or indirect transfer of the underlying credit claims from the originator to the issuer shall be the law of the jurisdiction where the issuer is established.

DECCs shall comply with the requirements on the place of issue and settlement procedures as laid down in Articles 66 and 67.

Article 107b

Non-subordination with respect to DECCs

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.

Article 107c

Credit quality requirements

DECCs shall comply with the Eurosystem's credit quality requirements as laid down in Section 3 of Chapter 2 of Title III of this Part Four.

Article 107d

Acquisition of the underlying credit claims by the issuer

The pool of underlying credit claims shall have been acquired by the issuer from the originator in a manner which the Eurosystem considers to be a "true sale" or equivalent to a "true sale" that is enforceable against any third party, and which is beyond the reach of the originator and its creditors, including in the event of the originator's insolvency.

Article 107e

Transparency requirements for DECCs

1. DECCs shall fulfil transparency requirements at the level of the DECCs' structure and at the level of the underlying individual credit claims.

2. At the level of the DECCs' structure, detailed information on the DECCs' key transaction data, such as identification of the parties to the transaction, a summary of the DECCs' key structural features, a summary description of collateral and the DECCs' terms and conditions shall be made publicly available. The Eurosystem may, in the course of its assessment, require any transaction documentation and legal opinions deemed necessary from any third party it considers relevant, including, but not restricted to, the issuer and/or the originator.

3. At the level of the underlying individual credit claims, comprehensive and standardised loan-level data on the pool of underlying credit claims shall be made available in accordance with the procedures set out in Annex VIII, except with respect to the reporting frequency and transitional period. In order for DECCs to be eligible, all underlying credit claims shall be homogenous, i.e. it must be possible to report them using a single loan-level data template. The Eurosystem may determine that a DECC is not homogenous after evaluating the relevant data.

4. Loan-level data shall be reported on at least a monthly basis, no later than one month following the cut-off date. The cut-off date for which loan-level data shall be reported is the last calendar day of the month. If loan-level data are not reported or updated within one month following the cut-off date, then the DECC shall cease to be eligible.

5. Data quality requirements applied for ABS shall apply to DECCs, including the specific DECC loan-level data templates. There shall be no transition period applied for a DECC to achieve the minimum acceptable loan-level data quality score.

6. In its eligibility assessment, the Eurosystem shall take into account: (a) any failure to deliver mandatory data; and (b) how often individual loan-level data fields do not contain meaningful data.

Article 107f

Types of eligible underlying credit claims

1. Each underlying credit claim shall comply with the eligibility criteria for credit claims provided for in Section 1, Chapter 1 of Title III of Part Four, subject to the modifications set out in this Article.

2. To ensure that a valid security is created over the underlying credit claims, enabling the issuer and the holders of the DECCs to swiftly realise those claims in the event of the originator's default, the following additional legal requirements as specified in paragraphs 3 to 9 shall be met:

   (a) verification of the existence of the underlying credit claims;

   (b) validity of the agreement for the mobilisation of underlying credit claims;

   (c) full effect of the mobilisation vis-à-vis third parties;

   (d) an absence of restrictions on the transfer of the underlying credit claims;

   (e) an absence of restrictions on the realisation of the underlying credit claims;

   (f) an absence of restrictions related to banking secrecy and confidentiality.

   Further details of the specific features of the national jurisdictions shall be provided in the relevant national documentation of the NCBs.

3. The NCB of the country where the originator is established, or supervisors or external auditors, shall conduct a one-off verification of the appropriateness of the procedures used by the originator to submit the information on the underlying credit claims to the Eurosystem.

4. The NCB of the country where the originator is established shall, as a minimum, take all of the following steps to verify the existence of the underlying credit claims:

(a) It shall obtain written confirmation from the originator, at least on a quarterly basis, by which the originators shall confirm:

(i) the existence of the underlying credit claims: this confirmation could be replaced with cross-checks of information held in central credit registers, where these exist;

(ii) compliance of the underlying credit claims with the eligibility criteria applied by the Eurosystem;

(iii) that the underlying credit claims are not used simultaneously as collateral to the benefit of any third party and that the originator will not mobilise such underlying credit claims as collateral to the Eurosystem or any third party;

(iv) that the originator will undertake to communicate to the relevant NCB no later than within the course of the next business day, any event that materially affects the collateral value of the underlying credit claims, in particular early, partial or total repayments, downgrades and material changes in the conditions of the underlying credit claims.

(b) The NCB of the country where the originator is located or the relevant central credit registers, banking supervision competent authorities or external auditors, shall perform random checks in respect of the quality and accuracy of the written confirmation of originators, by means of delivery of physical documentation or through on-site visits. The information checked in relation to each underlying credit claim shall cover as a minimum the characteristics that determine the existence and the eligibility of underlying credit claims. For originators with ECAF-approved internal ratings-based (IRB) systems, additional checks on the credit quality assessment of underlying credit claims shall be carried out involving checks of PDs with respect to debtors of credit claims backing DECCs that are used as collateral in

Eurosystem credit operations.

(c) For the checks that are undertaken in accordance with Article 107f(3), (4)(a) or (4)(b) by NCB of the country where the originator is located, supervisors, external auditors or central credit registers, those undertaking the checks shall be authorised to carry out these investigations, if necessary contractually or in accordance with the applicable national requirements.

5. The agreement for the transfer of the underlying credit claims to the issuer or for their mobilisation by way of transfer, assignment or pledge shall be valid between the issuer and the originator and/or the transferee/assignee/pledgee, as appropriate, under the applicable national law. All the necessary legal formalities to ensure the validity of the agreement and to ensure the valid indirect or direct transfer of the underlying credit claims as collateral shall be fulfilled by the originator and/or the transferee, as appropriate. As regards notification of the debtor, the following shall apply, depending on the applicable national law.

   (a) At times it may be necessary to have debtor notification or public registration of: (i) the transfer (direct or indirect) of the underlying credit claims to the issuer; or (ii) when counterparties mobilise DECCs as collateral to the home NCB to ensure full effectiveness of such a transfer or mobilisation vis-à-vis third parties; and in particular (iii) to ensure the priority of the issuer's security interest (with respect to the underlying credit claims) and/or the home NCB's security interest (with respect to the DECCs as collateral) vis-à-vis other creditors. In such cases, these notification or registration requirements shall be completed: (i) in advance or at the time of the underlying credit claims' actual transfer (direct or indirect) to the issuer; or (ii) at the time that counterparties mobilise the DECCs as collateral to the home NCB.

   (b) If ex-ante notification of the debtor or public registration is not required in accordance with point (a), as specified in the applicable national documentation, ex-post notification of the debtor is required. Ex-post notification means that the debtor shall be notified, as specified by national documentation, about the underlying credit claims being transferred or mobilised immediately following an event of default or similar credit event as further specified in the applicable national documentation.

(c) Points (a) and (b) are minimum requirements. The Eurosystem may decide to require ex-ante notification or registration in addition to the situations above, including in the case of bearer instruments.

6. The underlying credit claims shall be fully transferable and capable of being transferred to the issuer without restriction. The underlying credit claims agreements or other contractual arrangements between the originator and the debtor shall not contain any restrictive provisions on transfer of collateral. The underlying credit claims agreements or other contractual arrangements between the originator and the debtor shall not contain any restrictive provisions regarding the realisation of the underlying credit claims, including any restrictions regarding form, time or other requirement with regard to realisation, so the Eurosystem shall be able to realise the DECCs' collateral.

7. Notwithstanding paragraph 6, the provisions restricting the assignment of syndicated loan shares to banks, financial institutions and entities which are regularly engaged in or established for the purpose of creating, purchasing or investing in loans, securities or other financial assets shall not be considered as a restriction on the realisation of the underlying credit claims.

8. Notwithstanding paragraphs 6 and 7, a facility agent for the collection and distribution of payments and administration of the loan shall not be considered as a restriction on the transfer and realisation of a syndicated loan share, provided that:

(a) the facility agent is a credit institution located in a Member State; and

(b) the service relationship between the relevant syndicate member and the facility agent can be transferred alongside or as part of the syndicated loan share.

9. The originator and the debtor shall have agreed contractually that the debtor unconditionally consents to disclosure by the originator, issuer and any counterparty mobilising the DECC to the Eurosystem of details in respect of that underlying credit claim and on the debtor that are required by the relevant NCB for the purpose of ensuring that a valid security is created over the underlying credit claims and that the underlying credit claims can be swiftly realised in the event the originator/issuer defaults.

Chapter 2 - Eurosystem's credit quality requirements for non-marketable assets

Article 108

Eurosystem's credit quality requirements for non-marketable assets

In order for non-marketable assets to be eligible, the following Eurosystem credit quality requirements shall apply.

(a) For credit claims, the credit quality of credit claims shall be assessed on the basis of the credit quality of the debtor or guarantor, which shall comply, as a minimum, with credit quality step 3, as specified in the Eurosystem's harmonised rating scale.

(b) For RMBDs, a credit quality assessment shall comply, as a minimum, with credit quality step 2, as specified in the Eurosystem's harmonised rating scale.

Section 1 - Eurosystem's credit quality requirements for credit claims

Article 109

General rules for the credit quality assessment of credit claims

1. The Eurosystem shall assess the credit quality of credit claims on the basis of the credit quality of the debtors or guarantors provided by the credit assessment system or source selected by the counterparty in accordance with Article 110.

2. Counterparties shall within the course of the next business day inform the Bank of any credit event, including a delay in payments by the debtors of the credit claims mobilised as collateral, that is known to the counterparty and, if requested by the Bank, withdraw or replace the assets.

3. Counterparties shall be responsible for ensuring that they use the most recent credit quality assessment available from their selected credit assessment system or source for the debtors or guarantors of credit claims mobilised as collateral.

Article 110

Selection of the credit assessment system or source

1. Counterparties mobilising credit claims as collateral shall select one credit assessment system from one of the four credit assessment sources accepted by the Eurosystem in accordance with the general acceptance criteria in Title V of Part Four. Where the ECAI source is selected by counterparties, any ECAI system may be used.

2. Further to paragraph 1,the Bank may allow counterparties to use more than one credit assessment system or source upon submission of a reasoned request to the home NCB supported by an adequate business case based on the lack of sufficient coverage of the ‘main’ credit assessment source or system.

3. In cases where counterparties are allowed to use more than one credit assessment system or credit assessment source, the ‘main’ system or source is expected to be the one providing the credit quality assessment of the largest number of debtors from the credit claims mobilised as collateral. If a credit assessment for a debtor or guarantor is available from this main system or source, only this credit assessment shall determine the eligibility and valuation haircuts applicable to the debtor or guarantor.

4. Counterparties shall use the selected credit assessment systems or sources for a minimum period of 12 months.

5. After the period specified in paragraph 4, counterparties may submit an explicit reasoned request to the Bank to change the selected credit assessment system or source.

6. In certain circumstances and particularly when a counterparty phases-in its IRB system or begins using credit claims as collateral, upon submission of a reasoned request, the Bank may exceptionally grant a derogation to a counterparty with respect to the 12-month minimum period restriction specified in paragraph 4 and allow the counterparty to change its selected credit assessment system or source within that period.

7. If the counterparty has chosen the ECAI credit assessment source, it may use an ECAI debtor or ECAI guarantor rating. If multiple ECAI debtor and/or ECAI guarantor ratings are available for the same credit claim, then the best available ECAI credit assessment of those may be used.

Article 111

Credit assessment of credit claims with public sector entities, or non-financial corporations, as debtors or guarantors

1. The Eurosystem shall assess the credit quality of credit claims with public sector entities acting as debtors or guarantors in accordance with the following rules, applied in the following order.

(a) If a credit assessment from the system or source selected by the counterparty exists, the Eurosystem shall use it to establish whether the public sector entity acting as debtor or guarantor meets the Eurosystem’s credit quality requirements for non-marketable assets laid down in Article 108.

(b) In the absence of a credit assessment under point (a), the Eurosystem shall use an ECAI credit assessment provided by an accepted ECAI system for the public sector entity acting as debtor or guarantor.

(c) If a credit assessment is unavailable pursuant to points (a) or (b), the procedure laid down in Article 87 for marketable assets shall apply to the relevant public sector entity as debtor or guarantor.

2. The Eurosystem shall assess the credit quality of credit claims with non-financial corporations as debtors or guarantors as follows: the credit assessment provided by the credit

assessment system or source selected by the counterparty shall meet the Eurosystem's credit quality requirements for non-marketable assets laid down in Article 108.

Section 2 - Eurosystem's credit quality requirements for RMBDs

Article 112

Establishment of Eurosystem's credit quality requirements for RMBDs

For the purpose of meeting the credit quality requirements laid down in Article 108, the Bank shall assess the credit quality of RMBDs on the basis of a jurisdiction-specific credit assessment framework laid down in this Directive.

Section 3 - Eurosystem's credit quality requirements for DECCs

Article 112a

The Eurosystem's credit quality requirements for DECCs

1. DECCs shall not be required to be assessed by one of the four credit assessment sourcesaccepted by the Eurosystem in accordance with the general acceptance criteria in Title V of Part Four.

2. Each underlying credit claim in the cover pool of DECCs shall have a credit assessment provided by one of the four credit assessment sources accepted by the Eurosystem in accordance with the general acceptance criteria in Title V of Part Four. In addition, the credit assessment system or source used shall be the same system or source selected by the originator in accordance with Article 110. The rules on the Eurosystem's credit quality requirements for the underlying credit claims laid down in Section 1 shall be applicable.

3. The credit quality of each underlying credit claim in the cover pool of DECCs shall be assessed on the basis of the credit quality of the debtor or guarantor, which shall comply, as a

minimum, with credit quality step 3, as specified in the Eurosystem's harmonised rating scale.

TITLE IV - Guarantees for marketable and non-marketable assets

Article 113

Applicable requirements for guarantees

1. The Eurosystem's credit quality requirements may be established on the basis of credit assessments provided in respect of guarantors in accordance with Articles 82 to 84 in respect of marketable assets and Article 108 in respect of credit claims.

2. Guarantees provided by guarantors that are required to establish the Eurosystem's credit quality requirements shall comply with this Title.

3. For the purposes of paragraph 1, the relevant guarantor shall be separately assessed on the basis of its credit assessment and shall meet the Eurosystem's credit quality requirements.

Article 114

Features of the guarantee

1. In accordance with the terms of the guarantee, the guarantor shall provide an unconditional and irrevocable first-demand guarantee in respect of the obligations of the issuer or debtor in relation to the payment of the principal, interest and any other amounts due under the marketable asset or credit claim to the holders or creditor thereof, until the marketable asset or credit claim is discharged in full. In this regard, a guarantee shall not be required to be specific to the marketable asset or credit claim but may apply to the issuer or debtor only, provided that the relevant marketable asset or credit claim is covered by the guarantee.

2. The guarantee shall be payable on first demand independently of the guaranteed marketable asset or credit claim. Guarantees given by public sector entities with the right to levy taxes shall

either be payable on first demand or otherwise provide for prompt and punctual payment following any default.

3. The guarantee shall be legally valid, binding and enforceable against the guarantor.

4. The guarantee shall be governed by the law of a Member State.

5. If the guarantor is not a public sector entity with the right to levy taxes, a legal confirmation concerning the legal validity, binding effect and enforceability of the guarantee shall be submitted to the Bank in a form and substance acceptable to the Eurosystem before the marketable assets or credit claim supported by the guarantee can be considered eligible. The legal confirmation shall also state that the guarantee is not a personal one and is only enforceable by the holders of the marketable assets or the creditor of the credit claim. If the guarantor is established in a jurisdiction other than the one of the law governing the guarantee, the legal confirmation shall also confirm that the guarantee is valid and enforceable under the law of the jurisdiction in which the guarantor is established. For marketable assets, the legal confirmation shall be submitted by the counterparty for review to the NCB that is reporting the relevant asset supported by a guarantee for inclusion in the list of eligible assets. For credit claims, the legal confirmation shall be submitted by the counterparty seeking to mobilise the credit claim for review to the NCB in the jurisdiction of the law governing the credit claim. The requirement of enforceability is subject to any insolvency or bankruptcy laws, general principles of equity and other similar laws and principles applicable to the guarantor and generally affecting creditors' rights against the guarantor.

Article 115

Non-subordination of the obligations of the guarantor

The obligations of the guarantor under the guarantee shall at least rank equally, *pari passu,* and rateably, pro rata, with all other unsecured obligations of the guarantor.

Article 116

Credit quality requirements for guarantors

The guarantor shall comply with the Eurosystem’s credit quality requirements specified under the ECAF rules for guarantors of marketable assets laid down in Articles 82 to 84 or with the rules for guarantors of credit claims laid down in Article 108.

Article 117

Type of guarantor

The guarantor shall be:

(a) for marketable assets in accordance with Article 69: a central bank of a Member State, a public sector entity, an agency, a credit institution, a financial corporation other than a credit institution, a non-financial corporation, a multilateral development bank or an international organisation; or

(b) for credit claims in accordance with Article 95: a non-financial corporation, a public sector entity, a multilateral development bank or an international organisation.

Article 118

Place of establishment of guarantor

1. The guarantor shall be established:

(a) in the case of marketable assets in accordance with Article 70, in the EEA, unless a guarantee is not needed to establish the credit quality requirements for a specific debt instrument. The possibility to use an ECAI guarantor rating to establish the relevant credit quality requirements for marketable assets is addressed in Article 84.

(b) for debt instruments guaranteed by non-financial corporations for which no credit assessment has been provided by an accepted ECAI for the issue, the issuer or the guarantor, in accordance with Article 70, the guarantor shall be established in a Member State whose currency is the euro;

(c) in the case of credit claims in accordance with Article 96, in a Member State whose currency is the euro, unless a guarantee is not needed to establish the credit quality requirements for non-marketable assets. The option to use a credit assessment in respect of a guarantor to establish the relevant credit quality requirements for credit claims is addressed in Article 108.

2. Notwithstanding paragraph 1, in accordance with Articles 70 and 96, multilateral development banks and international organisations shall be eligible guarantors irrespective of their place of establishment.

TITLE V - Eurosystem credit assessment framework for eligible assets

Article 119

Accepted credit assessment sources and systems

1. The credit assessment information on which the Eurosystem bases the eligibility assessment of assets eligible as collateral for Eurosystem credit operations shall be provided by credit assessment systems belonging to one of the four following sources:

(a) ECAIs;

(b) NCBs' in-house credit assessment systems (ICASs);

(c) counterparties' internal rating-based (IRB) systems;

(d) third-party rating tool (RT) providers.

2. Under each credit assessment source listed in paragraph 1 there may be a set of credit assessment systems. Credit assessment systems shall comply with the acceptance criteria laid down in this Title. A list of the accepted ECAIs, ICASs and RTs is published on the ECB's website.

3. All accepted credit assessment systems shall be subject to the ECAF performance monitoring process as laid down in Article 126.

4. By publishing information on the accepted credit assessment systems in conjunction with its Eurosystem credit operations, the Eurosystem shall not assume any responsibility for its evaluation of accepted credit assessment systems.

5. In the event of an infringement of the ECAF rules and procedures, the relevant credit assessment system may be excluded from the ECAF-accepted systems.

Article 120

General acceptance criteria for the external credit assessment institutions as credit assessment systems

1. For the purposes of the ECAF, the general acceptance criteria for ECAIs shall be the following:

(a) ECAIs shall be registered by the European Securities and Markets Authority, in accordance with Regulation (EC) No 1060/2009.

(b) ECAIs shall fulfil operational criteria and provide relevant coverage so as to ensure the efficient implementation of the ECAF. In particular, the use of an ECAI credit assessment is subject to the availability to the Eurosystem of information on these assessments, as well as information for the comparison and the assignment, i.e. mapping of the assessments to the Eurosystem's credit quality steps and for the purposes of the performance monitoring process under Article 126.

2. The Eurosystem reserves the right to decide whether to initiate an ECAF acceptance procedure upon request from a credit rating agency (CRA). In making its decision, the Eurosystem shall take into account, among other things, whether the CRA provides relevant coverage for the efficient implementation of the ECAF in accordance with the requirements set out in Annex 9a.

2a. Following the initiation of an ECAF acceptance procedure, the Eurosystem shall investigate all additional information deemed relevant to ensure the efficient implementation of the ECAF, including the ECAI's capacity to fulfil the criteria and rules of the ECAF performance monitoring process in accordance with the requirements set out in Annex 9 and the specific criteria in Annex 9b (if relevant). The Eurosystem reserves the right to decide whether to accept an ECAI for the purposes of the ECAF on the basis of the information provided and its own due diligence assessment.

3. Together with the submitted data for ECAF performance monitoring in accordance with Article 126, the ECAI shall submit a signed certification from the CEO of the ECAI, or authorised signatory with responsibility for the audit or compliance function within the ECAI, confirming the accuracy and validity of the submitted performance monitoring information.

Article 121

General acceptance criteria and operational procedures for the NCBs' in-house credit assessment systems

1. The Bank may decide to use its own ICAS for the purpose of credit assessment. This decision shall be subject to a validation procedure by the Eurosystem.

2. A credit assessment by means of ICAS may be performed in advance, or on a counterparty's specific request upon submission of an asset to the Bank using ICAS (the 'ICAS NCB').

3. With regard to paragraph 2, upon submission of an asset to the ICAS NCB in respect of which the eligibility of a debtor or guarantor shall be assessed, the ICAS NCB informs the counterparty either of its eligibility status or of the lead time necessary to establish a credit assessment. If an ICAS is limited in scope and only assesses specific types of debtors or guarantors, or if the ICAS NCB is unable to receive the information and data necessary for its credit assessment, the ICAS NCB will inform the counterparty thereof without delay. In both cases, the relevant debtor or guarantor is considered ineligible, unless the assets are compliant with credit quality requirements in accordance with an alternative credit assessment source or credit assessment system which the counterparty is allowed to use according to Article 110. In the event that mobilised assets become ineligible due to the deterioration of the creditworthiness of the debtor or the guarantor, the asset shall be removed at the earliest possible date. Since there is neither a contractual relationship between the non-financial corporations and the ICAS NCB, nor any legal obligation for these corporations to provide non-public information to the ICAS NCB, the information is provided on a voluntary basis.

4. In countries in which RMBDs are mobilised as collateral for Eurosystem credit operations, the home NCB shall implement a credit assessment framework for this type of asset in accordance with the ECAF. Such frameworks shall be subject to a validation procedure by the Eurosystem and to a yearly performance monitoring process, as further specified in Article 126.

Article 122

General acceptance criteria for internal ratings-based systems

1. To obtain ECAF approval of an IRB system, a counterparty shall file a request with the Bank.

2. The requirement in paragraph 1 shall apply to all counterparties intending to use an IRB system regardless of their status, i.e. parent, subsidiary or branch, and regardless of whether the endorsement of the IRB system comes from the competent authority in the same country, for a parent company and possibly for subsidiaries, or from a competent authority in the home country of the parent, for branches and possibly for subsidiaries.

3. A request filed by a counterparty in accordance with paragraph 1 shall include the following information and documents which, if necessary, shall be translated into a working language of the Bank:

(a) a copy of the decision of the competent authority authorising the counterparty to use its IRB system for capital requirements purposes on a consolidated or non-consolidated basis, together with any specific conditions for such use;

(b) an up-to-date assessment by the competent authority reflecting the currently available information on all issues affecting the use of the IRB for collateral purposes and all issues relating to the data used for the ECAF performance monitoring process;;

(c) information on any changes to the counterparty’s IRB system recommended or required by the competent authority, together with the deadline by which such changes must be implemented;

(d) information on its approach to assigning probabilities of default to debtors, as well as data on the rating grades and associated one-year probabilities of default used to determine eligible rating grades;

(e) a copy of the latest Pillar 3 (market discipline) information that the counterparty is required to publish on a regular basis in accordance with the requirements on market discipline under the Basel III Framework, Directive 2013/36/EU and Regulation (EU) No 575/2013;

(f) the name and the address of the competent authority and the external auditor;

(g) information on the historical record of the counterparty's IRB system's observed default rates per rating grades covering the five calendar years preceding the relevant request. If the competent authority granted the IRB system's authorisation for capital requirements purposes during these calendar years, the information shall cover the time since the IRB system's authorisation for capital requirements purposes. The historical annual data on the observed default rates and potential additional information shall comply with the provisions for performance monitoring in Article 126 as if the IRB system had been subject to these provisions over this time period;

(h) information required for performance monitoring outlined in Article 126 as requested from already ECAF-approved IRB systems for the ongoing calendar year at the time of the filing of the request.

4. A counterparty shall not be required to file the information under points (a) to (c) when such information is transmitted directly by the competent authority to the Bank upon the Bank's request.

5. The request made by the counterparty under paragraph 1 shall be signed by the counterparty's CEO, CFO or a manager of similar seniority, or by an authorised signatory on behalf of one of them.

Article 123

Reporting obligations of counterparties using an internal ratings-based system

1. Counterparties shall communicate information to the Bank on Article 122(3)(b) to (f) on an annual basis, or as and when required by the Bank, unless such information is transmitted directly by the competent authority to the Bank upon the Bank's request.

2. The annual communication referred to in paragraph 1 shall be signed by the counterparty's CEO, CFO or a manager of similar seniority, or by an authorised signatory on behalf of one of them. The competent authority and, where applicable, the external auditor of the counterparty shall receive a copy of this letter from the Eurosystem.

3. As part of the regular monitoring on IRB systems, the Bank shall perform on- and off-site inspections on the statistical information provided by counterparties for the purpose of the annual performance monitoring process. The objective of such controls shall be to verify that static pools are correct, accurate and complete.

4. Counterparties shall fulfil any further operational criteria as may be specified by the Bank in this Directive, including provisions in relation to:

(a) ad hoc checks on the procedures in place for communicating a credit claim's features to the Bank;

(b) annual checks by the Bank (or, where relevant, the competent authority or external auditor) to establish the accuracy and validity of static pools as referred to in Annex 9;

(c) the provision, no later than within the course of the next business day, of information in respect of eligibility changes and the immediate withdrawal of relevant credit claims, if necessary;

(d) notifications to the home NCB of facts or circumstances that could materially influence the continued use of the IRB system for ECAF purposes or the way in which the IRB system leads to the establishment of eligible collateral, including in particular material changes to a counterparty's IRB system which may impact on the manner in which the IRB system's rating grades or probabilities of default correspond with the Eurosystem harmonised rating scale.

Article 124

General acceptance criteria for third-party rating tool providers as credit assessment systems

1. The third-party rating tool (RT) provider source shall encompass entities that assess the credit quality of debtors by using primarily quantitative models in a systematic and mechanical manner, relying amongst other information on audited accounts, and whose credit assessments are not intended for general public disclosure.

2. An RT provider wishing to participate in the ECAF shall submit a request to the Bank, using the template provided by the Eurosystem, supplemented by additional documentation as specified in the template provided on the ECB's website.

3. Counterparties wishing to use a specific RT provider for ECAF purposes that is not accepted by the Eurosystem shall submit a request to the Bank, using the template provided on the ECB's website, supplemented by additional documentation as specified in this template.

4. In respect of submissions made under paragraphs 2 and 3, the Eurosystem shall decide whether to accept the RT provider based on an evaluation of compliance with the acceptance criteria set by the Eurosystem, as published on the ECB's website.

5. Counterparties using a RT provider shall promptly inform the relevant RT provider of any credit event that is known only to the counterparty that may indicate a deterioration of the credit quality, including a delay in payments by the debtors of the eligible assets mobilised as collateral.

Article 125

Reporting obligation for third-party rating tool providers

1. The RT provider shall communicate the required information for the purposes of the ECAF performance monitoring report to the Bank together with a signed certification from the CEO, or authorised signatory with responsibility for the audit or compliance function within the RT, confirming the accuracy and validity of the submitted performance monitoring data.

2. The RT provider shall undertake to keep internal records of static pools and default details for five years.

Article 126

ECAF performance monitoring process

1. On an annual basis, all accepted credit assessment systems shall be subject to the ECAF performance monitoring process, in accordance with Annex 9, for the purpose of ensuring that the mapping of the credit assessment information provided by the credit assessment system to the Eurosystem's harmonised rating scale remains appropriate and that the results from credit assessments are comparable across systems and sources.

2. The Eurosystem reserves the right to request any additional information required to conduct the performance monitoring process.

3. The performance monitoring process may result in a correction of the manner in which the credit assessment information provided by the credit assessment system corresponds to the Eurosystem's harmonised rating scale.

4. The Eurosystem may decide to suspend or exclude a credit assessment system on the basis of the outcome of the performance monitoring process.

5. In the event of an infringement of a rule in relation to the ECAF performance monitoring process, the relevant credit assessment system may be excluded from the list of ECAF-accepted systems.

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

Article 127

Purpose of the risk control and valuation framework

1. Eligible assets mobilised as collateral for Eurosystem credit operations shall be subject to the risk control measures laid down in Article 128(1), which aim to protecting the Eurosystem against the risk of financial loss in the event of a counterparty's default.

2. The Eurosystem may at any time apply additional risk control measures, as laid down in Article 128(2), if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Additional risk control measures may also be applied at the level of individual counterparties, if required to ensure such protection.

3. All risk control measures applied by the Eurosystem shall ensure consistent, transparent and non-discriminatory conditions for any type of mobilised eligible asset across the Member States whose currency is the euro.

Article 128

Risk control measures

1. The Eurosystem shall apply the following risk control measures for eligible assets:

   (a) valuation haircuts as laid down in Annex 10;

   (b) variation margins (marking-to-market):

   the Eurosystem requires the haircut-adjusted market value of the eligible assets used in its liquidity-providing reverse transactions to be maintained over time. If the value of the eligible assets, which are measured on a daily basis, falls below a certain level, the Bank shall require the counterparty to supply additional assets or cash by way of a margin call. Similarly, if the value of the eligible assets exceeds a certain level following their revaluation, the Bank may return the excess assets or cash;

   (c) limits in relation to the use of unsecured debt instruments issued by a credit institution or by any other entity with which that credit institution has close links as described in Article 138;

   (d) valuation markdowns as laid down in Annex 10;

2. The Eurosystem may apply the following additional risk control measures:

(a) initial margins, meaning that counterparties provide eligible assets with a value at least equal to the liquidity provided by the Eurosystem plus the value of the relevant initial margin;

(b) limits in relation to issuers, debtors or guarantors;

(c) the Eurosystem may apply additional limits, other than those applied to the use of unsecured debt instruments referred to in paragraph (1)(c), to the exposure vis-à-vis issuers, debtors or guarantors;

(d) supplementary haircuts;

(e) additional guarantees from guarantors meeting the Eurosystem's credit quality requirements in order to accept certain assets;

(f) the exclusion of certain assets from use as collateral in Eurosystem credit operations.

Chapter 1 – Risk control measures for marketable assets

Article 129

Deleted by Article 2 of Guideline ECB/2015/34

Article 130

Deleted by Article 2 of Guideline ECB/2015/34

Chapter 2 - Risk Control measures for non-marketable assets

Article 131

Deleted by Article 2 of Guideline ECB/2015/34

Article 132

Deleted by Article 2 of Guideline ECB/2015/34

Article 133

Deleted by Article 2 of Guideline ECB/2015/34

Article 133a

Deleted by Article 2 of Guideline ECB/2015/34

Chapter 3 - Valuation rules for marketable and non-marketable assets

Article 134

Valuation rules for marketable assets

For the purposes of determining the value of assets used as collateral in open market operations conducted by means of reverse transactions, the Bank shall apply the following rules.

(a) For each eligible marketable asset, the Eurosystem shall define the most representative price to be used for the calculation of the market value.

(b) A marketable asset's value shall be calculated on the basis of the most representative price on the business day preceding its valuation date. In the absence of a representative price for a particular asset the Eurosystem shall define a theoretical price.

(c) The market or theoretical value of a marketable asset shall be calculated including accrued interest.

(d) For the income flow, such as coupon payments that are related to an asset and are received by the Bank, which are transferred to the counterparty, the Bank shall ensure that the relevant operations are still fully covered by a sufficient amount of eligible assets.

Article 135

Valuation rules for non-marketable assets

Non-marketable assets shall be assigned a value by the Eurosystem corresponding either to the theoretical price or to the outstanding amount.

Article 136

Margin calls

1. Assets mobilised as collateral for Eurosystem credit operations shall be subject to daily valuation by the Bank, in accordance with the valuation rules laid down in Articles 134 and 135. If tri-party services are used, the daily valuation process shall be delegated to the relevant TPA and shall be based on information sent by the Bank to the TPA.

2. If, after valuation and haircuts, the mobilised assets do not match the requirements as calculated on that day, margin calls shall be performed. If the value of the eligible assets mobilised as collateral by a counterparty, following their revaluation, exceeds the amount owed by the counterparty plus the variation margin, the Bank may return the excess assets or any cash that the counterparty has provided for a margin call.

3. In order to reduce the frequency of margin calls, the Bank may apply a threshold of 0.5 % of the amount of liquidity provided. Depending on the applicable national law, if the value of the mobilised assets as collateral falls below the lower threshold, the Bank may require margin calls to be effected either through the supply of additional assets or by means of cash payments by the counterparty. Conversely, if the value of the assets used as collateral exceeds the upper threshold, the Bank may return the excess assets (or cash submitted to meet a margin call) to the counterparty.

4. The deposit facility rate shall also apply to cash margins.

TITLE VII - Acceptance of non euro-denominated collateral in contingencies

Article 137

Acceptance of non euro-denominated collateral in contingencies

1. The ECB's Governing Council may decide to accept certain marketable assets issued by non-euro area G10 central governments in their national currency as collateral. Upon such a decision by the ECB's Governing Council, counterparties shall be informed about the applicable:

(a) eligibility criteria;

(b) procedures for selection and mobilisation;

(c) sources and principles of valuation;

(d) risk control measures;

(e) settlement procedures.

2. The general eligibility criteria for marketable assets laid down in Title II of Part Four shall apply, except that marketable assets:

(a) may be issued, held and settled outside the EEA;

(b) may be denominated in currencies other than the euro; and

(c) shall not have a coupon value that results in a negative cash flow.

3. Counterparties that are branches of credit institutions incorporated outside the EEA or Switzerland shall not be entitled to mobilise as collateral the marketable assets laid down in this Article.

TITLE VIII - Rules for the use of eligible assets

Article 138

Close links between counterparties and the issuer, debtor or guarantor of eligible assets

1. Irrespective of the fact that an asset is eligible, a counterparty shall not submit or use as collateral assets issued, owed or guaranteed by itself or by any other entity with which it has close links.

2. ‘Close links’ means any of the following situations in which the counterparty and the other entity referred to in paragraph 1 are linked:

(a) the counterparty owns directly, or indirectly through one or more other undertakings, 20% or more of the capital of that other entity;

(b) that other entity owns directly, or indirectly through one or more other undertakings, 20% or more of the capital of the counterparty;

(c) a third party owns, either directly or indirectly through one or more undertakings, 20% or more of the capital of the counterparty and 20% or more of the capital of the other entity.

For the purposes of assessing the existence of close links in the case of multi-cédulas, the Eurosystem shall apply a ‘look-through approach’, i.e. it shall consider close links between each of the underlying cédulas issuers and the counterparty.

3. Paragraph 1 shall not apply with respect to any of the following:

(a) close links between the counterparty and an EEA public sector entity that has the right to levy taxes, or cases where a debt instrument is guaranteed by one or more EEA public sector entities which have the right to levy taxes and the relevant guarantee complies with the features laid down in Article 114, subject in all cases to Article 139(1);

(b) covered bonds meeting the requirements set out in Article 129(1) to (3) and (6) of Regulation (EU) No 575/2013;

(c) debt instruments protected by specific legal safeguards comparable to the covered meeting the requirements set out in Article 129(1) to (3) and 129(6) of Regulation (EU) No 575/2013. Such specific legal safeguards shall require a ring-fenced cover pool that ensures the satisfaction of bondholder claims in the event of insolvency of the issuer from the ring-fenced cover pool. An assessment of the existence and comparability of legal safeguards, for which the requirements set out under point (b) shall serve as a benchmark, shall be conducted by the Eurosystem on a case-by-case basis and shall require an external legal opinion.

Examples of debt instruments protected by specific legal safeguards comparable to covered bonds referred to in point (b) are:

(i) non-marketable RMBDs; and

(ii) *multi-cédulas* issued before the application date of this Directivewhere the underlying *cédulas* comply with the criteria set out in Article 129(1) to (3) and (6) of Regulation (EU) No 575/2013.

Article 138a

Use of debt instruments in connection with in-kind recapitalisation with public debt instruments

Public debt instruments used in an in-kind recapitalisation of a counterparty may only be used as collateral by that counterparty or by any other counterparty which has ‘close links’, as defined in Article 138(2), to that counterparty if the Eurosystem considers that the level of market access of their issuer is adequate, also taking into account the role played by such instruments in the recapitalisation.

Article 139

Use of guaranteed unsecured debt instruments issued by a counterparty or its closely linked entity

1. Unsecured debt instruments issued by a counterparty or any other entity closely linked to that counterparty, as defined in paragraph 2 of Article 138, and fully guaranteed by one or several EEA public sector entities which have the right to levy taxes shall not be mobilised as collateral for Eurosystem credit operations by that counterparty either:

(a) directly; or

(b) indirectly, where they are included in a pool of covered bonds,

2. In exceptional cases, the ECB's Governing Council may decide on temporary derogations from the restriction laid down in paragraph 1 for a maximum of three years. A request for a derogation shall be accompanied by a funding plan by the requesting counterparty that indicates the manner in which the mobilisation of the respective assets will be phased out within three years following the granting of the derogation. Such a derogation shall only be provided where the nature of the guarantee provided by one or several EEA central governments, regional governments, local authorities or other public sector entities which have the right to levy taxes complies with the requirements for guarantees laid down in Article 114.

Article 140

Close links with respect to asset-backed securities and currency hedges

A counterparty may not mobilise as collateral any asset-backed securities if the counterparty, or any entity with which it has close links, as laid down in Article 138, provides a currency hedge to the asset-backed securities by entering into a currency hedge transaction with the issuer as a hedge counterparty.

Article 141

Limits with respect to unsecured debt instruments issued by credit institutions and their closely linked entities

1. A counterparty shall not submit or use as collateral unsecured debt instruments issued by a credit institution or by any other entity with which that credit institution has close links, to the extent that the value of such collateral issued by that credit institution or other entity with which it has close links taken together exceeds 2.5% of the total value of the assets used as collateral by that counterparty after the applicable haircut. This 2.5% threshold shall not apply in either of the following cases:

(a) if the value of such assets does not exceed EUR 50 million after any applicable haircut; or

(b) if such assets are guaranteed by a 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.

2. For the purposes of paragraph 1, the establishment of a close link between two or more issuers of unsecured debt instruments shall only be considered from one year after the date of the establishment of the close link.

3. For the purposes of this Article, 'close links' has the same meaning as laid down in Article 138.

Article 142

Liquidity support in respect of asset-backed securities

1. With effect from 1 November 2015, a counterparty may not mobilise as collateral any asset-backed securities if the counterparty or any entity with which it has close links provides liquidity support as specified below. The Eurosystem takes into account two forms of liquidity support for asset-backed securities: cash reserves and liquidity facilities.

2. For liquidity support in the form of cash reserves, a counterparty shall not be permitted to mobilise as collateral any asset-backed securities if the following three conditions are met simultaneously:

(a) the counterparty has close links with the issuer account bank in the asset-backed securities transaction;

(b) the current amount of the reserve fund of the asset-backed securities transaction is greater than 5% of the initial outstanding amount of all senior and subordinated tranches of the asset-backed securities transaction;

(c) the current amount of the reserve fund of the asset-backed securities transaction is greater than 25% of the current outstanding amount of the subordinated tranches of the asset-backed securities transaction.

3. For liquidity support in the form of liquidity facilities, a counterparty shall not be permitted to mobilise as collateral any asset-backed securities if the following two conditions are met simultaneously:

(a) the counterparty has close links with a liquidity facility provider; and

(b) the current amount of the liquidity facility of the asset-backed securities transaction is greater than 20% of the initial outstanding amount of all senior and subordinated tranches of the asset-backed securities transaction.

4. Close links in respect of this Article shall have the same meaning as laid down in Article 138(2).

Article 143

Deleted by Article 1 of Guideline ECB/2016/31

Article 144

Non-acceptance of eligible assets for operational reasons

Irrespective of the fact that an asset is eligible, the Bank may, for operational reasons, request the counterparty to remove such asset before the occurrence of a cash flow, including payment of principal or coupons, as further defined in the relevant national documentation.

Article 144a

Eligible assets with negative cash flows

1. The Bank shall provide that a counterparty shall remain liable for the timely payment of any amount of negative cash flows related to eligible assets submitted or used by it as collateral.

2. If a counterparty fails to effect timely payment pursuant to paragraph 1, the Eurosystem may, but is not obliged to, discharge the relevant payment. The counterparty shall refund the Eurosystem, immediately upon request from the Eurosystem, of any amount of negative cash flows paid by the Eurosystem as a result of the counterparty's failure. If a counterparty fails to make a timely payment pursuant to paragraph 1, the Eurosystem shall have the right to debit immediately and without prior notification an amount equal to the amount the Eurosystem has to pay on behalf of such counterparty either from:

(a) the relevant counterparty's payment module (PM) account in TARGET2, as provided for in Article 36(6) of Annex 2 to Guideline ECB/2012/27; or

(b) with the prior authorisation of a settlement bank, the TARGET2 PM account of a settlement bank, used for the relevant counterparty's Eurosystem credit operations; or

(c) any other account that can be used for Eurosystem monetary policy operations and that the relevant counterparty has with the Bank. .

3. Any amount paid by the Eurosystem under paragraph 2 that is not refunded by a counterparty immediately upon request and that cannot be debited by the Eurosystem from any relevant account as provided for under paragraph 2, shall be considered as a credit from the Eurosystem, for which a sanction is applicable in accordance with Article 154.

Article 145

Notification, valuation and removal of assets that are ineligible or contravene the rules for the use of eligible assets

1. If a counterparty has submitted or used assets that it is not or is no longer permitted to use as collateral, including due to the identity of the issuer, debtor or guarantor, or the existence of close links, it shall immediately notify the Bank thereof.

2. The assets referred to in paragraph 1 shall be valued at zero on the next valuation date at the latest and a margin call may be triggered.

3. A counterparty that has submitted or used any assets referred to in paragraph 1 shall remove such assets on the earliest possible date.

4. A counterparty shall provide the Eurosystem with accurate and up-to-date information affecting the value of collateral.

Article 146

Sanctions for non-compliance with the rules for the use of eligible assets

Non-compliance with the rules laid down in this Title shall be subject to sanctions, as applicable, in accordance with Articles 154 to 157. Sanctions shall be applicable, regardless of whether a counterparty is actively participating in monetary policy operations.

Article 147

Information sharing within the Eurosystem

For monetary policy implementation purposes, in particular to monitor compliance with the rules for the use of eligible assets, the Eurosystem shall share information on capital holdings provided by the competent authority for such purposes. The information shall be subject to the same secrecy standards as those applied by the competent authority.

TITLE IX - Cross-border use of eligible assets

Article 148

General principles

1. Counterparties may use eligible assets on a cross-border basis throughout the euro area for the handling of all types of Eurosystem credit operations.

2. Counterparties may mobilise eligible assets other than fixed-term deposits, for cross-border use in accordance with the following.

(a) Marketable assets shall be mobilised via: (i) eligible links between EEA SSSs which have been positively assessed pursuant to the Eurosystem User Assessment Framework; (ii) applicable CCBM procedures; (iii) eligible links in combination with the CCBM; and

(b) Credit claims, DECCs and RMBDs shall be mobilised in accordance with applicable CCBM procedures.

3. Marketable assets may be used through an NCB account in a SSS located in a country other than that of the NCB in question if the Eurosystem has approved the use of such an account.

4. De Nederlandsche Bank shall be authorised to use its account with Euroclear Bank to settle collateral transactions in the Eurobonds issued in that ICSD. The Central Bank of Ireland shall be authorised to open a similar account with Euroclear Bank. This account can be used for all eligible assets held in Euroclear Bank, i.e. including eligible assets transferred to Euroclear Bank through eligible links.

5. Counterparties shall execute the transfer of eligible assets via their securities settlement accounts with an SSS that has been positively assessed pursuant to the Eurosystem User Assessment Framework.

6. Counterparties that do not have a safe custody account with an NCB or a securities settlement account with an SSS that has been positively assessed pursuant to the Eurosystem User Assessment Framework may settle the transactions through the securities settlement account or the safe custody account of a correspondent credit institution.

Article 149

CCBM

1. Under the CCBM, the cross-border relationship is between the NCBs. The NCBs act as custodians (hereinafter ‘correspondents’) for each other and for the ECB in respect of marketable assets accepted in their local depository, TPA or settlement system. Specific procedures apply under the CCBM for credit claims and RMBDs. Details on the CCBM and the applicable

procedures are set out in Annex 6 and in the brochure entitled ‘Correspondent central banking model (CCBM) procedure for Eurosystem counterparties’, which is published on the ECB’s website.

2. Assets deposited with a correspondent central bank shall only be used to collateralise Eurosystem credit operations.

Article 150

Eligible links between SSSs

1. In addition to the CCBM, counterparties may use links that have been positively assessed pursuant to the Eurosystem User Assessment Framework (‘eligible links’) for the cross-border transfer of marketable assets.

2. Eligible links may only be established between SSSs that have been positively assessed pursuant to the Eurosystem User Assessment Framework and shall consist of a set of procedures and arrangements for the transfer of securities through a book-entry process.

3. There shall be two types of eligible links which are established by contractual and technical agreements between the SSSs involved:

(a) direct links established between two SSSs without involving an intermediary; and

(b) relayed links that allow two SSSs that are not directly connected to each other to exchange securities transactions or transfers through a third SSS acting as the intermediary.

4. Only links that have been assessed and approved by the Eurosystem pursuant to the Eurosystem User Assessment Framework shall be considered eligible. The ECB shall publish an up-to-date list of eligible links on its website.

5. Assets held through an eligible link may be used for Eurosystem credit operations, as well as for any other purpose selected by the counterparty.

6. A table detailing the use of eligible links between SSSs is laid down in Annex 6.

Article 151

CCBM in combination with eligible links

1. Counterparties may use direct and relayed links referred to Article 150 in combination with the CCBM to mobilise eligible marketable assets on a cross-border basis.

2. When using eligible links between SSSs in combination with the CCBM, counterparties shall hold the assets issued in the issuer SSS in an account with an investor SSS directly or via a custodian. In the case of eligible relayed links, a third SSS may act as an intermediary SSS.

3. Assets mobilised under paragraph 2 may be issued in a non-euro area EEA SSS that has been positively assessed under the Eurosystem User Assessment Framework, provided that a link between the issuer SSS and the investor SSS has been positively assessed pursuant to the Eurosystem User Assessment Framework.

4. A table detailing the use of CCBM in combination with eligible links is laid down in Annex.

Article 152

CCBM and tri-party collateral management services

1. Cross-border tri-party collateral management services shall allow a counterparty to increase or decrease the amount of collateral which it mobilises with its home NCB, through recourse to collateral held with a TPA.

2. The CCBM (including the CCBM in combination with eligible links) may be used as a basis for the cross-border use of tri-party collateral management services. Cross-border use of tri-party collateral management services shall involve a NCB, where tri-party collateral management services are offered for cross-border Eurosystem use, acting as a correspondent for NCBs whose counterparties have requested to use such tri-party collateral management services on a cross-border basis for the purposes of Eurosystem credit operations. In order to facilitate cross-border

use in accordance with this paragraph, the relevant TPA shall need to be positively assessed by the Eurosystem.

3. A table detailing the use of CCBM with tri-party collateral management services is laid down in Annex 6.

PART FIVE
SANCTIONS IN THE EVENT OF A FAILURE TO COMPLY WITH COUNTERPARTY OBLIGATIONS

Article 153

Sanctions for non-compliance as regards minimum reserves

1. The ECB shall impose sanctions pursuant to Regulation (EC) No 2532/98, Regulation (EC) No 2157/1999 (ECB/1999/4), Regulation (EC) No 2531/98 or Regulation (EC) No 1745/2003 (ECB/2003/9) on institutions which do not comply with obligations arising from ECB regulations and decisions relating to the application of minimum reserves. The relevant sanctions and procedural rules for their application are specified in those regulations.

2. Without prejudice to paragraph 1, in the event of a serious infringement of the minimum reserve requirements, the Eurosystem may suspend a counterparty's participation in open market operations.

Article 154

Sanctions for non-compliance with certain operational rules

1. In accordance with the provisions of this Directive, the Bank shall impose one or more sanctions if a counterparty fails to comply with any of the following obligations:

(a) as regards reverse transactions and foreign exchange swaps for monetary policy purposes, the obligations, as laid down in Article 15, to adequately collateralise and settle the amount the counterparty has been allotted over the whole term of a particular operation including any outstanding amount of a particular operation in the case of early termination executed by the Bank over the remaining term of an operation.

(b) as regards collection of fixed-term deposits, outright transactions and the issuance of ECB debt certificates, the obligation to settle the transaction, as laid down in Article 16;

(c) as regards the use of eligible assets, the obligation to mobilise or use only eligible assets and comply with the rules for the use of eligible assets in Title VIII of Part Four;

(d) as regards end-of-day procedures and access conditions for the marginal lending facility, the obligation to present sufficient eligible assets in advance as collateral in cases where there is any remaining negative balance on a counterparty's settlement account in TARGET2 after finalisation of the end-of-day control procedures and an automatic request for recourse to the marginal lending facility is therefore considered to arise, as laid down in Article 19(6).

(e) any payment obligations pursuant to Article 144a(3).

2. A sanction imposed pursuant to this Article shall involve:

(a) a financial penalty only; or

(b) both a financial penalty and a non-financial penalty.

Article 155

Financial penalties for non-compliance with certain operational rules

If a counterparty fails to comply with any of the obligations referred to in Article 154(1), the Eurosystem shall impose a financial penalty for each case of non-compliance. The applicable financial penalty shall be calculated in accordance with Annex 7.

Article 156

Non-financial penalties for non-compliance with certain operational rules

1. If a counterparty fails to comply with an obligation referred to in either Article 154(1)(a) or (b) on more than two occasions in a 12-month period and in respect of each failure:

(a) a financial penalty was imposed ;

(b) each decision to impose a financial penalty was notified to the counterparty;

(c) each occasion of non-compliance relates to the same type of non-compliance,

the Eurosystem shall suspend the counterparty on the occasion of the third failure and each such subsequent failure to comply with an obligation of that same type in the relevant 12-month period. The 12-month period shall be calculated from the date of the first failure to comply with an obligation referred to in either Article 154(1)(a) or (b), as applicable.

2. Any suspension imposed by the Eurosystem under paragraph 1 shall apply in respect of any subsequent open market operation which is of the same type as the open market operation which resulted in a sanction under paragraph 1.

3. The period of suspension imposed in accordance with paragraph 1 shall be determined in accordance with Annex 7.

4. If a counterparty fails to comply with an obligation referred to in Article 154(1)(c) on more than two occasions in a 12-month period and in respect of each failure

(a) a financial penalty was imposed ;

(b) each decision to impose a financial penalty was notified to the counterparty;

(c) each occasion of non-compliance relates to the same type of non-compliance,

the Eurosystem shall suspend the counterparty from the subsequent open market operation on the occasion of the third failure and each such subsequent failure in the relevant 12-

month period. The 12-month period shall be calculated from the date of the first failure to comply with an obligation referred to in Article 154(1)(c).

5. In exceptional cases, the Eurosystem may suspend a counterparty for a period of three months in respect of all future Eurosystem monetary policy operations for any failure to comply with any of the obligations laid down in Article 154(1). In such a case, the Eurosystem shall have regard to the seriousness of the case and, in particular, to the amounts involved and to the frequency and duration of non-compliance.

6. The period of suspension imposed by the Eurosystem pursuant to this Article shall be applied in addition to the relevant financial penalty applicable in accordance with Article 155.

Article 157

Application of non-financial penalties to branches for non-compliance with certain operational rules

When the Eurosystem suspends a counterparty in accordance with Article 156(5), that suspension may also be applied to branches of that counterparty established in other Member States whose currency is the euro.

PART SIX
DISCRETIONARY MEASURES

Article 158

Discretionary measures on the grounds of prudence or following an event of default

1. On the grounds of prudence, the Eurosystem may take any of the following measures:

   (a) suspend, limit or exclude a counterparty's access to Eurosystem monetary policy operations, pursuant to any contractual or regulatory arrangements applied by its home NCB or by the ECB;

(b) reject, limit the use of or apply supplementary haircuts to assets mobilised as collateral in Eurosystem credit operations by a specific counterparty on the basis of any information the Eurosystem considers relevant, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the assets mobilised as collateral.

2. Counterparties that are subject to supervision as referred to in Article 55(b)(i) but which do not meet the own funds requirements laid down in Regulation (EU) No 575/2013, on an individual and/or consolidated basis, in accordance with the supervisory requirements, and counterparties that are subject to supervision of a comparable standard as referred to in Article 55(b)(iii) but which do not meet requirements comparable to the own funds requirements laid down in Regulation (EU) No 575/2013, on an individual and/or consolidated basis, shall be suspended, limited or excluded from accessing Eurosystem monetary policy operations on the grounds of prudence. There is an exception for cases where the Eurosystem considers that compliance can be restored through adequate and timely recapitalisation measures, as established by the Governing Council.

3. In the context of its assessment of financial soundness of a counterparty pursuant to Article 55(c) and without prejudice to any other discretionary measures, the Eurosystem may suspend, limit or exclude, on the grounds of prudence, access to Eurosystem monetary policy operations by the following counterparties:

   (a) counterparties for which information on capital ratios under Regulation (EU) No 575/2013 is not made available to the relevant NCB and the ECB in a timely manner and at the latest within 14 weeks from the end of the relevant quarter;

   (b) counterparties which are not required to report capital ratios under Regulation (EU) No 575/2013 but for which information of a comparable standard as referred to in Article 55(b)(iii) is not made available to the relevant NCB and the ECB in a timely manner and at the latest within 14 weeks from the end of the relevant quarter.

In the event that the access to Eurosystem monetary policy operations has been suspended, limited or excluded, access may be restored once the relevant information has been made available to the relevant NCB and the ECB and the Eurosystem determines that the counterparty fulfils the criterion of financial soundness pursuant to Article 55(c).

4. Without prejudice to any other discretionary measures, the Eurosystem shall, on the grounds of prudence, limit access to Eurosystem monetary policy operations by counterparties deemed to be “failing or likely to fail” by the relevant authorities based on the conditions laid down in Article 18(4)(a) to (d) of Regulation (EU) No 806/2014 or laid down in national legislation implementing Article 32(4)(a) to (d) of Directive 2014/59/EU. The limitation shall correspond to the level of access to Eurosystem credit operations prevailing at the time when such counterparties are deemed to be ‘failing or likely to fail’.

5. In addition to limiting access to Eurosystem monetary policy operations under paragraph 4, the Eurosystem may, on the grounds of prudence, suspend, further limit or exclude counterparties from accessing Eurosystem monetary policy operations if they are deemed to be “failing or likely to fail” under paragraph 4 and they meet any of the following:
   (a) are not made subject to a resolution action by the resolution authority because there are reasonable prospects that an alternative private sector measure or supervisory action, as referred to in Article 18(1)(b) of Regulation (EU) No 806/2014 and national legislation implementing Article 32(1)(b) of Directive 2014/59/EU, would prevent the failure of the institution within a reasonable timeframe, in view of the development of the alternative private sector measure or supervisory action;
   (b) are assessed as meeting the conditions for resolution pursuant to Article 18(1) of Regulation (EU) No 806/2014 or national legislation implementing Article 32(1) of Directive 2014/59/EU, in view of the development of the resolution action;
   (c) result from a resolution action as defined under Article 3(10) of Regulation (EU) No 806/2014 and national legislation implementing Article 2(40) of Directive 2014/59/EU or from an alternative private sector measure or supervisory action as referred to in Article 18(1)(b) of Regulation (EU) No 806/2014 and national legislation implementing Article 32(1)(b) of Directive 2014/59/EU.

6. Beyond a limitation of access to Eurosystem monetary policy operations pursuant to

paragraph 4, the Eurosystem shall suspend, further limit or exclude from access to Eurosystem monetary policy operations on the grounds of prudence counterparties which have been deemed to be ‘failing or likely to fail’ but for which neither a resolution action has been provided for, nor are there reasonable prospects that an alternative private sector measure or supervisory action would prevent the failure of the institution within a reasonable timeframe as referred to in Article 18(1)(b) of Regulation (EU) No 806/2014 and national legislation implementing Article 32(1)(b) of Directive 2014/59/EU.

7. In the event that a discretionary measure is based on prudential information, the Eurosystem shall use any such information, provided either by supervisors or by counterparties, in a manner strictly commensurate with, and necessary for, the performance of the Eurosystem’s tasks of conducting monetary policy.

8. In the case of an occurrence of an event of default, the Eurosystem may suspend, limit or exclude access to Eurosystem monetary policy operations with regard to counterparties that are in default pursuant to any contractual or regulatory arrangements applied by the Eurosystem.

9. All discretionary measures of the Eurosystem shall be applied in a proportionate and non-discriminatory manner and shall be duly justified by the Eurosystem.

Article 159

Discretionary measures relating to the Eurosystem’s credit quality assessment

1. The Eurosystem shall determine whether an issue, issuer, debtor or guarantor fulfils the Eurosystem’s credit quality requirements on the basis of any information it considers relevant.

2. The Eurosystem may reject, limit the mobilisation or use of assets or apply supplementary haircuts on the grounds provided for in paragraph 1, if such decision is required in order to ensure adequate risk protection of the Eurosystem.

3. In the event that a rejection as referred to in paragraph 2 is based on prudential information, the Eurosystem shall use any such information, transmitted either by counterparties or by

supervisors, in a manner that is strictly commensurate with, and necessary for, the performance of the Eurosystem's tasks of conducting monetary policy.

4. The Eurosystem may exclude the following assets from the list of eligible marketable assets:

   (a) assets issued or guaranteed by entities subject to freezing of funds and/or other measures imposed by the Union under Article 75 of the Treaty or by a Member State restricting the use of funds; and/or

   (b) assets issued or guaranteed by entities in respect of which the ECB's Governing Council has issued a decision suspending or excluding their access to Eurosystem open market operations or standing facilities.

PART SEVEN

ADDITIONAL MINIMUM COMMON FEATURES IN RELATION TO EUROSYSTEM MONETARY POLICY OPERATIONS

Article 160

Legal relationship between the Bank and its counterparties

Pursuant to Article 1(3), Eurosystem monetary policy operations conducted with a Counterparty under this Directive shall apply in conformity with the provisions of this Part Seven.

Chapter 1 – Additional minimum common features applicable to all arrangements for eurosystem monetary policy operations

Article 161

Amendments to the implementation of the Eurosystem monetary policy framework

1. The Bank shall implement without undue delay any changes relevant to the Eurosystem monetary policy framework by amending this Directive.

2. The Bank shall give counterparties as much advance notice as possible of such changes. Such notices shall be provided to counterparties by electronic means and/or written procedures and shall state the specific date on which the change becomes legally effective which will only be after receipt of the notice.

Article 162

Denomination of payments

All payments relating to Eurosystem monetary policy operations, other than foreign currency payments in foreign exchange swaps for monetary policy purposes, shall be in euro.

Article 163

Form of contractual arrangements

If it becomes necessary to constitute all transactions with a counterparty under a single contractual agreement, the Bank may require the counterparty to enter into a master agreement to be provided by the Bank to allow effective termination and close-out (including netting) of all outstanding transactions upon an event of default.

Article 164

Forms, data carriers and means of communication

Annex 13 of this Directive contains rules relating to the use of forms, including the confirmation of terms of transactions and the means of communication which the counterparty shall comply with.

Article 165

Events of default

1. The following shall constitute events of default under this Directive:

(a) a decision is made by a competent judicial or other authority to implement, in relation to the counterparty, a procedure for the winding-up of the counterparty or the appointment of a liquidator or analogous officer over the counterparty, or any other analogous procedure;

(b) a decision is made by a competent judicial or other authority to implement, in relation to the counterparty, a reorganisation measure or other analogous procedure intended to safeguard or restore the financial situation of the counterparty and to avoid the taking of a decision of the kind referred to in point (a);

(c) a declaration by the counterparty in writing of its inability to pay all or any part of its debts or to meet its obligations arising in relation to monetary policy transactions, or a voluntary general agreement or arrangement entered into by it with its creditors, or if the counterparty is, or is deemed to be insolvent or is deemed to be unable to pay its debts;

(d) procedural steps preliminary to a decision being taken under paragraphs (a) or (b) above;

(e) any representation or other pre-contractual statement made by the counterparty, or which is implied to have been made by the counterparty, under Maltese law that is incorrect or untrue;

(f) the counterparty’s authorisation to conduct activities under either: (a) Directive 2013/36 EU and Regulation (EU) No 575/2013; or (b) Directive 2004/39/EC as implemented in the relevant Member State whose currency is the euro, is either suspended or revoked;

(g) the counterparty is suspended or expelled from membership of any payment system or arrangement through which payments under monetary policy transactions are made or (except for foreign exchange swap transactions) is suspended or expelled from membership of any securities settlement system used for the settlement of Eurosystem monetary policy operations;

(h) measures such as those referred to in Articles 41(1), 43(1) and 44 of Directive 2013/36/EU are taken against the counterparty;

(i) in relation to reverse transactions, the counterparty fails to comply with provisions concerning risk control measures;

(j) in relation to repurchase transactions, the counterparty fails to pay the purchase price or the repurchase price or fails to deliver purchased or repurchased assets; or in respect to collateralised loans, the counterparty fails to deliver assets or reimburse the credit on the applicable dates for such payments and deliveries;

(k) in relation to foreign exchange swap transactions for monetary policy purposes and fixed-term deposits, the counterparty fails to pay the euro amount; or in relation to foreign exchange swaps for monetary policy purposes, fails to pay foreign currency amounts on the applicable dates for such payments;

(l) the occurrence of an event of default, not materially different from those defined in this Article, in relation to the counterparty under an agreement concluded for the purposes of the management of the foreign reserves or own funds of the ECB or any NCBs;

(m) the counterparty fails to provide relevant information, thus causing severe consequences for the Bank;

(n) the counterparty fails to perform any other of its obligations under arrangements for reverse transactions and foreign exchange swap transactions and, if capable of remedy, does not remedy such failure within a maximum of thirty (30) days in the case of collateralised transactions and a maximum of ten (10) days in the case of foreign exchange swap transactions after notice is given by the Bank requiring it to do so;

(o) an event of default occurs in relation to the counterparty in any agreement with another member of the Eurosystem entered into for the purpose of effecting Eurosystem monetary policy operations in respect of which that other member of the Eurosystem has exercised its right to close out any transaction under such agreement by reason of the event of default;

(p) the counterparty becomes subject to the freezing of funds and/or other measures imposed by the Union under Article 75 of the Treaty restricting the counterparty's ability to use its funds;

(q) the counterparty becomes subject to the freezing of funds and/or other measures imposed by a Member State whose currency is the euro restricting the counterparty's ability to use its funds;

(r) all or a substantial part of the counterparty's assets are subject to a freezing order, attachment, seizure or any other procedure that is intended to protect the public interest or the rights of the counterparty's creditors;

(s) all or a substantial part of the counterparty's assets are assigned to another entity;

(t) any other impending or existing event the occurrence of which may threaten the performance by the counterparty of its obligations under the arrangement it entered into for the purpose of effecting Eurosystem monetary policy operations or any other rules applying to the relationship between the counterparty and any of the NCBs.

2. If the events referred to in paragraphs (a) and (p) of sub-article(1) above take effect in respect of the counterparty, the Bank shall terminate all outstanding monetary policy operations undertaken with the counterparty. The Bank may also terminate all outstanding monetary policy operations if the events referred to in paragraphs (b), (c) and (q) of Article 165(1) take effect. In the case any of the events referred to in Articles 165(1) (d) to (o) and (r) to (t) occur, the Bank shall cancel all outstanding monetary policy operations undertaking with the counterparty by a written notice given to the same counterparty. The Bank may, at its discretion, grant the counterparty a maximum period of three business days to rectify the default before the notice of termination takes effect.

Article 166

Remedies in the event of default or on the grounds of prudence

1. The Bank may take the following actions in case an event of default occurs or on grounds of prudence: (i) suspend, limit or exclude the counterparty from access to open market operations; (ii) suspend, limit or exclude the counterparty from access to the standing facilities; (iii) terminate all outstanding agreements and transactions; (iv) demand, accelerated performance of claims that have not yet matured or are contingent; (v) use deposits of the counterparty placed with the Bank to set off claims against that counterparty; (vi) suspend the performance of obligations against the counterparty until the claim on the counterparty has been satisfied.

2. The Bank may exercise upon the occurrence of an event of default any of the following actions in addition to the remedies referred to in paragraph 1 above: (i) claim default interest and (ii) claim an indemnity for any losses sustained as a consequence of a default by the counterparty.

3. The Bank may, on grounds of prudence, reject, limit the use of or apply supplementary haircuts to assets mobilised as collateral in Eurosystem credit operations by counterparties.

4. The Bank may, at all times, realise all assets provided as collateral without undue delay in accordance with article 17(7) of the Central Bank of Malta Act, if the counterparty does not settle its negative balance promptly.

4a. The Bank shall impose a financial penalty for a failure of a counterparty to reimburse or pay, in full or in part, any amount of the credit or of the repurchase prices, or to deliver the purchased assets, at maturity or when otherwise due, in the event that no remedy is available to it pursuant to Article 166(2). The Bank shall calculate the financial penalty in accordance with Annex 7, Section 1, paragraph 1(a) to this Directive and Annex 7, Section 1, paragraphs 2 and 4 to this Directive, taking into account the amount of cash that the counterparty could not pay or reimburse, or of the assets the counterparty could not deliver, and the number of calendar days during which the counterparty did not pay, reimburse or deliver.

5. In order to ensure the uniform implementation of the measures imposed in the Eurosystem, the Governing Council may decide on the remedies, including suspension, limitation or exclusion from access to open market operations or the Eurosystem's standing facilities.

Article 167

Provision of information by counterparties

The Bank may request the Counterparty to submit any relevant information relating to the Eurosystem monetary policy operations within such period as requested by the Bank.

Article 168

Notices and other communications

1. All notices or other communication in relation to this Directive shall be in written and/or electronic form.

2. The notice or other communication shall specify the date on which the notification being made becomes effective which will only be after receipt of the notice. Confirmations sent shall be delivered and checked promptly.

Article 169

Third Party Rights

1. The rights and obligations of the counterparty shall not be assigned, charged, novated or otherwise dealt with by the same counterparty without the prior written consent of the Bank.

2. Only the contracting or home NCB and the identified counterparty shall have rights and obligations arising under the transaction. However, other relationships between the NCBs and/ or the ECB arising out of the cross-border use of eligible assets and as necessary for operations effected with counterparties acting through an intermediary institution shall be allowed.

Article 170

Governing law and jurisdiction

1. All the transactions undertaken under this Directive shall be governed by Maltese law, except where the cross-border use of eligible assets requires otherwise.

2. Without prejudice to the competence of the Court of Justice of the European Union, the Maltese Courts or Tribunals shall have jurisdiction for all disputes, arising out of, or in connection with the provisions of this Directive.

Article 171

Settlement days with regard to fixed-term deposits

Settlement with regard to both taking in and paying out fixed-term deposits shall take place on the days specified in the ECB's announcement of the deposit operation.

Chapter 2 – Additional minimum common features applicable to both repurchase and collateralised loan agreements

Article 172

Date of reverse leg of the transaction

The date of the reverse leg of the transaction, including the date of repayment of the collateralised loan agreement, as applicable, shall be fixed at the time of entering into each transaction.

Article 173

Business days

The term 'business day' shall have the same meaning as defined in Article 2 (6) of the Directive.

Article 174

Interest rates

1. In a repurchase agreement, the price differential between the purchase price and the repurchase price shall correspond to the aggregate amount obtained by application of a specified rate to the purchase price during the period from the scheduled purchase date to the repurchase date.

2. In a collateralised loan, the interest rate shall be determined by applying the specified interest rate on the credit amount over the maturity of the operation.

3. The rate applied to reverse transactions shall be equal to a simple interest rate based on the actual/360 day-count convention.

Article 175

Mechanisms for converting non-euro amounts

The rate used to convert non-euro amounts into euro shall be the ECB daily euro foreign exchange reference rate or, if unavailable, the spot rate of exchange indicated by the ECB on the business day before the day on which the conversion is to be made for the sale by it of euro against a purchase by it of the other currency.

Chapter 3 – Additional minimum common features exclusive to repurchase agreements

Article 176

Subject matter of repurchase agreements

1. When entering into repurchase agreements, the Bank shall ensure that there is a sale of eligible assets against euro cash, together with a simultaneous agreement to sell back equivalent assets against euro cash at a specified time.

2. The term ‘equivalent assets’ shall mean assets of the same issuer, forming part of the same issue, irrespective of the date of issue, and being of identical type, nominal value, amount and description to those assets to which such comparison is made.

3. If the assets in respect of which the comparison under paragraph 2 is made have been converted or redenominated or a call has been made thereon, the definition of equivalence shall be modified to mean:

(a) in the case of conversion, those into which the assets have converted;

(b) in the case of a call being made on assets, equivalent assets to the paid-up assets, provided that the seller has paid to the buyer a sum equal to the value of the call;

(c) in the case of redenominated assets, equivalent assets to those into which the original assets have been redenominated with, as necessary, a sum of money equal to any difference in value between the assets before and after their redenomination.

Article 177

Close-out netting arrangements with respect to repurchase agreements

1. Upon the occurrence of an event of default, the Bank shall be entitled to terminate and close-out all outstanding repurchase transactions.

2. In relation to netting the Bank shall apply the following arrangements:

(a) Upon the occurrence of an event of default, the repurchase date for each transaction shall be deemed to occur immediately and be subject to either the following options:

i) any equivalent margin assets shall be immediately deliverable, so that performance of respective obligations of the parties with regard to the delivery of assets and the payment of the repurchase price for any repurchased assets shall be effected only in accordance with paragraphs (b) – (d); or

ii) the repurchase transaction will be terminated.

(b) the default market values of the repurchased assets and any equivalent margin assets to be transferred and the repurchase price to be paid by each party shall be established by the Bank for all transactions as at the repurchase date in a commercially reasonable manner. (c) On the bases of point (b), the Bank shall calculate what is due from each party to the other at the repurchase date. The sums due from one party must be set off against the sums due from the other and only the net balance is payable by the party having the claim thereby valued at the lower amount.

(c) The net balance shall be due and payable on the next day on which TARGET2 is operational to effect a payment. For the purposes of this calculation, any sums not denominated in euro must be converted into euro on the appropriate date at the rate calculated in accordance with Article 175.

3. The term ‘default market value’ shall have the same meaning as in Article 2 (19) of the Directive.

Article 178

Compliance with risk control measures

Substitution of collateral shall take place in accordance to the risk control measures provided in Part 4, Title VI and if applicable in accordance with the provisions provided in Annex 13.

Article 179

Cash Margins

Margins shall be paid or returned in cash. Any further obligation to return or provide margins shall first be satisfied by the use of cash up to the same amount, together with any interest applicable to it.

Article 180

Further provisions pertaining to repurchase agreements

Without prejudice to the provisions of this Directive, the Bank may include additional provisions as deemed necessary in its repurchase agreements.

Chapter 4 – Additional minimum common features exclusive to collateralised loan arrangements

Article 181

Provision and realisation of collateral

1. The Bank shall provide liquidity in the form of collateralised lending, with collateral being pledged in favour of the Bank. This entails the signing of a pledge agreement with the Bank, as specified in Annex 13, and which shall apply to any domestic and foreign marketable and non-marketable assets.

2. Eligible assets provided as collateral must be free from prior claims and other encumbrance rendering it impossible for third parties including any liquidating authority in the event of insolvency, to intervene and successfully claim the assets provided as collateral, in the absence of fraud, or any rights attaching to them.

3. Upon the occurrence of an event of default as specified in Article 165, the Bank shall proceed with the enforcement of the security pledged in its favour and the realisation of the assets.

Article 182

Overnight extension of intraday operations

Operations which are entered into on an intraday basis may be extended overnight.

Chapter 5 – Additional minimum common features exclusive to foreign exchange swaps for monetary policy purposes

Article 183

Simultaneous spot-and-forward sale and purchase agreement

Foreign exchange swaps executed for monetary policy purposes consist of simultaneous spot and forward sale and purchase transactions of the euro against one foreign currency.

Article 184

Timing and mechanics of transfer of payments

The date of the forward sale and purchase shall be fixed at the time of entering into each transaction.

Article 185

Definition of specific terms

The Bank shall apply the following definitions with respect to foreign currency, spot rate, forward rate, transfer date and retransfer date:

(a) ‘foreign currency’ shall mean any lawful currency other than the euro;

(b) ‘spot rate’ shall mean, in relation to a specific transaction, the rate (as calculated in accordance with Article 175 applied to convert the euro amount into such amount in the foreign currency relevant for that transaction as one party shall be obliged to transfer to the other at the transfer date against payment of the euro amount and which rate shall be set out in the confirmation;

(c) ‘forward rate’ shall mean the rate calculated in accordance with Article 175 and applied to convert the euro amount into such amount in the foreign currency as one party shall be obliged to transfer to the other at the retransfer date against payment of the euro amount, which rate shall be as set out in the confirmation and defined in the Directive;

(d) ‘retransfer foreign currency amount’ shall mean such amount of foreign currency as is required to purchase the euro amount as at the retransfer date;

(e) ‘transfer date’ shall mean, with regard to any transaction, the date and, where appropriate, the time on that date when the transfer of the euro amount by one party to the other is to become effective, that is the date and, where appropriate, the time on that date, when the parties have agreed that settlement of a transfer of the euro amount will occur;

(f) ‘retransfer date’ shall mean, with regard to any transaction, the date and, where appropriate, the time on that date, when one party is required to retransfer the euro amount to the other.

Article 186

Close-out netting arrangements with respect to foreign exchange swaps

1. Upon the occurrence of an event of default, the Bank shall be entitled to terminate and close-out all outstanding transactions.

2. In relation to netting, the Bank shall apply the following provisions:

(a) If an event of default has occurred, each transaction shall be deemed to have been terminated and the replacement values of the euro and the retransfer foreign currency amounts shall be established by the Bank on the basis that such replacement values are the amounts that would be necessary to preserve the economic equivalent of any payments that would have been required for the Bank.

(b) On the basis of the sums so established, the Bank shall calculate what is due from each party to the other at the retransfer date. The sums due by one party must be converted into euro where necessary in accordance with Article 175 and set off against the sums due by the other. Only the net balance shall be payable by the party having the claim thereby valued at the lower amount. Such net balance is due and payable on the next day on which TARGET2 is operational to effect such a payment.

Article 187

Further provisions relating to foreign exchange swaps

Without prejudice to the requirements laid down in this Directive, the Bank may include additional provisions as deemed necessary in its contractual documentation on foreign exchange swaps.

PART EIGHT
FINAL PROVISIONS

Article 188

Sharing of information

The Bank may, if necessary for the implementation of monetary policy, share with other NCBs individual information, such as operational data, relating to counterparties participating in Eurosystem monetary policy operations. Such information shall be subject to the requirement concerning professional secrecy in Article 38 of the Statute of the ESCB.

Article 189

Anti-money laundering and counter-terrorist financing legislation

Counterparties to Eurosystem monetary policy operations shall be aware of, and comply with, all obligations imposed on them by anti-money laundering and counter-terrorist financing legislation.

ANNEXES

ANNEX 1 - MINIMUM RESERVES

The content of this Annex is for information purposes only.

In the event of conflict between this Annex and the legal framework for the Eurosystem's minimum reserve system as described in paragraph 1, the latter prevails.

1. Pursuant to Article 19 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the 'Statute of the ESCB'), the European Central Bank (ECB) requires credit institutions to hold minimum reserves on accounts with national central banks (NCBs) within the framework of the Eurosystem's minimum reserve system. The legal framework for this system is laid down in Article 19 of the Statute of the ESCB, Regulation (EC) No 2531/98 and Regulation (EC) No 1745/2003 (ECB/2003/9). The application of Regulation (EC) No 1745/2003 (ECB/2003/9) ensures that the terms and conditions of the Eurosystem's minimum reserve system are uniform throughout Member States whose currency is the euro.

2. The Eurosystem's minimum reserves system primarily pursues the aims of stabilising money market interest rates and creating (or enlarging) a structural liquidity shortage.

3. In accordance with Article 2(1) of Regulation (EC) No 1745/2003 (ECB/2003/9), the Eurosystem's minimum reserve system applies to credit institutions established in Member States whose currency is the euro. In addition, branches in the euro area of credit institutions not incorporated in the euro area are also subject to the Eurosystem's minimum reserve system. However, branches established outside the euro area of credit institutions incorporated in the euro area are not subject to this system.

4. Pursuant to Article 2(2) of Regulation (EC) No 1745/2003 (ECB/2003/9), institutions will be automatically exempt from reserve requirements from the start of the maintenance period within which their authorisation is withdrawn or surrendered, or within which a decision to submit the institution to winding-up proceedings is taken by a judicial authority or any other competent authority of a Member State.

5. Pursuant to Article 2(2) of Regulation (EC) No 1745/2003 (ECB/2003/9), the ECB may exempt, on a non-discriminatory basis, the institutions listed in points (a) to (c) thereof from reserve requirements. Such institutions include, inter alia, institutions subject to reorganisation measures, institutions subject to the freezing of funds and/or other measures imposed by the Union under Article 75 of the Treaty or by a Member State restricting the use of their funds or a

decision of the ECB's Governing Council suspending or excluding their access to open market operations or the Eurosystem's standing facilities.

6. Pursuant to Article 2(3) of Regulation (EC) No 1745/2003 (ECB/2003/9), the ECB establishes and maintains a list of institutions subject to the Eurosystem's minimum reserve system.

7. The ECB also publishes a list of any institutions exempt from their obligations under this system for reasons other than their being subject to reorganisation measures or the freezing of funds and/or other measures imposed by the Union under Article 75 of the Treaty or by a Member State restricting the use of their funds or in respect of which the ECB's Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem's standing facilities.

8. The reserve base of each institution is determined in relation to elements of its balance sheet. The balance sheet data are reported to the NCBs within the general framework of the ECB's monetary and financial statistics. Institutions calculate the reserve base in respect of a particular maintenance period on the basis of the data relating to the month that is two months prior to the month within which the maintenance period starts pursuant to Article 3(3) of Regulation (EC) No 1745/2003 (ECB/2003/9) subject to the exceptions for tail institutions, as laid down in Article 3(4) of the same Regulation.

9. The reserve ratios are determined by the ECB subject to the maximum limit specified in Regulation (EC) No 2531/98.

10. The amount of minimum reserves to be held by each institution in respect of a particular maintenance period is calculated by applying the reserve ratios to each relevant item of the reserve base for that period. The minimum reserves identified by the relevant participating NCB and by the institution in accordance with the procedures mentioned in Article 5 of Regulation (EC) No 1745/2003 (ECB/2003/9) constitute the basis for: (a) remuneration of holdings of required reserves; and (b) assessment of an institution's compliance with the obligation to hold the required amount of minimum reserves.

11. In order to pursue the aim of stabilising interest rates, the Eurosystem's minimum reserve system enables institutions to make use of averaging provisions, implying that compliance with reserve requirements is determined on the basis of the average of the end-of-calendar-day balances on the counterparties' reserve accounts over a maintenance period. Compliance with the

reserve requirement is determined on the basis of an institution's average daily reserve holdings over the maintenance period. The maintenance period is defined in Article 7 of Regulation (EC) No 1745/2003 (ECB/2003/9).

12. In accordance with Article 8 of Regulation (EC) No 1745/2003 (ECB/2003/9), institutions' holdings of required reserves are remunerated at the average, over the maintenance period, of the ECB's rate (weighted according to the number of calendar days) on the main refinancing operations according to the following formula (whereby the result is rounded to the nearest cent):

$$R_t = \frac{H_t \cdot n_t \cdot r_t}{100 \cdot 360}$$

$$r_t = \sum_{i=1}^{n_t} \frac{MR_i}{n_t}$$

Where:

R_t = remuneration to be paid on holdings of required reserves for the maintenance period *t;*

H_t = average daily holdings of required reserves for the maintenance period *t*;

n_t = number of calendar days in the maintenance period *t;*

r_t = rate of remuneration on holdings of required reserves for the maintenance period *t*. Standard rounding of the rate of remuneration to two decimals shall be applied;

i = *i*th calendar day of the maintenance period *t;*

MR_i = marginal interest rate for the most recent main refinancing operation settled on or before calendar day *i*.

13. Where an institution fails to comply with other obligations under ECB regulations and decisions relating to the Eurosystem's minimum reserve system (e.g. if relevant data are not transmitted in time or are not accurate), the ECB is empowered to impose sanctions in accordance with Regulation (EC) No 2532/98 and Regulation ECB/1999/4. The ECB's

Executive Board may specify and publish the criteria according to which it will apply the sanctions provided for in Article 7(1) of Regulation (EC) No 2531/98.

ANNEX 2 - ANNOUNCEMENT OF TENDER OPERATIONS

The public tender announcement contains the following indicative information:

(a) the reference number of the tender operation;

(b) the date of the tender operation;

(c) the type of operation (provision or absorption of liquidity, and the type of monetary policy instrument to be used);

(d) the maturity of the operation;

(e) the duration of the operation (normally expressed in a number of days);

(f) the type of auction, e.g. fixed rate or variable rate tender;

(g) for variable rate tenders, the method of allotment, e.g. the single rate auction (Dutch auction) or multiple rate auction (American auction) procedure;

(h) the intended operation volume, normally only in the case of longer-term refinancing operations;

(i) for fixed rate tenders, the fixed tender interest rate, price, swap point or spread (the reference index in the case of indexed tenders and the quotation type in the case of an interest rate or spread);

(j) the minimum or maximum accepted interest rate, price or swap point, if applicable;

(k) the start date and maturity date of the operation, if applicable, or the value date and the maturity date of the instrument, in the case of the issuance of European Central Bank (ECB) debt certificates;

(l) the currencies involved and for foreign exchange swaps, the amount of the currency which is kept fixed;

(m) for foreign exchange swaps, the reference spot exchange rate to be used for the calculation of bids;

(n) the maximum bid limit, if any;

(o) the minimum individual allotment amount, if any;

(p) the minimum allotment ratio, i.e. the lower limit, expressed in percentage terms, of the ratio of bids at the marginal interest rate to be allotted in a tender operation, if any;

(q) the time schedule for the submission of bids;

(r) in the case of the issuance of ECB debt certificates, the denomination of the certificates and the ISIN code of the issue;

(s) the maximum number of bids per counterparty (for variable rate tenders, in the event that the ECB intends to limit the number of bids, this is normally set at ten bids per counterparty);

(t) the quotation type (rate or spread);

(u) the reference entity in the case of indexed tenders.

ANNEX 3 - ALLOTMENT OF TENDERS AND TENDER PROCEDURES

Table 1: Allotment of fixed rate tenders

The percentage of allotment is:

$$all\% = \frac{A}{\sum_{i=1}^{n} a_i}$$

The amount allotted to the *i*th counterparty is:

$$all_i = all\% \times (a_i)$$

where:

A	=	total amount allotted
n	=	total number of counterparties
a_i	=	bid amount of the *i*th counterparty
all%	=	percentage of allotment
all_i	=	total amount allotted to the *i*th counterparty

Table 2: Allotment of variable rate tenders in euro (the example refers to bids quoted in the form of interest rates)

The percentage of allotment at the marginal interest rate is:

$$all\%(r_m) = \frac{A - \sum_{s=1}^{m-1} a(r_s)}{a(r_m)}$$

The allotment to the *i*th counterparty at the marginal interest rate is:

$$all(r_m)_i = all\%(r_m) \times \mathrm{a}(\mathrm{r}_\mathrm{m})_\mathrm{i}$$

The total amount allotted to the *i*th counterparty is:

$$all_i = \sum_{s=1}^{m-1} a(r_s)_i + all(r_m)_i$$

where:

A	=	total amount allotted
r_s	=	*s*th interest rate bid by the counterparties
N	=	total number of counterparties
$a(r_s)_i$	=	amount bid at the *s*th interest rate (r_s) by the *i*th counterparty
$a(r_s)$	=	total amount bid at the sth interest rate (rs)

$$a(r_s) = \sum_{i=1}^{n} a(r_s)_i$$

r_m	=	marginal interest rate: $r_1 \geq r_s \geq r_m$ for a liquidity-providing tender $r_m \geq r_s \geq r_1$ for a liquidity-absorbing tender
r_{m-1}	=	interest rate before the marginal interest rate (last interest rate at which bids are completely satisfied): $r_{m-1} > r_m$ for a liquidity-providing tender $r_m > r_{m-1}$ for a liquidity-absorbing tender
all%(r_m)	=	percentage of allotment at the marginal interest rate
all$(r_s)_i$	=	allotment to the ith counterparty at the sth interest rate
all_i	=	total amount allotted to the ith counterparty

Table 3: Allotment of variable rate foreign exchange swap tenders

The percentage of allotment at the marginal swap point quotation is:

$$all\%(\Delta_m) = \frac{A - \sum_{s=1}^{m-1} a(\Delta_s)}{a(\Delta_m)}$$

The allotment to the *i*th counterparty at the marginal swap point quotation is:

$$all(\Delta_m)_i = all\%(\Delta_m) \times \mathrm{a}(\Delta_\mathrm{m})_\mathrm{i}$$

The total amount allotted to the *i*th counterparty is:

$$all_i = \sum_{s=1}^{m-1} a(\Delta_s)_i + all(\Delta_m)_i$$

where:

A	=	total amount allotted
Δ_s	=	*s*th swap point quotation bid by the counterparties
N	=	total number of counterparties
$a(\Delta_s)_i$	=	amount bid at the *s*th swap point quotation (Δ_s) by the *i*th counterparty

$a(\Delta_s)$	=	total amount bid at the *s*th swap point quotation (Δ_s) $$a(\Delta_s) = \sum_{i=1}^{n} a(\Delta_s)_i$$
Δ_m	=	marginal swap point quotation: $\Delta_m \geq \Delta_s \geq \Delta_1$ for a liquidity-providing foreign exchange swap $\Delta_1 \geq \Delta_s \geq \Delta_m$ for a liquidity-absorbing foreign exchange swap
Δ_{m-1}		swap point quotation before the marginal swap point quotation (last swap point quotation at which bids are completely satisfied): $\Delta_m > \Delta_{m-1}$ for a liquidity-providing foreign exchange swap $\Delta_{m-1} > \Delta_m$ for a liquidity-absorbing foreign exchange swap
all%(Δ_m)		percentage of allotment at the marginal swap point quotation
all(Δ_s)$_i$		allotment to the *i*th counterparty at the *s*th swap point quotation
all$_i$		total amount allotted to the *i*th counterparty

ANNEX 4 - ANNOUNCEMENT OF TENDER RESULTS

The public tender result message contains the following indicative information:

(a) the reference number of the tender operation;

(b) the date of the tender operation;

(c) the type of operation;

(d) the maturity of the operation;

(e) the duration of the operation (normally expressed in a number of days);

(f) the total amount bid by Eurosystem counterparties;

(g) the number of bidders;

(h) for foreign exchange swaps, the currencies involved;

(i) the total amount allotted;

(j) for fixed rate tenders, the percentage of allotment;

(k) for foreign exchange swaps, the spot exchange rate;

(l) for variable rate tenders, the marginal interest rate, price, swap point or spread accepted and the percentage of allotment at the marginal interest rate, price or swap point;

(m) for multiple rate auctions, the minimum bid rate and the maximum bid rate, i.e. the lower and upper limit to the interest rate at which counterparties submitted their bids in variable rate tenders, and the weighted average allotment rate;

(n) the start date and the maturity date of the operation, if applicable, or the value date and the maturity date of the instrument, in the case of the issuance of ECB debt certificates;

(o) the minimum individual allotment amount, if any;

(p) the minimum allotment ratio, if any;

(q) in the case of the issuance of ECB debt certificates, the denomination of the certificates and the ISIN code of the issue;

(r) the maximum number of bids per counterparty (for variable rate tenders, in the event that the ECB intends to limit the number of bids, this is normally set at ten bids per counterparty).

ANNEX 5 - CRITERIA FOR THE SELECTION OF COUNTERPARTIES TO PARTICIPATE IN FOREIGN EXCHANGE INTERVENTION OPERATIONS

1. The selection of counterparties for Eurosystem foreign exchange intervention operations is based on two sets of criteria relating to the principles of prudence and efficiency.

2. The criteria relating to efficiency are only applied once the criteria relating to the principle of prudence have been applied.

3. The criteria relating to the principle of prudence comprise the following:

   (a) creditworthiness of the counterparty, which is assessed using a combination of different methods, e.g. using credit ratings available from commercial agencies and the in-house analysis of capital and other business ratios;

   (b) a counterparty is supervised by a recognised supervisor;

   (c) a counterparty has a good reputation and observes high ethical standards.

4. The criteria relating to the principle of efficiency comprise, inter alia, the following:

   (a) a counterparty's competitive pricing behaviour and its ability to conduct large-volume foreign exchange operations efficiently under all market conditions; and

   (b) the quality and coverage of information provided by the counterparty.

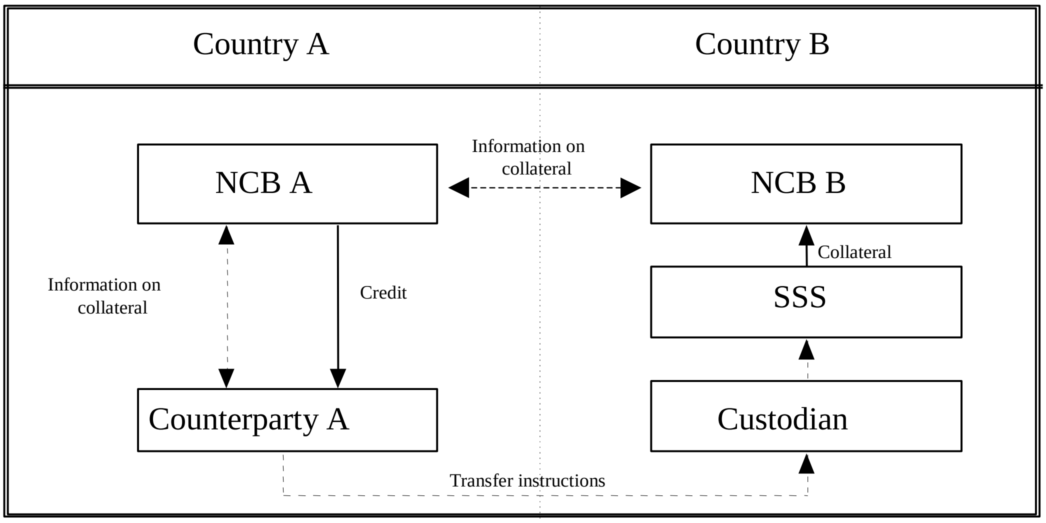
5. In order to be able to intervene efficiently in different geographical locations, the Bank may select counterparties for their foreign exchange intervention operations in any international financial centre.

ANNEX 6 - CROSS-BORDER USE OF ELIGIBLE ASSETS

I. THE CORRESPONDENT CENTRAL BANKING MODEL (CCBM)

Table 1: The Correspondent Central Banking Model (CCBM)

Use of eligible assets deposited in country B by a counterparty established in country A in order to obtain credit from the national central bank (NCB) of country A



1. All NCBs maintain securities accounts with each other for the cross-border use of eligible assets. The precise procedure of the CCBM depends on whether the eligible assets are earmarked for each individual transaction or whether they are held in a pool of underlying assets.

2. In an earmarking system, as soon as a counterparty's bid for credit is accepted by its home NCB the counterparty instructs, via its own custodian if necessary, the securities settlement systems (SSS) in the country in which its marketable assets are held, to transfer them to the central bank of that country (hereinafter the 'correspondent central bank') for the account of the home NCB. Once the home NCB has been informed by the correspondent central bank that the collateral has been received, it transfers the funds to the counterparty. The NCBs do not advance funds until they are certain that the counterparties' marketable assets have been received by the correspondent central bank. Where necessary to meet settlement deadlines, counterparties may be able to pre-deposit assets with correspondent central banks for the account of their home NCB using the CCBM procedures.

3. In a pooling system, the counterparty may at any time provide the correspondent central bank with marketable assets for the account of the home NCB. Once the home NCB has been informed by the correspondent central bank that the marketable assets have been received, it will add these marketable assets to the pool account of the counterparty.

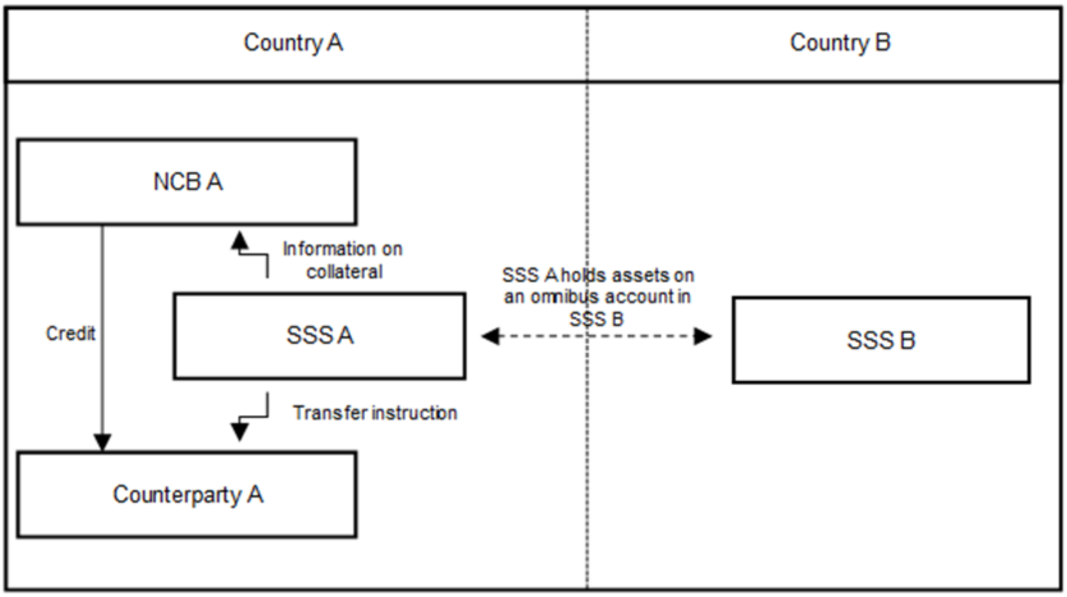
4. Specific procedures for cross-border use have been developed for certain non-marketable assets, i.e. credit claims and retail mortgage-backed debt instruments (RMBDs). When credit claims are used as collateral in a cross-border context, a CCBM variant is applied to credit claims, using a transfer of ownership, an assignment or a pledge in favour of the home NCB, or a charge in favour of the correspondent central bank, acting as the agent for the home NCB. A further ad-hoc variant based on the charge in favour of the correspondent central bank acting as the agent for the home NCB is applied to allow the cross-border use of RMBDs.

5. The CCBM is available to counterparties, both for marketable and non-marketable assets, as a minimum from 9 a.m. to 4 p.m. CET on each TARGET2 business day. A counterparty wishing to make use of the CCBM must advise the NCB from which it wishes to receive credit, i.e. its home NCB, before 4 p.m. CET. The counterparty must ensure that the collateral for securing the credit operation is delivered to the account of the correspondent central bank by 4.45 p.m. CET at the latest. Instructions or deliveries that do not respect this deadline will only be dealt with on a best effort basis and may be considered for credit that will be given on the following TARGET2 business day. When counterparties foresee a need to use the CCBM late in the day, they should, where possible, pre-deposit the assets. Under exceptional circumstances or when required for monetary policy purposes, the ECB may decide to extend the CCBM's closing time until the TARGET2 closing time, in cooperation with central securities depositories regarding their availability to extend their cut-off times for marketable assets.

II. ELIGIBLE LINKS BETWEEN SSSS

Table 2: Links between securities settlement systems

Use of eligible assets issued in the SSS of country B held by a counterparty established in country A through a link between the SSSs in countries A and B in order to obtain credit from the NCB of country A.



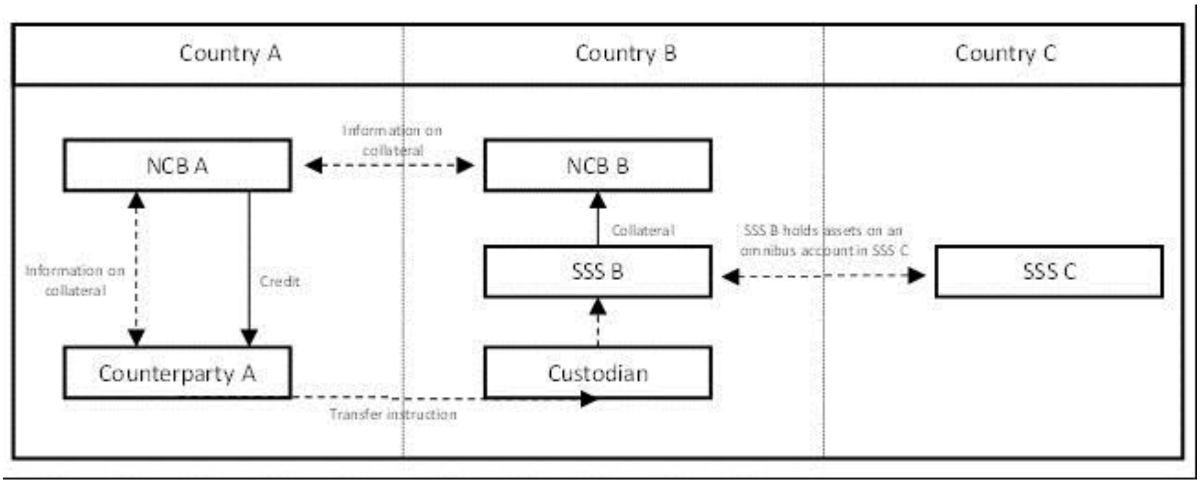
1. Eligible links between two SSSs in the European Economic Area (EEA) consist of a set of procedures and arrangements for the cross-border transfer of securities through a book-entry process. They take the form of an omnibus account opened by an SSS (hereinafter the 'investor SSS') in another SSS (hereinafter the 'issuer SSS').

2. Eligible links allow a participant in one SSS in the EEA to hold securities issued in another SSS in the EEA without being a participant therein. When using links between SSSs, the counterparties hold the assets on their own account with their home SSS and have no need for a custodian.

III. CCBM IN COMBINATION WITH ELIGIBLE LINKS

TABLE 3: CCBM IN COMBINATION WITH ELIGIBLE LINKS

Use of eligible assets issued in the SSS of country C and held in the SSS of country B by a counterparty established in country A through a direct link between the SSSs in countries B and C in order to obtain credit from the NCB of country A.

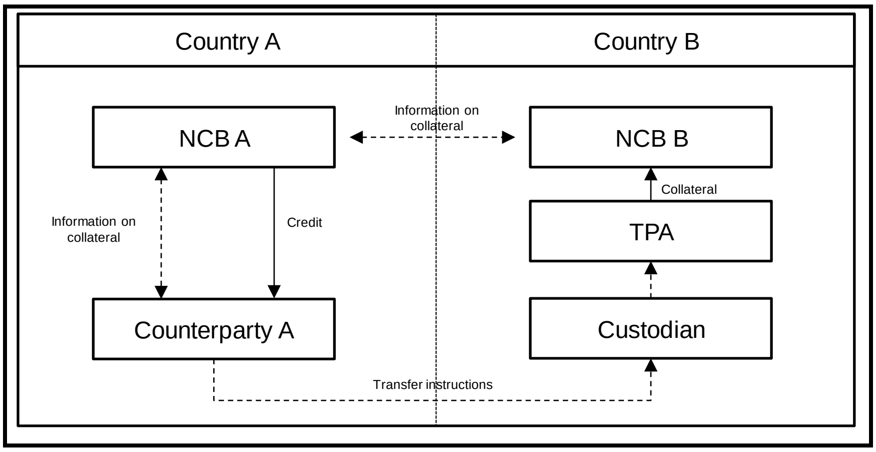


Where eligible assets in the form of securities are to be transferred via the CCBM with links, counterparties must ensure that the securities are delivered to an account at the relevant investor SSS by 4 p.m. CET on the settlement date in order to ensure settlement of same-day value operations. Any request for mobilisation received by home NCBs from their counterparties after 4 p.m. CET, or any request for the delivery of eligible assets to an account at the relevant investor SSS after 4 p.m. CET, is dealt with on a best efforts basis, according to the cut-off times of the SSSs involved.

IV. CCBM WITH TRI-PARTY COLLATERAL MANAGEMENT SERVICES

Table 4: Cross-border triparty services

Use of eligible assets held in the tri-party agent (TPA) of country B by a counterparty established in country A in order to obtain credit from the NCB of country A.



The arrow ‘Information on collateral’ between counterparty A and NCB A may not be relevant in the case of certain TPAs, depending on the contractual model chosen, and in such cases the counterparty does not send an instruction to NCB A or receive a confirmation from NCB A.

ANNEX 7 - CALCULATION OF SANCTIONS TO BE APPLIED IN ACCORDANCE WITH PART FIVE

I. CALCULATION OF FINANCIAL PENALTIES FOR BREACH OF CERTAIN COUNTERPARTY OBLIGATIONS

1. Where a financial penalty is to be imposed by the Bank on any of its counterparties in accordance with Part Five, the Bank shall calculate the penalty in accordance with a pre-specified penalty rate, as follows.

   (a) For failure to comply with an obligation referred to in Article 154(1)(a), (b) or (c) a financial penalty is calculated using the marginal lending facility rate that applied on the day when the non-compliance began plus 2,5 percentage points.

   (b) For failure to comply with an obligation referred to in Article 154(1)(d) or (e), a financial penalty is calculated using the marginal lending facility rate that applied on the day when the non-compliance began plus 5 percentage points. For repeated infringements of the obligation referred to in Article 154(1)(d) or of the obligation referred to in Article 154(1)(e) within a 12-month period, starting from the day of the first infringement, the penalty rate increases by a further 2.5 percentage points for each infringement.

2. For failure to comply with an obligation referred to in Article 154(1)(a) or (b), a financial penalty is calculated by applying the penalty rate, in accordance with paragraph 1(a), to the amount of collateral or cash that the counterparty could not deliver or settle, multiplied by the coefficient X/360, where X is the number of calendar days, with a maximum of seven, during which the counterparty was unable to collateralise or settle: (a) the allotted amount as specified in the certification of individual tender allotment results during the maturity of an operation; or (b) the remaining amount of a particular operation if there are early terminations executed by the Bank over the remainder of the term of the operation.

3. For failure to comply with an obligation referred to in Article 154(1)(c), a financial penalty is calculated by applying the penalty rate, in accordance with paragraph 1(a), to the value of the ineligible assets or the assets that may not be mobilised or used by the counterparty after haircuts, as follows:

(a) in the case of ineligible assets which are provided by the counterparty to an NCB, the value of the ineligible assets after haircuts are taken into account; or

(b) in the case of assets which were originally eligible but became ineligible or may no longer be mobilised or used by the counterparty, the value after haircuts of the assets that have not been removed by or before the start of the eighth calendar day, following an event after which the eligible assets became ineligible or may no longer be mobilised or used by the counterparty, are taken into account.

4. The amounts referred to in paragraph 3(a) and (b) are multiplied by the coefficient X/360, where X is the number of calendar days, with a maximum of seven, during which the counterparty failed to comply with its obligations in respect of the use of assets submitted as collateral for Eurosystem credit operations. In the case of paragraph 3(b), the calculation of X begins after the expiry of the grace period of seven calendar days.

*[EUR [value of ineligible assets after haircuts on the first day of the infringement] * (the applicable marginal lending facility rate on the day when the infringement began + 2,5%) *[X]/360 = EUR […]]*

5. For limit breaches as regards unsecured debt instruments issued by a credit institution or their closely linked entities as laid down in Article 141, the application of a grace period is determined as follows:

(a) A grace period of seven calendar days applies if the breach resulted from a change in the valuation, without a submission of additional such unsecured debt instruments and without removal of assets from the total collateral pool, on the basis of the following:

(i) the value of those already submitted unsecured debt instruments has increased; or

(ii) the total value of the collateral pool has decreased .

In such cases the counterparty is required to adjust the value of its total collateral pool and/or the value of such unsecured debt instruments within the grace period, to ensure compliance with the applicable limit.

(b) The submission of additional unsecured debt instruments issued by a credit institution or its closely linked entities breaching the applicable limit does not entitle the counterparty to a grace period.

6. If the counterparty has provided information that affects the value of its collateral negatively from the Eurosystem's perspective with regard to Article 145(4), e.g. incorrect information on the outstanding amount of a used credit claim that is or has been false or out of date, or if the counterparty fails to timely provide information as required under Article 101(a)(iv), the amount (value) of the collateral that has been negatively affected is taken into account for the calculation of the financial penalty under paragraph 3 and no grace period shall be applicable. If the incorrect information is corrected by the next business day pursuant to Article 109(2), no penalty is to be applied.

7. For failure to comply with the obligations referred to in Article 154(1)(d) or (e), a financial penalty is calculated by applying the penalty rate, in accordance with paragraph 1(b), to the amount of the counterparty's unauthorised access to the marginal lending facility or unpaid credit from the Eurosystem.

8. The Bank will impose a minimum financial penalty of EUR 500 where the calculation in accordance with this Annex results in an amount of less than EUR 500. A financial penalty will not be imposed where a breach is rectified within an applicable grace period.

II. CALCULATION OF NON-FINANCIAL PENALTIES IN CASE OF BREACH OF CERTAIN COUNTERPARTY OBLIGATIONS

Suspension for non-compliance with obligations referred to in Article 154(1)(a) or (b)

Where a suspension period applies in accordance with Article 156(1), the Bank will impose the suspension in accordance with the following:

(a) if the amount of non-delivered collateral or cash is up to 40% of the total collateral or cash to be delivered, a suspension of one month applies;

(b) if the amount of non-delivered collateral or cash is between 40% and 80% of the total collateral or cash to be delivered, a suspension of two months applies;

(c) if the amount of non-delivered collateral or cash is between 80% and 100% of the total collateral or cash to be delivered, a suspension of three months applies.

1. With regard to I and II above, if a sanction relates to a transaction between a counterparty and the ECB in a bilateral procedure, the above provisions are interpreted to cater for the imposition of sanctions by the ECB.

ANNEX 8 - LOAN-LEVEL DATA REPORTING REQUIREMENTS FOR ASSET-BACKED SECURITIES AND THE PROCEDURE FOR THE EUROSYSTEM'S DESIGNATION OF LOAN-LEVEL DATA REPOSITORIES

This Annex applies to the provision of comprehensive and standardised loan-level data on the pool of cash-flow generating assets backing the asset-backed securities (ABSs), as specified in Article 78, and sets out the procedure for the Eurosystem's designation of loan-level data repositories.

I. SUBMISSION OF LOAN-LEVEL DATA

1. Loan-level data must be submitted by the relevant parties to a loan-level data repository designated by the Eurosystem. The loan-level data repository publishes such data electronically.

2. Loan-level data must be submitted for each individual transaction together with the up-to-date relevant loan-level data reporting template, published on the ECB's website, depending on the type of asset backing the ABS, as defined in Article 73(1).

3. Loan-level data must be reported at least on a quarterly basis, but no later than one month following a due date for the payment of interest on the relevant ABSs. As regards the data submitted, the pool cut-off date may not be more than two months old, i.e. the 'date of submission of report' less the 'pool cut-off date' must be less than two months. The 'pool cut-off date' is defined as the date on which a snapshot of the performance of the underlying assets was captured for the respective report.

4. To ensure compliance with the requirements in paragraphs 2 and 3, the loan-level data repository conducts automated consistency and accuracy checks on reports of new and updated loan-level data for each transaction.

II. LEVEL OF REQUIRED DETAIL

1. After the date of application of loan-level data reporting requirements for the specific class of cash-flow generating assets backing the ABSs as specified on the European Central Bank's (ECB's) website, detailed loan-by-loan level information must be provided for ABSs to become or remain eligible.

2. Within a period of three months, the ABSs must achieve a compulsory minimum compliance level, assessed by reference to the availability of information, in particular the data fields of the loan-level data reporting template.

3. To capture non-available fields, a set of six ‘no data’ (ND) options are included in the loan-level data templates and must be filled in whenever particular data cannot be submitted in accordance with the loan-level data template. There is also a seventh ND option, which only applies for the loan-level data template for commercial mortgage-backed securities (CMBSs).

4. TABLE 1: EXPLANATION OF THE ND OPTIONS

‘no data’ options	**Explanation**
ND1	Data not collected as not required by the underwriting criteria
ND2	Data collected on application but not loaded into the reporting system on completion
ND3	Data collected on application but loaded it on a separate system from the reporting one
ND4	Data collected but will only be available from YYYY-MM
ND5	Not relevant
ND6	Not applicable for the jurisdiction
ND7	Only for CMBS loans with a value below EUR 500 000, i.e. the value of the whole commercial loan balance at origination

III. TRANSITIONAL PERIOD

1. The following nine-month transitional period applies to all ABSs, depending on the date on which the loan-level data reporting requirements apply for the relevant asset class backing the ABSs:

(a) during the first three months (first quarter) following the date of application, loan-level data must be reported, but there are no specific limits regarding the number of mandatory fields containing ND1 to ND7;

(b) from the beginning of the fourth month to the end of the sixth month (second quarter), the number of mandatory fields that contain ND1 may not exceed 30% of the total number of mandatory fields and the number of mandatory fields which contain ND2, ND3 or ND4 may not exceed 40% of the total number of mandatory fields;

(c) from the beginning of the seventh month to the end of the ninth month (third quarter) the number of mandatory fields that contain ND1 may not exceed 10% of the total number of mandatory fields and the number of mandatory fields which contain ND2, ND3 or ND4 may not exceed 20% of the total number of mandatory fields;

(d) at the end of the nine-month transitional period, there must be no mandatory fields in the loan-level data containing ND1, ND2, ND3 or ND4 values for an individual transaction.

2. Applying these thresholds, the loan-level data repository generates and assigns a score to each ABS transaction upon submission and processing of loan-level data.

3. This score reflects the number of mandatory fields that contain ND1 and the number of mandatory fields that contain ND2, ND3 or ND4, compared in each case against the total number of mandatory fields. In this regard, the options ND5, ND6 and ND7 may only be used if the relevant data fields in the relevant loan-level data reporting template so permit. Combining the two threshold references produces the following range of loan-level data scores.

TABLE 2: LOAN-LEVEL DATA SCORES

Scoring value matrix		**ND1 fields**			
		0	≤ 10 %	≤ 30 %	> 30 %
ND2 or ND3 or ND4	0	A1	B1	C1	D1
	≤ 20 %	A2	B2	C2	D2
	≤ 40 %	A3	B3	C3	D3
	> 40 %	A4	B4	C4	D4

4. According to the transitional period set out above, the score must gradually improve for each quarter, in accordance with the following overview:

TABLE 3: SCORING VALUE

Timeline	**Scoring value (eligibility treatment)**
first quarter	(no minimum scoring value enforced)
second quarter	C3 (as a minimum)
third quarter	B2 (as a minimum)
from the fourth quarter onwards	A1

IV. DESIGNATION OF LOAN-LEVEL DATA REPOSITORIES

I. Requirements for Designation

1. In order to be designated, loan-level data repositories must comply with the applicable Eurosystem requirements, including open access, non-discrimination, coverage, appropriate governance structure and transparency.

2. In relation to the requirements of open access and non-discrimination, a loan-level data repository:

(a) may not unfairly discriminate between data users when providing access to loan-level data;
(b) must apply criteria for access to loan-level data which are objective, non-discriminatory and publicly available;
(c) may only restrict access to the least possible extent so as to meet the requirement of proportionality;
(d) must establish fair procedures for instances where it denies access to data users or data providers;
(e) must have the necessary technical capabilities to provide access to both data users and data providers in all reasonable circumstances, including data backup procedures, data security safeguards, and disaster recovery arrangements;
(f) may not impose costs for data users for the supply or extraction of loan-level data which are discriminatory or give rise to undue restrictions on access to loan-level data.

3. In relation to the requirement of coverage, a loan-level data repository:

(a) must establish and maintain robust technology systems and operational controls to enable it to process loan-level data in a manner that supports the Eurosystem's requirements for submission of loan-level data in relation to eligible assets subject to loan-level data disclosure requirements, as specified both in Article 78 and in this Annex;
(b) must credibly demonstrate to the Eurosystem that its technical and operational capacity would permit it to achieve substantial coverage should it obtain designated loan-level data repository status.

4. In relation to the requirements of an appropriate governance structure and transparency, a loan-level data repository:

a. must establish governance arrangements that serve the interests of stakeholders in the ABS market in fostering transparency;

b. must establish clearly documented governance arrangements, respect appropriate governance standards and ensure the maintenance and operation of an adequate organisational structure to ensure continuity and orderly functioning; and

c. must grant the Eurosystem sufficient access to documents and supporting information in order to monitor, on an ongoing basis, the continued appropriateness of the loan-level data repository's governance structure.

II. PROCEDURES FOR DESIGNATION AND WITHDRAWAL OF DESIGNATION

1. An application for designation by the Eurosystem as a loan-level data repository must be submitted to the ECB's Directorate Risk Management. The application must provide appropriate reasoning and complete supporting documentation demonstrating the applicant's compliance with the requirements for loan-level data repositories set out in this Guideline. The application, reasoning and supporting documentation must be provided in writing and, wherever possible, in electronic format.

2. Within 25 working days of receipt of the application, the ECB will assess whether the application is complete. If the application is not complete, the ECB will set a deadline by which the loan-level data repository is to provide additional information.

3. After assessing an application as complete, the ECB will notify the loan-level data repository accordingly.

4. The Eurosystem will, within a reasonable time frame (aiming for 60 working days of the notification referred to in paragraph 3), examine an application for designation made by a loan-level data repository based on the compliance of the loan-level data repository with the requirements set out in this Guideline. As part of its examination, the Eurosystem may require the loan-level data repository to conduct one or more live interactive demonstrations with Eurosystem staff, to illustrate the loan-level data repository's technical capabilities in relation to the requirements set out in Section IV.I, paragraphs 2 and 3 of this Annex. If such a demonstration is required, it shall be considered a mandatory requirement of the application process.

5. The Eurosystem may extend the period of examination by 20 working days, in cases where additional clarification is deemed necessary by the Eurosystem or where a demonstration has been required in accordance with paragraph 4.

6. The Eurosystem will aim to adopt a reasoned decision to designate or to refuse designation within 60 working days of the notification referred to in paragraph 3, or within 80 working days thereof where paragraph 5 applies.

7. Within five working days of the adoption of a decision under paragraph 6, the Eurosystem will notify its decision to the loan-level data repository concerned. Where the Eurosystem refuses to designate the loan-level data repository or withdraws the designation of the loan-level data repository, it will provide reasons for its decision in the notification.

8. The decision adopted by the Eurosystem pursuant to paragraph 6 will take effect on the fifth working day following its notification pursuant to paragraph 7.

9. A designated loan-level data repository must, without undue delay, notify the Eurosystem of any material changes to its compliance with the requirements for designation.

10. The Eurosystem will withdraw the designation of a loan-level data repository where the loan-level data repository:
    (a) obtained the designation by making false statements or by any other irregular means; or
    (b) no longer fulfils the requirements under which it was designated.

11. A decision to withdraw the designation of a loan-level data repository will take effect immediately. ABSs in relation to which loan-level data was made available through a loan-level data repository whose designation was withdrawn in accordance with paragraph 10 may remain eligible as collateral for Eurosystem credit operations, providing all other requirements are fulfilled, for a period
    (a) until the next required loan-level data reporting date specified in Section I.4 of Annex 8 ; or

(b) if the period permitted under (a) is technically infeasible for the party submitting loan-level data and a written explanation has been provided to the NCB assessing eligibility by the next required loan-level data reporting date specified in Section I.4 of Annex 8 , three months following the decision under paragraph 10.

After the expiry of this period the loan-level data for such ABSs must be made available through a designated loan-level data repository in accordance with all applicable Eurosystem requirements.

12. The Eurosystem will publish on the ECB's website a list of loan-level data repositories designated in accordance with this Guideline. That list will be updated within five working days following the adoption of a decision under paragraph 6 or paragraph 10.

ANNEX 9 - EUROSYSTEM CREDIT ASSESSMENT FRAMEWORK PERFORMANCE MONITORING PROCESS

1. For each credit assessment system, the Eurosystem credit assessment framework (ECAF) performance monitoring process consists of an annual *ex post* comparison of:

(a) the observed default rates for all eligible entities and debt instruments rated by the credit assessment system, whereby these entities and instruments are grouped into static pools based on certain characteristics, e.g. credit rating, asset class, industry sector, credit quality assessment model; and

(b) the maximum probability of default associated with the respective credit quality step of the Eurosystem's harmonised rating scale.

2. The first element of the process is the annual compilation by the credit assessment system provider of the list of entities and debt instruments with credit quality assessments that satisfy the Eurosystem credit quality requirements at the beginning of the monitoring period. This list must then be submitted by the credit assessment system provider to the Eurosystem, using the template provided by the Eurosystem, which includes identification, classification and credit quality assessment-related fields.

3. The second element of the process takes place at the end of the 12-month monitoring period. The credit assessment system provider updates the performance data for the entities and debt instruments on the list. The Eurosystem reserves the right to request any additional information required in order to conduct performance monitoring.

4. The observed default rate of the static pools of a credit assessment system recorded over a one-year horizon is input to the ECAF performance monitoring process, which comprises an annual rule and a multi-period assessment.

5. In the event of a significant deviation between the observed default rate of the static pools and the maximum probability of default of the relevant credit quality step over an annual and/or a multi-annual period, the Eurosystem will consult the credit assessment system provider to analyse the reasons for that deviation.

ANNEX 9A-MINIMUM COVERAGE REQUIREMENTS FOR EXTERNAL CREDIT ASSESSMENT INSTITUTIONS IN THE EUROSYTEM CREDIT ASSESSMENT FRAMEWORK

This Annex applies to the acceptance of a credit rating agency (CRA) as an ECAI in the Eurosystem credit assessment framework, as specified in Article 120(2).

1. COVERAGE REQUIREMENTS

1. Concerning current coverage, in each of at least three out of the four asset classes (a) uncovered bank bonds, (b) corporate bonds, (c) covered bonds and (d) ABS, the CRA must provide a minimum coverage of:

(i) 10% in the eligible universe of euro area assets, computed in terms of rated assets and rated issuers, except for the ABS asset class, for which coverage in terms of rated assets only will apply;

(ii) 20% in the eligible universe of euro area assets, computed in terms of nominal amounts outstanding;

(iii) in at least 2/3 of the euro area countries with eligible assets in the respective asset classes, the CRA must provide the required coverage of rated assets, rated issuers or rated nominal amounts as referred to in points (i) and (ii).

2. The CRA must provide sovereign ratings for, at a minimum, all euro area issuer residence countries where assets in one of the four asset classes mentioned in paragraph 1 are rated by this CRA, with the exception of assets for which the Eurosystem considers the respective country risk assessment to be irrelevant for the credit rating provided by the CRA for the issue, issuer or guarantor.

3. Concerning historical coverage, the CRA must meet at least 80% of the minimum coverage requirements outlined in paragraphs 1 and 2 in each of the last three years prior to the application for ECAF acceptance, and must meet 100% of those requirements at the time of application and during the entire period of ECAF acceptance.

2. CALCULATION OF COVERAGE

1. Coverage is calculated on the basis of credit ratings issued or endorsed by the CRA in accordance with Regulation (EC) No 1060/2009 and meeting all other requirements for ECAF purposes.

2. The coverage of a given CRA is based on credit ratings of eligible assets for Eurosystem monetary policy operations, and is computed in line with the priority rules under Article 84 by considering only that CRA's ratings.

3. In the calculation of the minimum coverage of a CRA not yet accepted for ECAF purposes, the Eurosystem also includes relevant credit ratings provided

for assets that are not eligible because of the lack of a rating from ECAF-accepted external credit assessment institutions (ECAI).

4. REVIEW OF COMPLIANCE

1. The compliance of ECAIs accepted with these coverage requirements will be reviewed annually.

2. Non-compliance with the coverage requirements may be sanctioned in accordance with ECAF rules and procedures.

ANNEX 9B - MINIMUM REQUIREMENTS IN THE EUROSYTEM CREDIT ASSESSMENT FRAMEWORK FOR NEW ISSUE AND SURVEILLANCE REPORTS ON COVERED BOND PROGRAMMES

1. Introduction

For the purposes of the Eurosystem credit assessment framework (ECAF), external credit assessment institutions (ECAIs), in respect of the Article 120(2), must comply with specific operational criteria in relation to covered bonds, with effect from *[1 July 2017]*. In particular, ECAIs shall:

(a) explain newly rated covered bond programmes in a publicly available credit rating report; and

(b) make surveillance reports on covered bond programmes available on a quarterly basis.

This Annex sets out these minimum requirements in detail.

ECAIs' compliance with these requirements will be regularly reviewed. If the criteria are not fulfilled for a particular covered bond programme, the Eurosystem may deem the public credit rating(s) related to the relevant covered bond programme not to meet the high credit standards of the ECAF. Thus, the relevant ECAI's public credit rating may not be used to establish the credit quality requirements for marketable assets issued under the specific covered bond programme.

2. Minimum requirements

(a) The publicly available credit rating reports (new issue report) referred to in paragraph 1(a) must include a comprehensive analysis of the structural and legal aspects of the programme, a detailed collateral pool assessment, an analysis of the refinancing and market risk, an analysis of the transaction participants, ECAI proprietary assumptions and metrics, and an analysis of any other relevant details of the transaction.

(b) The surveillance reports referred to in paragraph 1(b) must be published by the ECAI no later than eight weeks after the end of each quarter. The surveillance reports must contain the following information.

(i) Any ECAI proprietary metrics, including the latest available dynamic proprietary metrics used in the determination of the rating. If the date to which the proprietary metrics refer differs from the publication date of the report, the date to which the proprietary metrics refer should be specified.

(ii) A programme overview, to include, at a minimum, the outstanding assets and liabilities, the issuer and other key transaction parties, the main collateral asset type, the legal framework to which the programme is subject, and the rating of the programme and the issuer.

(iii) Overcollateralisation levels, including current and committed overcollateralisation.

(iv) The asset-liability profile, including the maturity type of the covered bonds, e.g. hard bullet, soft bullet, or pass through, the weighted average life of the covered bonds and of the cover pool and information on interest rate and currency mismatches.

(v) Interest rate and currency swap arrangements existing at the time of the publication of the report, including the swap counterparty names and, where available, their legal entity identifiers.

(vi) The distribution of currencies, including a breakdown in terms of value at the level of both the cover pool and the individual bonds.

(vii) Cover pool assets, including the asset balance, asset types, number and average size of loans, seasoning, maturity, loan-to-valuation ratios, regional distribution and arrears distribution.

(viii) Cover pool substitute assets, including the asset balance.

(ix) The list of all rated securities in the programme, identified by their international securities identification number (ISIN). This disclosure can also be made via a separate, downloadable file published on the ECAI's website.

(x) A list of data definitions and data sources used in the production of the surveillance report. This disclosure can also be made via a separate file published on the ECAI's website.

ANNEX 10 – VALUATION HAIRCUTS APPLIED IN THE IMPLEMENTATION OF THE EUROSYSTEM MONETARY POLICY FRAMEWORK

Article 1

Valuation haircuts applied to eligible marketable assets

1. In accordance with Title VI of Part Four of this Directive, marketable assets shall be subject to valuation haircuts, as defined in Article 2(97) of this Directive at the levels set forth in Tables 2 and 2 (a) provided in the Schedules of this Annex.

2. The valuation haircut for a specific asset depends on the following factors:

(a) The haircut category to which the asset is allocated, as defined in Article 2;

(b) The residual maturity or the weighted average life of the asset, as defined in Article 3;

(c) The coupon structure of the asset;

(d) The credit quality step to which the asset is allocated.

Article 2

Determination of haircut categories for marketable assets

Eligible marketable assets shall be allocated to one of the five haircut categories, based on the type of issuer and/or the type of asset, as reflected in Table 1 provided in the Schedule of this Annex:

(a) debt instruments issued by central governments, ECB debt certificates and debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State whose currency is the euro are included in haircut category I;

(b) debt instruments issued by local and regional government, entities classified as agencies by the Eurosystem, multilateral development banks and international organisations, as well as UCITS compliant jumbo covered bonds, are included in haircut category II;

(c) UCITS compliant covered bonds, other than jumbo covered bonds, other covered bonds and debt instruments issued by non-financial corporations are included in haircut category III;

(d) unsecured debt instruments issued by credit institutions and by financial corporations other than credit institutions are included in haircut category IV;

(e) asset-backed securities are included in haircut category V, regardless of the classification of the issuer.

Article 3

Valuation haircuts for marketable assets

1. The valuation haircuts for marketable assets allocated to haircut categories I to IV shall be determined based on:

   (a) the allocation of the specific asset to credit quality step 1,2 or 3;

   (b) the residual maturity of the asset as detailed in paragraph 2 ;

   (c) the coupon structure of the asset as detailed in paragraph 2 .

2. For marketable assets allocated to haircut categories I to IV, the applicable valuation haircut shall depend on the residual maturity and coupon structure as follows.

   (a) For marketable assets with zero and fixed rate coupons, the applicable valuation haircuts shall be determined based on Table 2 in this Annex to this Directive. The relevant maturity for determining the valuation haircut shall be the residual maturity of the asset.

   (b) For marketable assets with floating coupons, the applicable valuation haircuts shall equal the valuation haircut applied to fixed coupon marketable assets with zero-to-one year residual maturity, except in the following cases:

      (i) floating coupons with a resetting period longer than one year shall be treated as fixed rate coupons and the relevant maturity for the valuation haircut to be applied shall be the residual maturity of the asset;

      (ii) floating coupons that have a euro area inflation index as a reference rate shall be treated as fixed rate coupons and the relevant maturity for the valuation haircut to be applied shall be the residual maturity of the asset;

(iii) floating coupons with a floor that does not equal zero and/or floating coupons with a ceiling shall be treated as fixed rate coupons.

(c) The valuation haircut applied to assets that have more than one type of coupon structure shall solely depend on the coupon structure in place during the remaining life of the asset and shall equal the highest haircut applicable to a marketable asset with the same residual maturity and credit quality step. Any type of coupon structure in place during the remaining life of the asset may be considered for this purpose.

3. For marketable assets allocated to haircut category V, regardless of their coupon structure, the valuation haircuts shall be determined based on the weighted average life of the asset as detailed in paragraphs 4 and 5. The valuation haircuts applicable to marketable assets in category V are laid down in Table 2a in this Annex to this Directive.

4. The weighted average life of the senior tranche of an asset-backed security shall be estimated as the weighted average time remaining until repayment of the expected cash flows for that tranche. For retained mobilised asset-backed securities, the calculation of the weighted average life shall assume that issuer call options will not be exercised.

5. For the purposes of paragraph 4, “retained mobilised asset-backed securities” shall mean asset-backed securities used in a percentage greater than 75% of the outstanding nominal amount by a counterparty that originated the asset-backed security or by entities closely linked to the originator. Such close links shall be determined in accordance with Article 138 of this Directive.

Article 4

Additional valuation haircuts applied to specific types of marketable assets

In addition to the valuation haircuts laid down in Article 3 of this Annex, the following additional valuation haircuts shall apply for specific types of marketable assets:

(a) asset-backed securities, covered bonds and unsecured debt instruments issued by credit institutions that are theoretically valued in accordance with the rules contained in Article 134 of this Directive shall be subject to an additional valuation haircut in the form of a valuation markdown of 5%;

(b) own-use covered bonds shall be subject to an additional valuation haircut of (i) 8% applied to the value of the debt instruments allocated to credit quality steps 1 and 2, and (ii) 12% applied to the value of the debt instruments allocated to credit quality step 3;

(c) for the purposes of paragraph (b), ‘own-use’ shall mean the submission or use by a counterparty of covered bonds that are issued or guaranteed by the counterparty itself or by any other entity with which that counterparty has close links as determined in accordance with Article 138 of this Directive;

(d) if the additional valuation haircut referred to in paragraph (b) cannot be applied with respect to a collateral management system of an NCB, triparty agent, or TARGET2-Securities for auto-collateralisation, the additional valuation haircut shall be applied in such systems or platform to the entire issuance value of the covered bonds that can be own used.

Article 5

Valuation haircuts applied to eligible non-marketable assets

1. Individual credit claims with a fixed rate of interest payment and credit claims with a rate of interest payments linked to the inflation rate shall be subject to specific valuation haircuts determined according to the residual maturity, the credit quality step and the valuation methodology applied by the NCB, as laid down in Table 3 provided in the Schedule of this Annex.

2. Individual credit claims with a variable interest rate shall be subject to the valuation haircut applied to the credit claims with fixed interest rate classified as having zero-to-one-year residual maturity corresponding to the same credit quality step and the same valuation methodology applied by the NCB. An interest payment shall be treated as a variable rate payment if it is linked to a reference interest rate and the resetting period corresponding to this payment is no longer than one year. Interest payments for which the resetting period is longer than one year shall be treated as fixed rate payments, with the relevant maturity for the haircut being the residual maturity of the credit claim.

3. The valuation haircut applied to a credit claim with more than one type of interest payment shall depend only on the interest payments during the remaining life of the

credit claim. If there is more than one type of interest payment during the remaining life of the credit claim, the remaining interest payments shall be treated as fixed-rate payments, with the relevant maturity for the haircut being the residual maturity of the credit claim.

4. For zero coupon credit claims the corresponding fixed interest credit claim valuation haircut shall apply.

5. Non-marketable retail mortgage-backed debt instruments shall be subject to a valuation haircut of 36,5%.

6. Fixed-term deposits shall not be subject to valuation haircuts.

7. Each underlying credit claim included in the cover pool of a non-marketable debt instrument backed by eligible credit claims (‘DECC’) shall be subject to a valuation haircut applied at an individual level following the rules set out in paragraphs 1 to 4 above. The aggregate value of the underlying credit claims included in the cover pool after the application of valuation haircuts shall, at all times, remain equal to or above the value of the principal amount of the DECC that is outstanding. If the aggregate value falls below the threshold referred to in the previous sentence, the DECC shall be deemed ineligible.

SCHEDULE

Table 1: Haircut categories for eligible marketable assets based on the type of issuer and/or type of asset

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 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	other covered bonds	unsecured debt instruments issued by financial	

debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State	Eurosystem 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	corporations other than credit institutions

Table 2: Valuation haircut levels applied to eligible marketable assets

		Haircut categories							
		Category I		Category II		Category III		Category IV	
Credit quality	*Residual maturity (years)**	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon
Steps 1 and 2	[0-1)	0.5	0.5	1.0	1.0	1.0	1.0	7.5	7.5
	[1-3)	1.0	2.0	1.5	2.5	2.0	3.0	10.0	10.5
	[3-5)	1.5	2.5	2.5	3.5	3.0	4.5	13.0	13.5
	[5-7)	2.0	3.0	3.5	4.5	4.5	6.0	14.5	15.5
	[7-10)	3.0	4.0	4.5	6.5	6.0	8.0	16.5	18.0
	[10,∞)	5.0	7.0	8.0	10.5	9.0	13.0	20.0	25.5

		Haircut categories							
		Category I		Category II		Category III		Category IV	
Credit quality	*Residual maturity (years)**	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon
Step 3	[0-1)	6.0	6.0	7.0	7.0	8.0	8.0	13.0	13.0
	[1-3)	7.0	8.0	9.5	13.5	14.5	15.0	22.5	25.0
	[3-5)	9.0	10.0	13.5	18.5	20.5	23.5	28.0	32.5
	[5-7)	10.0	11.5	14.0	20.0	23.0	28.0	30.5	35.0
	[7-10)	11.5	13.0	16.0	24.5	24.0	30.0	31.0	37.0
	[10,∞)	13.0	16.0	19.0	29.5	24.5	32.0	31.5	38.0

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

Table 2a

Valuation haircut levels applied to eligible marketable assets in haircut category V

		Category V
Credit quality	***Weighted Average Life (WAL)****	***Valuation haircut***
Steps 1 and 2 (AAA to A-)	[0-1)	4.0
	[1-3)	4.5
	[3-5)	5.0
	[5-7)	9.0
	[7-10)	13.0
	[10,∞)	20.0

* i.e. [0-1) WAL less than one year, [1-3) WAL equal to or greater than one year and less than three years, etc.

Table 3: Valuation haircut levels applied to credit claims with fixed interest payments

		Valuation methodology	
Credit quality	***Residual maturity (years)****	***Fixed 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***
Steps 1 and 2 (AAA to A-)	[0-1)	10.0	12.0
	[1-3)	12.0	16.0
	[3-5)	14.0	21.0
	[5-7)	17.0	27.0
	[7-10)	22.0	35.0
	[10,∞)	30.0	45.0
		Valuation methodology	
Credit quality	***Residual maturity (years)****	***Fixed 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***
Step 3 (BBB+ to BBB-)	[0-1)	17.0	19.0
	[1-3)	28.5	33.5
	[3-5)	36.0	45.0
	[5-7)	37.5	50.5
	[7-10)	38.5	56.5
	[10,∞)	40.0	63.0

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

ANNEX 11 - SECURITY FORMS

On 13 June 2006 the European Central Bank (ECB) announced the new global notes (NGN) criteria for international global bearer form securities that would be eligible as collateral for Eurosystem credit operations from 1 January 2007. On 22 October 2008 the ECB announced that international debt securities in global registered form issued after 30 September 2010, would only be eligible as collateral for Eurosystem credit operations when the new safekeeping structure for international debt securities (NSS) is used.

The following table summarises the eligibility rules for the different forms of securities with the introduction of the NGN and NSS criteria.

Table 1 Eligibility rules for different security forms

Global /individual	Bearer /registered	NGN /classic global note (CGN)/NSS	Is the common safekeeper (CSK) an ICSD*?	Eligible?
Global	Bearer	NGN	Yes	Yes
			No	No
Global	Bearer	CGN	N/A	No, but those securities issued before 1 January 2007 will be grandfathered until maturity, plus any tap issues from 1 January 2007 when the ISINs are fungible.
Global	Registered	CGN	N/A	Bonds issued under this structure after 30 September 2010 are no longer eligible.
Global	Registered	NSS	Yes	Yes
Individual	Bearer	N/A	N/A	Bonds issued under this structure after 30 September 2010 are no longer eligible. Individual bearer notes issued on or before 30 September 2010 are grandfathered until maturity

* Or, should it become applicable, in a positively assessed central securities depository.

ANNEX 12 - EXAMPLES OF EUROSYSTEM MONETARY POLICY OPERATIONS AND PROCEDURES

List of examples

I EXAMPLE 1: LIQUIDITY-PROVIDING REVERSE TRANSACTION BY FIXED RATE TENDER

1. The ECB decides to provide liquidity to the market by means of a reverse transaction organised with a fixed rate tender procedure.

2. Three counterparties submit the following bids:

Counterparty	**Bid (EUR millions)**
Bank 1	30
Bank 2	40
Bank 3	70
Total	140

3. The ECB decides to allot a total of EUR 105 million.

4. The percentage of allotment is:

$$\frac{105}{(30+40+70)} = 75\,\%$$

5. The allotment to the counterparties is:

Counterparty	**Bid (EUR millions)**	**Allotment (EUR millions)**
Bank 1	30	22,5
Bank 2	40	30,0
Bank 3	70	52,5
Total	140	105,0

II EXAMPLE 2: LIQUIDITY-PROVIDING REVERSE TRANSACTION BY VARIABLE RATE TENDER

1. The ECB decides to provide liquidity to the market by means of a reverse transaction organised with a variable rate tender procedure.

2. Three counterparties submit the following bids:

	Amount (EUR millions)				
Interest rate (%)	**Bank 1**	**Bank 2**	**Bank 3**	**Total bids**	**Cumulative bids**
3,15				0	0
3,10		5	5	10	10
3,09		5	5	10	20
3,08		5	5	10	30
3,07	5	5	10	20	50
3,06	5	10	15	30	80
3,05	10	10	15	35	115
3,04	5	5	5	15	130
3,03	5		10	15	145
Total	30	45	70	145	

3. The ECB decides to allot EUR 94 million, implying a marginal interest rate of 3,05 %.

4. All bids above 3.05% (for a cumulative amount of EUR 80 million) are fully satisfied. At 3,05 % the percentage of allotment is:

$$\frac{94-80}{35} = 40\ \%$$

5. The allotment to Bank 1 at the marginal interest rate is, for example:

0,4 x 10 = 4

6. The total allotment to Bank 1 is:

5 + 5 + 4 = 14

7. The allotment results can be summarised as follows:

	Amount (EUR millions)			
Counterparties	**Bank 1**	**Bank 2**	**Bank 3**	**Total**
Total bids	30,0	45,0	70,0	145
Total allotment	14,0	34,0	46,0	94

8. If the allotment procedure follows a single rate (Dutch) auction, the interest rate applied to the amounts allotted to the counterparties is 3,05 %.

9. If the allotment procedure follows a multiple rate (American) auction, no single interest rate is applied to the amounts allotted to the counterparties; for example, Bank 1 receives EUR 5 million at 3,07 %, EUR 5 million at 3,06 % and EUR 4 million at 3,05 %.

III Example 3: Issuance of ECB debt certificates by variable rate tender

1. The ECB decides to absorb liquidity from the market by issuing debt certificates using a variable rate tender procedure.

2. Three counterparties submit the following bids:

	Amount (EUR millions)				
Interest rate (%)	**Bank 1**	**Bank 2**	**Bank 3**	**Total**	**Cumulative bids**
3,00				0	0
3,01	5		5	10	10

3,02	5	5	5	15	25
3,03	5	5	5	15	40
3,04	10	5	10	25	65
3,05	20	40	10	70	135
3,06	5	10	10	25	160
3,08	5		10	15	175
3,10		5		5	180
Total	55	70	55	180	

3. The ECB decides to allot a nominal amount of EUR 124,5 million, implying a marginal interest rate of 3,05 %.

4. All bids below 3,05 % (for a cumulative amount of EUR 65 million) are fully satisfied. At 3,05 % the percentage of allotment is:

$$\frac{124{,}5-65}{70} = 85\,\%$$

5. The allotment to Bank 1 at the marginal interest rate is, for example:

$$0{,}85 \text{ x } 20 = 17$$

6. The total allotment to Bank 1 is:

$$5 + 5 + 5 + 10 + 17 = 42$$

7. The allotment results can be summarised as follows:

	Amount (EUR millions)			
Counterparties	**Bank 1**	**Bank 2**	**Bank 3**	**Total**
Total bids	55,0	70,0	55,0	180,0
Total allotment	42,0	49,0	33,5	124,5

IV. EXAMPLE 4: LIQUIDITY-ABSORBING FOREIGN EXCHANGE SWAP BY VARIABLE RATE TENDER

1. The ECB decides to absorb liquidity from the market by executing a foreign exchange swap on the EUR/USD rate by means of a variable rate tender procedure. (Note: The euro is traded at a premium in this example.)

2. Three counterparties submit the following bids:

	Amount (EUR millions)				
Swap points (x 10 000)	**Bank 1**	**Bank 2**	**Bank 3**	**Total**	**Cumulative bids**
6,84				0	0
6,80	5		5	10	10
6,76	5	5	5	15	25
6,71	5	5	5	15	40
6,67	10	10	5	25	65
6,63	25	35	40	100	165
6,58	10	20	10	40	205
6,54	5	10	10	25	230
6,49		5		5	235
Total	65	90	80	235	

3. The ECB decides to allot EUR 158 million, implying 6,63 marginal swap points. All bids above 6,63 (for a cumulative amount of EUR 65 million) are fully satisfied. At 6,63 the percentage of allotment is:

$$\frac{158-65}{100} = 93\,\%$$

4. The allotment to Bank 1 at the marginal swap points is, for example:

$$0{,}93 \text{ x } 25 = 23{,}25$$

5. The total allotment to Bank 1 is:

$$5 + 5 + 5 + 10 + 23{,}25 = 48{,}25$$

6. The allotment results can be summarised as follows:

Amount (EUR millions)

Counterparties	Bank 1	Bank 2	Bank 3	Total
Total bids	65,0	90,0	80,0	235,0
Total allotment	48,25	52,55	57,20	158,0

7. The ECB fixes the spot EUR/USD exchange rate for the operation at 1,1300.

8. If the allotment procedure follows a single rate (Dutch) auction, at the start date of the operation the Eurosystem buys EUR 158 000 000 and sells USD 178 540 000. At the maturity date of the operation, the Eurosystem sells EUR 158 000 000 and buys USD 178 644 754 (the forward exchange rate is 1,130663 = 1,1300 + 0,000663).

9. If the allotment procedure follows a multiple rate (American) auction, the Eurosystem exchanges the amounts of euro and US dollars shown in the following table:

Spot transaction			**Forward transaction**		
Exchange rate	**Buy EUR**	**Sell USD**	**Exchange rate**	**Sell EUR**	**Buy USD**
1,1300			1,130684		
1,1300	10 000 000	11 300,000	1,130680	10 000 000	11 306 800
1,1300	15 000 000	16 950 000	1,130676	15 000 000	16 960 140
1,1300	15 000 000	16 950 000	1,130671	15 000 000	16 960 065
1,1300	25 000 000	28 250 000	1,130667	25 000 000	28 266 675
1,1300	93 000 000	105 090 000	1,130663	93 000 000	105 151 659
1,1300			1,130658		
1,1300			1,130654		
1,1300			1,130649		
Total	158 000 000	178 540 000		158 000000	178 645 339

a. EXAMPLE 5: LIQUIDITY-PROVIDING FOREIGN EXCHANGE SWAP BY VARIABLE RATE TENDER

1. The ECB decides to provide liquidity to the market by executing a foreign exchange swap on the EUR/USD rate by means of a variable rate tender procedure. (Note: The euro is traded at a premium in this example.)

2. Three counterparties submit the following bids:

	Amount (EUR millions)				
Swap points (x 10 000)	**Bank 1**	**Bank 2**	**Bank 3**	**Total**	**Cumulative bids**
6,23					
6,27	5		5	10	10
6,32	5		5	10	20
6,36	10	5	5	20	40
6,41	10	10	20	40	80
6,45	20	40	20	80	160
6,49	5	20	10	35	195
6,54	5	5	10	20	215
6,58		5		5	220
Total	60	85	75	220	

3. The ECB decides to allot EUR 197 million, implying 6,54 marginal swap points. All bids below 6,54 (for a cumulative amount of EUR 195 million) are fully satisfied. At 6,54 the percentage of allotment is:

$$\frac{197-195}{20}=10\,\%$$

4. The allotment to Bank 1 at the marginal swap points is, for example:

0,10 x 5 = 0,5

5. The total allotment to Bank 1 is:

5 + 5 + 10 + 10 + 20 + 5 + 0,5 = 55,5

6. The allotment results can be summarised as follows:

	Amount (EUR millions)			
Counterparties	**Bank 1**	**Bank 2**	**Bank 3**	**Total**
Total bids	60,0	85,0	75,0	220
Total allotment	55,5	75,5	66,0	197

7. The ECB fixes the spot EUR/USD exchange rate for the operation at 1,1300.

8. If the allotment procedure follows a single rate (Dutch) auction, at the start date of the operation the Eurosystem sells EUR 197 000 000 and buys USD 222 610 000. At the maturity date of the operation, the Eurosystem buys EUR 197 000 000 and sells USD 222 738 838 (the forward exchange rate is 1,130654 = 1,1300 + 0,000654).

9. If the allotment procedure follows a multiple rate (American) auction, the Eurosystem exchanges the amounts of euro and US dollars shown in the following table:

Spot transaction			**Forward transaction**		
Exchange rate	**Sell EUR**	**Buy USD**	**Exchange rate**	**Buy EUR**	**Sell USD**
1,1300			1,130623		
1,1300	10 000 000	11 300 000	1,130627	10 000 000	11 306 270
1,1300	10 000 000	11 300 000	1,130632	10 000 000	11 306 320
1,1300	20 000 000	22 600 000	1,130636	20 000 000	22 612 720
1,1300	40 000 000	45 200 000	1,130641	40 000 000	45 225 640
1,1300	80 000 000	90 400 000	1,130645	80 000 000	90 451 600
1,1300	35 000 000	39 550 000	1,130649	35 000 000	39 572 715
1,1300	2 000 000	2 260 000	1,130654	2 000 000	2 261 308
1,1300			1,130658		
Total	197 000 000	222 610 000		197 000 000	222 736 573

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 30 July 2014 and ending on 6 August 2014 where the counterparty is allotted EUR 50 million at an interest rate of 0,15%;

(b) a longer-term refinancing operation starting on 31 July 2014 and ending on 23 October 2014 where the counterparty is allotted EUR 45 million at an interest rate of 0,15%;

(c) a main refinancing operation starting on 6 August 2014 and ending on 13 August 2014 where the counterparty is allotted EUR 35 million at an interest rate of 0,15%.

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	Haircut
Asset A	UCITS compliant jumbo covered bond	30.8.2018	Fixed rate	6 months	4 years	2,50 %
Asset B	Central government bond	19.11.2018	Variable rate	12 months	4 years	0,50 %
Asset C	Corporate bond	12.5.2025	Zero coupon rate		> 10 years	13,00 %
Prices in percentages (including accrued interest) (*)						
30.7.2014	31.7.2014	1.8.2014	4.8.2014	5.8.2014	6.8.2014	7.8.2014
101,61	101,21	99,50	99,97	99,73	100,01	100,12
	98,12	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.

VI. EARMARKING SYSTEM

First, it is assumed that the transactions are carried out with an 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 30 July 2014, the counterparty enters into a repurchase transaction with the Bank, which purchases EUR 50,6 million of Asset A. Asset A is a UCITS compliant jumbo covered bond with a fixed coupon maturing on 30 August 2018 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 adjusted market value of which is EUR 50 129 294 on that day.

2. On 31 July 2014, the counterparty enters into a repurchase transaction with the Bank, 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 98,02%). Asset B is a central government bond with variable rate coupon payments and allocated to credit quality step 1-2, to which a 0,5% valuation haircut is applied. The adjusted market value of Asset A and Asset B on that day is EUR 45 130 098, thus exceeding the required amount of EUR 45 000 000.

3. On 31 July 2014, the assets underlying the main refinancing operation initiated on 30 July 2014 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 208.

4. On 1 August 2014, 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 417 on the main refinancing operation initiated on 30 July 2014 and EUR 188 on the longer-term refinancing operation initiated on 31 July 2014. As a result, the 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 912 092, but also below the lower trigger level of EUR 49 750 415. 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. The Bank may perform margin calls in cash rather than securities.

A margin call is also needed on the second transaction since the adjusted market value of the underlying assets used in this transaction (EUR 44 737 688) is below the lower trigger level (EUR 44 775 187). The counterparty therefore provides EUR 270 000 of Asset B with an adjusted market value of EUR 263 143.

5. On 4 and 5 August 2014, the underlying assets are revalued, without resulting in any margin call for the transactions entered into on 30 and 31 July 2014.

6. On 6 August 2014, the counterparty repays the liquidity provided under the main refinancing operation initiated on 30 July 2014, including the accrued interest of EUR 1 458. The Bank returns EUR 51 550 000 of Asset A in nominal value.

On the same day the counterparty enters into a new repurchase transaction with the Bank, which purchases EUR 75 million of Asset C in nominal value terms. Since Asset C is a zero coupon corporate bond with a residual maturity of more than ten years and allocated to credit quality step 1-2, requiring a valuation haircut of 13%, the corresponding haircut-adjusted market value on that day is of EUR 35 045 775. The revaluation of assets underlying the long-term refinancing operation initiated on 31 July 2014 reveals that the adjusted market value of the assets provided exceeds the upper trigger level and leads to the Bank returning EUR 262 000 of Asset B in nominal value to the counterparty. If a margin had to be paid to the counterparty by the Bank in relation to the second transaction, such a margin could, in certain cases, be netted out with the margin paid to the Bank by the counterparty in relation to the first transaction. As a result, there would only be one margin settlement.

VII. POOLING SYSTEM

1. 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.

2. 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 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 Bank. The margin call of EUR 1 174 592 occurring on 1 August 2014 is identical in this example to the one required in the earmarking system case. The counterparty delivers EUR 1 300 000 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.

3. Moreover, on 6 August 2014, when the main refinancing operation entered into on 30 July 2014 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 51,9 million of Asset A in nominal value are replaced with EUR 75,5 million of Asset C in nominal value to cover the liquidity provided and the accrued interest under all refinancing operations.

4. 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	Adjusted market value	Margin call
30.07.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	-	50 000 000	49 750 000	50 250 000	50 129 294	-
31.07.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	208	50 000 208	49 750 207	50 250 209	49 931 954	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	-	45 000 000	44 775 000	45 225 000	45 130 098	-
01.08.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	417	50 000 417	49 750 415	50 250 419	49 088 325	-912 092
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	188	45 000 188	44 775 187	45 225 188	44 737 688	-262 500
04.08.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	1 042	50 001 042	49 751 036	50 251 047	50 246 172	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	750	45 000 750	44 775 746	45 225 754	45 147 350	-
05.08.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	1 250	50 001 250	49 751 244	50 251 256	50 125 545	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	938	45 000 938	44 775 933	45 225 942	45 201 299	-

TABLE 2: EARMARKING SYSTEM

06.08.2014	Main refinancing	06.08.2014	13.08.2014	0,15	35 000 000	-	35 000 000	34 825 000	35 175 000	35 045 775	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	1 125	45 001 125	44 776 119	45 226 131	45 266 172	265 047
07.08.2014	Main refinancing	06.08.2014	13.08.2014	0,15	35 000 000	146	35 000 146	34 825 145	35 175 147	34 987 050	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	1 313	45 001 313	44 776 306	45 226 319	45 026 704	-

Date	Outstanding transactions	Start date	End date	Interest rate	Liquidity provided	Accrued interest	Total amount to be covered	Lower trigger amount*	Upper trigger amount**	Adjusted market value	Margin call
30.07.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	-	50 000 000	49 750 000	Not applicable	50 129 294	-
31.07.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	208	95 000 208	94 525 207	Not applicable	95 062 051	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	-					
01.08.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	417	95 000 604	94 525 601	Not applicable	93 826 013	- 1 174 592
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	188					
04.08.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	1 042	95 001 792	94 526 783	Not applicable	95 470 989	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	750					
05.08.2014	Main refinancing	30.07.2014	06.08.2014	0,15	50 000 000	1 250	95 002 188	94 527 177	Not applicable	95 402 391	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	938					

TABLE 3: POOLING SYSTEM

06.08.2014	Main refinancing	06.08.2014	13.08.2014	0,15	35 000 000	-	80 001 125	79 601 119	Not applicable	80 280 724	-
	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	1 125					
07.08.2014	Main refinancing	06.08.2014	13.08.2014	0,15	35 000 000	146	80 001 458	79 601 451	Not applicable	80 239 155	-
30.07.2014	Longer-term refinancing	31.07.2014	29.10.2014	0,15	45 000 000	1 313					

* 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.

** 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.

Pledge form for Marketable Assets

DEED OF PLEDGE - MARKETABLE SECURITIES

Date: ______________________________________

An Agreement Between:

[A] Central Bank of Malta }
Castille Place } hereinafter referred to as
Valletta } **"the Bank"**

And
[B] }
} hereinafter referred to as
} **"the pledgor"**
}

1. Interpretation

1.1 In this pledge:

(i) '***DIRECTIVE'*** *means:*
The Central Bank of Malta Directive No. 8 on Monetary Policy Instruments and Procedures.

(ii***) 'ELIGIBLE MARKETABLE SECURITIES'*** means:
Marketable securities assessed by the Bank in accordance with the eligibility criteria as defined in the Directive to be used as collateral for credit operations with the Bank.

(iii) **'*INDEBTEDNESS'*** means:

All the pledgor's present or future indebtedness to the Bank on any account held by the pledgor and represents the total monetary amounts advanced to the pledgor by the Bank, included in items 1, 2 and 3 below:

1) Any intraday credit provided by the Bank to the pledgor.
2) Any possible debit balance in accordance with the Standing Marginal Lending Facility.
3) Any liquidity provided to the pledgor by the Bank from open market operations conducted by the Bank on behalf of the Eurosystem.

2. The Pledge

2.1 In consideration of the Bank making available the monetary amounts described in clause 1.1 above to the pledgor, the pledgor, as beneficial owner, hereby declares to pledge in favour of the Bank as a continuing security all rights, title and interest in the eligible marketable securities transferred to the Bank, for the repayment and satisfaction on demand of all Indebtedness. All transactions related to Indebtedness are entered into in reliance on the consideration that this Pledge Agreement forms a single agreement between the Bank and the pledgor and are made in consideration of each other.

2.2 The pledgor represents and warrants that it is and shall remain the sole and beneficial owner of the eligible marketable securities, free from any other pledge, lien, security or other encumbrance. The pledgor undertakes that he will not assign, transfer, create, attempt to create, or permit to subsist any Pledge, lien, security or other encumbrance on or over any part of the eligible marketable securities pledged hereby except with the written consent of the Bank.

2.3 This Pledge shall:

2.3.1 be a continuing security, notwithstanding any fluctuation in the level of the Indebtedness;

2.3.2 remain binding on the pledgor notwithstanding any amalgamation, re-construction, re-organisation, merger, sale or transfer by or involving the

Bank or its assets and this Pledge and all rights conferred on the Bank may be assigned or transferred by the Bank accordingly;

2.3.3 be additional and without prejudice to any other securities which the Bank may hold from time to time.

2.4 In the case of a pledge over domestic eligible marketable securities listed on the Malta Stock Exchange plc, the Bank and the pledgor shall deliver a certified copy of the signed pledge agreement to the Malta Stock Exchange plc in accordance with article 122 of the Companies Act.

When an eligible domestic marketable security is pledged with the Bank for the purpose of providing collateral for the indebtedness mentioned in clause 1 above, the details of the security must be communicated by the pledgor to the Bank in the format and communication means as described in the procedures for collateral management specified in the Annex. Regarding the cross-border use of pledged collateral, the transfer of collateral is done according to the correspondent central bank model, as described in the procedures for collateral management specified in this Annex.

2.5 The Malta Stock Exchange plc shall be notified of the pledge agreement by means of a letter as provided subsequent to this pledge agreement.

2.6 Save as provided in this paragraph, any coupon or redemption payments of assets pledged with the Bank shall be received by the Bank which will forward to the pledgor by means of a TARGET2 payment on the same day that such payments are received by the Bank. In the event of a margin call requirement on the pool of collateral (as referred in clause 3 below) of the pledgor, any coupon or redemption payments as referred above received on or after the day when such margin call is made shall be withheld by the Bank until the margin call amount is cancelled through the provision of additional collateral or cash as required by the Bank.

2.7 The Bank shall forward to the pledgor any corporate action notification, including pre-notification of coupon payment or redemption payment, deriving from assets pledged with the Bank, on the same day that such notification is received, in the case of cross-border collateral, from the central bank of the country where the Central Securities Depository is located (correspondent central bank) or, in the case of domestic collateral, from the Malta Stock Exchange CSD.

3. Security Margin

If at any time the value of the pool of eligible securities pledged with the Bank falls below the total amount of claims granted by the Bank to the pledgor, the pledgor shall on demand, and at the sole discretion of the Bank, either pay to the Bank an amount in cash or alternatively provide further securities to make up for the required margin call, as specified in the Directive.

4. Remedies of default

If the pledgor shall fail to discharge any Indebtedness on demand or shall fail to comply with any obligation to the Bank, without prejudice to any other rights which the bank may have, the Bank may forthwith (as well before as after demand) proceed according to law for liquidation and sale of the assets pledged with the Bank.

5. Set Off and Conversion

5.1 In addition to any rights mentioned in clause 4 and any similar express or implied rights, the Bank may at any time, as continuous right, without notice or demand:

5.1.1 set-off against the pledgor's obligation hereunder any money in any account of the pledgor with the Bank, or otherwise held by the Bank on behalf of the pledgor; and

5.1.2 combine and consolidate all or any accounts of the pledgor with the Bank.

5.2 The provisions of this clause shall apply in those cases where the pledgor is the borrower or where the pledgor is also a surety for the borrower.

6. Close-out upon Default

Without prejudice to the provisions of article 17(7) of the Central Bank of Malta Act (Cap. 204), upon the occurrence of an event of default in relation to an indebtedness of the pledgor with the Bank, the Bank may accelerate and terminate all outstanding transactions with the pledgor. The Bank shall appropriate or sell the eligible marketable securities pledged with the Bank and shall calculate the value of those securities either at the value provided for those securities in accordance with Eurosystem (CEPH) prices or at the actual price obtained for their transfer. The calculations of the Bank shall be made available upon request to the pledgor. The Bank shall set-off the value of the eligible marketable securities against the aggregate value of the outstanding obligations of the pledgor and may deduct any transaction costs and other expenses incurred or likely to be incurred, including any interest for late payment in accordance with applicable market conventions, and thereafter shall return any excess eligible marketable securities or the monetary equivalent thereof to the pledgor.

7. In the event that any of the eligible marketable securities are realised during the currency of this continuing pledge, the pledgor hereby irrevocably grants his consent for all proceeds emanating from realisation to be paid to the Bank and be retained by the Bank on his account.

8. The Bank may release or make any arrangement which it deems fit with regard to anything forming the security of the pledgor, and the pledgor hereby renounces to any possible defence which he may have in this regard.

Furthermore, for all intents and purposes, the pledgor renounces to any plea of discussion.

9. Any notice to the pledgor whether by way of request, demand or otherwise shall be deemed served if sent by SWIFT authenticated message or through the post at

the address appearing hereon unless a change of address is advised in writing to the Bank by pledgor.

Signed on this day, the ________________________ of the year ______________.

_________________________ _________________________

Pledgor **Bank**

To: Malta Stock Exchange plc Date ________________________

Garrison Chapel

Castille Place

Valletta

Dear Sir,

The Central Bank of Malta and **INSERT NAME OF COUNTERPARTY**, hereby notify the Malta Stock Exchange plc that, in accordance with this pledge agreement signed between them on ________________________, any interest payments falling due on any interest-bearing eligible marketable securities which are subject to this pledge agreement during the tenor of the pledge shall be received by the Central Bank of Malta.

______________________________ ______________________________

for Central Bank of Malta for Counterparty

<u>Pledge form for Credit Claims</u>

PLEDGE OVER CREDIT CLAIMS

Date: ___________________________________

An Agreement Between:

[A] Central Bank of Malta }

Castille Place } hereinafter referred to as

Valletta } **“the Bank”**

And

[B] }

} hereinafter referred to as

} **“the pledgor**”

}

2. <u>Interpretation</u>

5.1 In this pledge:

i) ***‘CREDIT CLAIMS’*** means:

Non-marketable assets granted by the pledgor which meet the eligibility criteria and other legal requirements defined in the Bank’s Directive to be used as collateral for credit operations with the Bank.

ii) ‘***DIRECTIVE’*** means:

The Central Bank of Malta Directive No.8 on Monetary Policy Instruments and Procedures.

iii) *‘**INDEBTEDNESS’** means:*

All the pledgor's present or future indebtedness to the Bank on any account held by the pledgor and represents the total monetary amounts advanced to the pledgor by the Bank, included in items 1, 2, and 3 below:

1) Any intraday credit provided by the Bank to the pledgor.
2) Any possible debit balance in accordance with the Standing Marginal Lending Facility.
3) Any liquidity provided to the pledgor by the Bank from open market operations conducted by the Bank on behalf of the Eurosystem.

2. <u>The Pledge</u>

2.1 In consideration of the Bank making available the monetary amounts described in clause 1.1 above to the pledgor, the pledgor, as beneficial owner, hereby declares to pledge in favour of the Bank as a continuing security all rights, title on the eligible credit claims transferred to the Bank, for the repayment and satisfaction on demand of all Indebtedness. All transactions related to Indebtedness are entered into in reliance on the consideration that this Pledge Agreement forms a single agreement between the Bank and the pledgor and are made in consideration of each other.

2.2 The pledgor represents and warrants to the Bank that it is and shall remain the sole and beneficial owner of the credit claim, free from any other pledge, lien, security or other encumbrance.

2.3 The pledgor undertakes that it will not assign, transfer, create, and attempt to create, or permit to subsist any Pledge, lien, security or other encumbrance on or over any part of the credit claim, pledged hereby except with the written consent of the Bank.

2.4 The pledgor hereby undertakes that, during the subsistence of this Agreement:

2.4.1 it shall cooperate with the Bank and sign or cause to be signed further documents and take such further action as the Bank may from time to time request to perfect and preserve the pledges or to exercise its rights under this Agreement; and

2.4.2 it shall act in good faith and not knowingly take any step nor do anything which could adversely affect the existence of the pledge created

2.5 This pledge shall:

2.5.1 Be a continuing security, notwithstanding any fluctuation in the level of the Indebtedness and shall not be considered as satisfied or discharged or prejudiced by any intermediate payment, satisfaction or settlement of any part of the Indebtedness;

2.5.2 Remain binding on the pledgor notwithstanding any amalgamation, re-construction, re-organisation, merger, sale or transfer by or involving the Bank or its assets and the Pledge and all rights conferred on the Bank may be assigned or transferred by the Bank accordingly;

2.5.3 Be additional and without prejudice to any other securities which the Bank may hold from time to time.

2.6 The pledgor shall notify the original debtor that the credit claim shall be mobilised and that a pledge was created to the Bank.

2.7 The pledgor is obliged to adhere to any other legal and operational requirements as specified in the Directive.

3. <u>Security Margin</u>

If at any time the value of the pool of eligible assets pledged with the Bank falls below the total amount of claims granted by the Bank to the pledgor, the pledgor shall on demand, and at the sole discretion of the Bank, either pay to the Bank an amount in cash or alternatively provide further assets to make up for the required margin call, as specified in the Directive.

4. Remedies on default

If the pledgor shall fail to discharge any Indebtedness on demand or shall fail to comply with any obligation to the Bank, without prejudice to any other rights which the Bank may have, the Bank may forthwith proceed according to law for the liquidation and realisation of the credit claim.

5. Set Off and Conversion

5.1 In addition to any rights mentioned in clause 4 and any similar express or implied rights, the Bank may at any time, as continuous right, without notice or demand:

5.1.1 set-off against the pledgor's obligation hereunder any money in any account of the pledgor with the Bank, or otherwise held by the Bank on behalf of the pledgor; and

5.1.2 combine and consolidate all or any accounts of the pledgor with the Bank.

5.2 The provisions of this clause shall apply in those cases where the pledgor is the borrower or where the pledgor is also a surety for the borrower.

6. Close-out upon Default

Without prejudice to the provisions of article 17(7) of the Central Bank of Malta Act (Cap. 204), upon the occurrence of an event of default in relation to an indebtedness of the pledgor with the Bank, the Bank may accelerate and terminate all outstanding transactions with the pledgor. The Bank shall appropriate or sell the credit claims pledged with the Bank and shall calculate the value of those claims either in accordance with the Eurosystem valuation policy or at the actual price obtained for their transfer. The calculations of the Bank shall be made available upon request to the pledgor. The Bank shall set-off the value of the credit claims against the aggregate value of the outstanding obligations of the pledgor and may deduct any transaction costs and other expenses incurred or likely to be incurred, including any interest for late payment in accordance with applicable market conventions, and thereafter shall return any excess credit claims or the monetary equivalent thereof to the pledgor.

7. In the event that any of the credit claims are realised during the currency of this continuing pledge, the pledgor hereby irrevocably grants his consent for all proceeds emanating from redemption to be paid to the Bank and be retained by the Bank on his account.

8. The Bank may release or make any arrangement which it deems fit with regard to anything forming the security of the pledgor, and the pledgor hereby renounces to any possible defence which he may have in this regard.

   Furthermore, for all intents and purposes, the pledgor renounces to any plea of discussion.

9. Any notice to the pledgor whether by way of request, demand or otherwise shall be deemed served if sent by SWIFT authenticated message or through the post at the address appearing hereon unless a change of address is advised in writing to the Bank by pledgor.

Signed on this day, the __________________________ of the year ______________.

________________________   ________________________

Pledgor   **Bank**

<u>Forms for Participation in Eurosystem Open Market Operations</u>

Main Refinancing Operations Form

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Main Refinancing Operations

Counterparty Bid Submission

Standard Tender
Reverse Transactions

Date	
Counterparty Name	
Tender Reference Number	

Number		Amount in EUR		Interest Rate (% to 2 decimals)

Total Amount Bid:	

Maximum offered interest rate:	
Minimum offered interest rate:	

Stamp & authorised signature

Name in block letters

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Main Refinancing Operations

Counterparty Bid Submission

Standard Tender
Reverse Transactions

Date	
Counterparty Name	Bank A
Tender Reference Number	20070008

Insert the name of your organisation.

Insert the reference number of the tender operation in which you want to participate (to be found in the Eurosystem tender announcement).

Number		Amount in EUR		Interest Rate (% to 2 decimals)
1		2,000,000		3.10
2		24,000,000		3.08
3		60,000,000		3.07

In a variable rate tender, enter your bids in the list (up to 10 bids), filling in the amount bid expressed in millions and the interest rate quotation with a maximum of two decimals. Bids must be listed in diminishing order of offered interest rate.
In a fixed rate tender, enter only the total bid amount.

Total Amount Bid:	86,000,000

Maximum offered interest rate:	3.10%
Minimum offered interest rate:	3.07%

Fill in the minin[imum] and the maxim[um] interest rate bid.

Insert the total bid amount submitted by your organisation.

Stamp & authorised signature

Name in block letters

Longer-Term Refinancing Operations Form

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Longer-Term Refinancing Operations
Counterparty Bid Submission

Standard Tender
Reverse Transactions

Date	
Counterparty Name	
Tender Reference Number	

Number		Amount in EUR		Interest Rate (% to 2 decimals)

Total Amount Bid	

Maximum offered interest rate:	
Minimum offered interest rate:	

Stamp & authorised signature

Name in block letters

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Longer-Term Refinancing Operations
Counterparty Bid Submission

Standard Tender
Reverse Transactions

Date	
Counterparty Name	Bank A
Tender Reference Number	20070008

Insert the name of your organisation.

Insert the reference number of the tender operation in which you want to participate (to be found in the Eurosystem tender announcement).

Number		Amount in EUR		Interest Rate (% to 2 decimals)
1		2,000,000		3.10
2		24,000,000		3.08
3		60,000,000		3.07

Enter your bids (up to 10 bids) in the list filling in the amount bid expressed in millions and the interest rate quotation with a maximum of two decimals. Bids must be listed in diminishing order of offered interest rate.
In a fixed rate tender, enter only the total bid amount.

Total Amount Bid:	86,000,000

Maximum offered interest rate:	3.10%
Minimum offered interest rate:	3.07%

Insert the total bid amount submitted by your organisation.

Fill in the minimum and the maximum interest-rate bid.

Stamp & authorised signature

Name in block letters

Structural Operations Form

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Structural Operations

Counterparty Bid Submission

Standard Tender
Reverse Transactions

Date	
Counterparty Name	
Tender Reference Number	

Number		Amount in EUR		Interest Rate (% to 2 decimals)

Total Amount Bid	

Maximum offered interest rate:	
Minimum offered interest rate:	

Stamp & authorised signature

Name in block letters

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Structural Operations

Counterparty Bid Submission

Standard Tender
Reverse Transactions

Date	
Counterparty Name	Bank A
Tender Reference Number	20070008

Insert the name of your organisation.

Insert the reference number of the tender operation in which you want to participate (to be found in the Eurosystem tender announcement).

Number	Amount in EUR	Interest Rate (% to 2 decimals)
1	2,000,000	3.10
2	24,000,000	3.08
3	60,000,000	3.07

In a variable rate tender, enter your bids in the list, filling in the amount bid expressed in millions and the interest rate quotation with a maximum of two decimals. Bids must be listed in diminishing order of offered interest rate.
In a fixed rate tender, enter only the total bid amount.

Total Amount Bid	86,000,000

Insert the total amount submitted by your organisation.

Maximum offered interest rate:	3.10%
Minimum offered interest rate:	3.07%

Fill in the minimum and maximum interest rate bid.

Stamp & authorised signature

Name in block letters

Fine-Tuning Operations Reverse Transactions Form

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Fine-Tuning Operations

Counterparty Bid Submission

Quick Tender
Reverse Transactions

Date	
Counterparty Name	
Tender Reference Number	

Number		Amount in EUR		Interest Rate (% to 2 decimals)

Total Amount Bid	

Maximum offered interest rates:
Minimum offered interest rates:

Stamp & authorised signature

Name in block letters

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Fine-Tuning Operations

Counterparty Bid Submission

Quick Tender
Reverse Transactions

Date	
Counterparty Name	Bank A
Tender Reference Number	20070008

Insert the name of your organisation.

Insert the reference number of the tender operation in which you want to participate (to be found in the Eurosystem tender announcement).

Number	Amount in EUR	Interest Rate (% to 2 decimals)
1	2,000,000	3.10
2	24,000,000	3.08
3	60,000,000	3.07

In a variable rate tender, enter your bids in the list (up to 10 bids), filling in the amount bid expressed in millions and the interest rate quotation with a maximum of two decimals.
Bids must be listed in diminishing order of offered interest rate when fine-tuning operations are executed in the form of liquidity-providing.
Bids must be listed in increasing order of offered interest rate when fine-tuning operations are executed in the form of liquidity-absorbing.
In a fixed rate tender, enter only the total bid amount.

Total Amount Bid	86,000,000

Maximum offered interest rates:	3.10%
Minimum offered interest rates:	3.07%

Fill in the minimum and the maximum interest rate bid.

Insert the total bid amount submitted by your organisation.

Stamp & authorised signature

Name in block letters

Fine-Tuning Operations Fixed-Term Deposits Form

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Fine-Tuning Operations

Counterparty Bid Submission

Quick Tender
Fixed-term deposits

Date	
Counterparty Name	
Tender Reference Number	

Number		Amount in EUR		Interest Rate (% to 2 decimals)

Total Amount Bid	

Maximum offered interest rate:	
Minimum offered interest rate:	

Stamp & authorised signature

Name in block letters

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Fine-Tuning Operations

Counterparty Bid Submission

Quick Tender
Fixed-term deposits

Date	
Counterparty Name	Bank A
Tender Reference Number	20070008

Insert the name of your organisation.

Insert the reference number of the tender operation in which you want to participate (to be found in the Eurosystem tender announcement).

Number		Amount in EUR		Interest Rate (% to 2 decimals)
1		2,000,000		3.07
2		24,000,000		3.08
3		60,000,000		3.10

In a variable rate tender, enter your bids in the list (up to 10 bids), filling in the amount bid expressed in millions and the interest rate quotation with a maximum of two decimals. Bids must be listed in increasing order of offered interest rates since collection of fixed-term deposits are used for liquidity-absorbing operations.
In a fixed rate tender, enter only the total bid amount.

Total Amount Bid	86,000,000

Insert the total bid amount submitted by your organisation.

Maximum offered interest rate:	3.10%
Minimum offered interest rate:	3.07%

Fill in the minimum and maximum interest rate bid

Stamp & authorised signature

Name in block letters

Fine-Tuning Operations Foreign Exchange Swaps Form

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Fine-Tuning Operations

Counterparty Bid Submission

Quick Tender
Foreign Exchange Swaps

Date	
Counterparty Name	
Tender Reference Number	

Number		Fixed-currency amount		Swap points (to 6 decimals)

Total Amount Bid	

Maximum offered swap point:	
Minimum offered swap point:	

Stamp & authorised signature

Name in block letters

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Eurosystem Fine-Tuning Operations

Counterparty Bid Submission

Quick Tender
Foreign Exchange Swaps

Insert the name of your organisation.

Date	
Counterparty Name	Bank A
Tender Reference Number	20070008

Insert the reference number of the tender operation in which you want to participate (to be found in the Eurosystem tender announcement).

Number		Fixed-currency amount		Swap points (to 6 decimals)
1		2,000,000		0.002450
2		24,000,000		0.002550
3		60,000,000		0.002650

In a variable rate tender, enter your bids in the list (up to 10 bids), filling in the amount bid expressed in millions and the swap point quotation with a maximum of six decimals. Bids must be listed in increasing order of swap point quotations when foreign exchange swaps are used as liquidity-providing operations.
Bids must be listed in diminishing order of offered swap point quotations when foreign exchange swaps are used as liquidity-absorbing operations.

In a fixed rate tender enter only the total amount bid.

Total Amount Bid	86,000,000

Fill in the total bid amount submitted by your organisation

Maximum offered swap point:	0.002650
Minimum offered swap point:	0.002450

Fill in th
minimum
and the
maximum
swap poi
bid.

Stamp & authorised signature

Name in block letters

Settlement procedures for Credit Operations

Settlement procedures in connection with monetary policy operations

Table 1: Provision of Liquidity

Instrument	**Type of transaction**	**Mode of settlement**	**Deadline for payment**	**Confirmation of trade**
Open Market Operations:				
Main refinancing operation	Reverse transactions	TARGET2 payment	2.00 pm (T+1)	SWIFT or fax
Longer-term refinancing operation	Reverse transactions	TARGET2 payment	2.00 pm (T+1)	SWIFT or fax
Fine-tuning operation	Reverse transactions Foreign exchange swaps	TARGET2 payment. TARGET2 payment (EUR) against settlement account (non-euro currency).	Note 1 Note 2	SWIFT or fax SWIFT or fax
Structural operations	Reverse transactions Outright purchases	TARGET2 payment. TARGET2 payment	2.00 pm (T+1) 2.00 pm (T+1)	SWIFT or fax SWIFT or fax
Standing Facility:				
Marginal lending facility	Overnight reverse transactions	Settlement in the Reserve Requirement Account	Note 3	SWIFT or fax
		TARGET2 payment	Note 4	SWIFT or fax

Notes:

1. The payment deadline for fine-tuning operations in reverse transactions is 1.30 hrs after the announcement of the tender results.
2. The payment deadline for fine-tuning operations in foreign exchange swaps is 6.00 pm for TARGET2 payments and the correspondent bank cut-off time for the non-euro currency, if this is earlier than 6.00pm.

3. The payment deadline for the marginal lending facility both by counterparty's request or by automatic recourse is 6.15pm (on the last day of the reserve maintenance period the deadline is 6.30pm).
4. For counterparties which are direct or indirect TARGET2 participants, the payment cut-off time is 6.00pm

Table 2: Absorption of Liquidity

Instrument	Type of transaction	Mode of settlement	Deadline for receipt of payment	Confirmation of trade
Open Market Operations:				
Fine-tuning operation	Reverse transactions	TARGET2 payment.	Note 1	SWIFT or fax
	Collection of fixed-term deposits	TARGET2 payment.		SWIFT or fax
	Foreign exchange swaps	TARGET2 payment (EUR) against settlement account (non-euro currency).	Note 2	SWIFT or fax
Structural operation	Issuance of ECB debt certificates	TARGET2 payment/ by debit of reserve requirement account	10.30 am (T+2)	Note 5
	Outright sales	TARGET2 payment	2.00 pm (T+1)	SWIFT or fax
Standing Facility:				
Deposit facility	Overnight deposits	By debit of the Reserve Requirement Account	Note 3	SWIFT or fax
		TARGET2 payment	Note 4	

Notes:

1. The payment deadline for fine-tuning operations in reverse transactions is 1.30 hrs after the announcement of the tender results.

2. The payment deadline for fine-tuning operations in foreign exchange swaps is 6.00 pm for TARGET2 payments and the correspondent bank cut-off time for the non-euro currency, if this is earlier than 6.00pm.
3. The payment deadline for overnight deposits settled via debit of the reserve requirement account is 6.15pm (6.30pm for the last day of the reserve maintenance period).
4. For access to overnight deposit facility when the counterparty is a direct or indirect TARGET2 participant, till 6.00pm.
5. Not applicable for primary market issuance.

Table 3: Settlement responsibilities

The Bank settles all monetary policy operations via a TARGET2 payment, taking into consideration the following settlement classification of the counterparties:

Counterparty Category	***Level of payment finality***	***The Bankand the Counterparty agree that:***
Direct participant in TARGET2	Payment finality up to receipt by direct participant	The Bankhas fulfilled its payment obligations towards the counterparty when the account of the counterparty as direct participant in TARGET2 is credited.
Indirect participant in TARGET2	Payment finality up to receipt by indirect participant	The Bank has fulfilled its payment obligations towards the counterparty when the account of the direct TARGET2 participant representing the counterparty in TARGET2 is credited.
Target2 addressable BIC holder	No payment finality for counterparty through TARGET2	The Bankhas fulfilled its payment obligations towards the counterparty when the account of the direct TARGET2 participant , representing the counterparty is credited.
Correspondent bank account holder	No payment finality for counterparty through TARGET2	The Bankhas fulfilled its payment obligations towards the counterparty when the account of the direct TARGET2 participant, representing the correspondent bank of counterparty is

		credited.

The Bank undertakes to settle the cash transactions due to its counterparties by the deadlines mentioned in tables 1 and 2 and according to the settlement instructions of counterparties. The Bank shall not assume responsibility for any problems related to such cash settlements, such as settlement delays or failures, which are not due to any faults or negligence on the part of the Bank.

Counterparties are responsible to settle their cash payments due to the Bank from the liquidity absorption operation or the repayment of a liquidity injection operation in its direct TARGET2 settlement account by 2.00pm on settlement date (unless otherwise indicated in tables 1 and 2). Counterparties shall assume responsibility for all damages suffered by the Bank resulting from cash settlement delays, incorrect settlement or settlement failures.

Procedures for Collateral Management

The Bank primarily uses the pooling with pledge system for its collateral management function. This means that the Bank will have a pool of collateral for each counterparty, which can include any eligible domestic and foreign marketable and non-marketable assets that will cover the counterparty's total collateral requirement.

A counterparty's total collateral requirement consists of the combined requirements for open market operations transacted with the Bank and the marginal lending facility including interest thereon; and the intraday overdraft amount with the Bank. In the pooling system, the individual collateral assets are not linked to specific credit operations. The pool will cover all the credits granted by the Bank including the intraday overdraft limit.

In calculating the total collateral value of the pool at its disposal, the Bank takes into account the applicable valuation haircuts, depending on the residual maturity, credit quality, coupon structure and liquidity category of the underlying assets as specified in Part 4, Title VI.

The Bank will on a daily basis compare the counterparty's value of the pool of assets against the total amount of claims granted by the Bank. In this way, the Bank will ensure that the counterparty's pool has adequate collateral to cover all its commitments.
If the sum of the Bank's claims against an individual counterparty exceeds the value of its pool of collateral, the Bank will contact the counterparty to increase the pool with additional collateral or to provide additional cash i.e. conducts a margin call. The Bank will notify the counterparty of the required margin call via e-mail.

<u>Procedures for the use of domestic marketable assets as collateral</u>

A counterparty wishing to include marketable assets in the pool of collateral must ensure that the pledge form on marketable assets has been signed.

To pledge collateral in favour of the Bank, the counterparty will send a Receive Free instruction (MT540) to the Bank (see Annex 13). The counterparty will transmit this information to the Bank via SWIFT or, in exceptional circumstances, by fax on fax number

+ 356 21 247 487 and backed by a phone call on + 356 2550 3609 (fax/call-back). Simultaneously, the counterparty will send a Deliver Free instruction (MT542) to the Malta Stock Exchange (see Annex 13) via SWIFT or in exceptional circumstances by means of fax. Once the Bank receives the confirmation from the Malta Stock Exchange that the collateral has been pledged in favour of the Bank, the Bank will include the collateral in the counterparty's pool.

For same day settlement of collateral, i.e. inclusion of the collateral in the counterparty's pool on the date of delivery of the instruction, the counterparty must submit the instructions to the Malta Stock Exchange and the Bank by 4.00 pm. Any instructions received after 4.00 pm will be rejected.

After the assets are included in the pool of collateral, the value of the pool increases by the value of those assets (adjusted for valuation haircuts).

A counterparty may withdraw marketable assets from the pool of collateral. To withdraw collateral from the pool, the counterparty will send a Deliver Free instruction (MT542) to the Bank (see Annex 13) by 4.00pm. The counterparty will transmit this information to the Bank via SWIFT or else by fax in exceptional circumstances on fax number +356 21 247 487 and backed by a phone call on +356 2550 3609 (fax/call-back). Any instructions received by the Bank after 4.00pm will be rejected. Simultaneously, the counterparty will send a Receive Free instruction (MT540) to the Malta Stock Exchange[3] (see Annex 13).
In effect, the Malta Stock Exchange will register the withdrawal of the asset, once the Bank confirms that it has accepted the withdrawal of the asset from the pool of collateral. Once the Bank receives the security movement confirmation (MT546) from the Malta Stock Exchange, the Bank will exclude collateral from the counterparty's pool of collateral and reduce the counterparty's credit line accordingly.

If the removal of the collateral from the pool will cause the value of the counterparty's pool to decrease below the sum of the Bank's claims against the counterparty, the Bank will reject the withdrawal of the collateral from the pool. In this case, the Bank will send a

[3] The counterparty will send the Receive Free instruction to the Malta Stock Exchange via SWIFT or in exceptional circumstances by means of fax.

notification to the counterparty by SWIFT MT548 (Settlement Status Instruction) or else by fax.

If a marketable asset has matured or else becomes ineligible (because it failed to meet the eligibility criteria or because it is already collateralised), the Bank will immediately exclude it from the pool of collateral. The Bank will inform the counterparty by e-mail of the removal of the assets from the pool. However, if the removal of the collateral from the pool will cause the value of the counterparty's pool to decrease below the sum of the Bank's claims against the counterparty, the Bank will inform the counterparty to provide additional collateral.

Marketable assets are valued by the Bank on a daily basis in the morning. The Bank applies valuation principles as described in Article 134. If the valuation results in a collateral shortfall in a counterparty's pool, a margin call will be required. As a result, the counterparty must cover the shortfall without delay after being so informed by the Bank immediately via e-mail.

Procedures for the use of foreign marketable assets as collateral

The correspondent central bank model (CCBM) has been developed to ensure that eligible marketable assets issued in other Member States can be used to collateralise open market operations, marginal lending facility and intraday credit. Under the CCBM, national central banks act as correspondents and custodians for each other.

To deliver foreign eligible marketable assets through the CCBM as collateral with the Bank, the counterparty must instruct the Bank by means of SWIFT MT540 (Receive Free Instruction) or in exceptional circumstances by fax on fax number +356 21 247 487 and backed by a phone call + 356 2550 3609 (fax /call) (See Annex 13). Simultaneously, the counterparty must instruct the foreign Securities Settlement System (SSS) to transfer the security to the collateral account maintained by the correspondent central bank [(CCB) (foreign national central bank)] on behalf of the Bank. The counterparty may opt to use its foreign custodian for delivering the collateral.

Once the Bank is informed by the CCB that a transfer has been completed, the assets can be considered as pledged with the Bank and hence added to the counterparty's pool of collateral. When the collateral is included in the pool, the value of the pool increases by the value of those assets (adjusted for valuation haircuts).

To utilise foreign marketable assets as collateral through the CCBM, the counterparty must submit the transfer instruction between 9.00am and 4.00pm. Instructions received after 4.00pm will be rejected.

The counterparty may withdraw foreign marketable assets from the pool of collateral. The counterparty must instruct the Bank by means of SWIFT MT542 (Deliver Free Instruction) or in exceptional circumstances by fax on fax number +356 21 247 487 and backed by a phone call +356 2550 3609 (fax/call-back) (See Annex 13). Simultaneously, the counterparty will also instruct the foreign SSS or the foreign custodian to transfer the asset from the account of the Bank to its account. The cut-off time for the receipt by the Bank of the counterparty's instruction is 4.00pm. Any instructions received after 4.00pm will be rejected.

Once the Bank receives the security movement confirmation (MT546) from the Correspondent Central Bank, the Bank will exclude the security from the counterparty's pool of collateral and adjust the counterparty's credit line accordingly.

If the removal of the collateral from the pool will cause the value of the counterparty's pool to decrease below the sum of the Bank's claims against the counterparty, the Bank will reject the withdrawal of the collateral from the pool. In this case, the Bank will send a notification to the counterparty by SWIFT MT548 or fax.

If a marketable asset has matured or else becomes ineligible (because it failed to meet the eligibility criteria or because it is already collateralised), the Bank will immediately exclude it from the pool of collateral. The Bank will inform the counterparty by e-mail of the removal of the assets from the pool. However, if the removal of the collateral from the pool will cause the value of the counterparty's pool to decrease below the sum of the Bank's claims against the counterparty, the Bank will inform the counterparty to provide additional collateral.

Foreign marketable assets are valued by the Bank on a daily basis in the morning.

The Bank applies valuation principles as described in Article 134. If the valuation results in a collateral shortfall in a counterparty's pool, a margin call will be required. As a result, the counterparty must cover the shortfall without delay after being so informed by the Bank immediately via e-mail.

SWIFT Messages to be used for Marketable Assets

RECEIVE FREE INSTRUCTION for Marketable Assets

MT540 TEMPLATE		
Sending BIC:	BIC of counterparty	
Receiving BIC:	MALTMTMT	
MANDATORY SEQ A - GENERAL INFO		
16R	start of block	**GENL**
20C	sender's ref	**SEME//***reference number*
23G	function of msg	**NEWM**
MANDATORY SEQUENCE A1 - LINKAGES		
16R	start of block	**LINK**
20C	reference	**RELA//**NEW
16S	end of block	**LINK**
16S	end of block	**GENL**
MANDATORY SEQUENCE B - TRADE DETAILS		
16R	start of block	**TRADDET**
98A	settlement date	**SETT//**yyyymmdd
98A	trade date	**TRAD//**yyyymmdd
35B	security ID	**ISIN**
CONDITIONAL MANDATORY SUBSEQUENCE B1 - FINANCIAL INSTRUMENT ATTRIBUTES		
16R	start of block	**FIA**
11A	currency of denomination	**DENO//**EUR
16S	end of block	**FIA**
END OF SEQUENCE B - TRADE DATE		

16S	end of block	**TRADDET**
MANDATORY SEQUENCE C - FINANCIAL INSTRUMENT/ACCOUNT		
16R	start of block	**FIAC**
36B	quantity of security	**SETT//FAMT//,**
97A	security account to be credited	**SAFE**//*account number*
16S	end of block	**FIAC**
MANDATORY SEQUENCE E - SETTLEMENT DETAILS		
16R	start of block	**SETDET**
22F	indicator	**SETR//**COLL
REPETATIVE MANDATORY SUBSEQUENCE E1 - SETTLEMENT PARTIES		
16R	start of block	**SETPRTY**
95P	counterparty	**SELL//***BIC*
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	receiving agent	**DEAG//***BIC* (1)
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	receiving intermediary	**DECU//***BIC* (1)
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	place of settlement	**PSET//***BIC*
16S	end of block	**SETPRTY**
END OF SEQUENCE E - SETTLEMENT DETAILS		
16S	end of block	**SETDET**
Notes regarding the message fields:		
23G	Mandatory Sequence A	**CANC** should be used for cancellation
20C	Mandatory Sequence A1	**PREV//***previous reference number* (only used for cancellation)
97A	Mandatory Sequence C	Where the security account is not available the following codes should be used:
		SAFE//PLEDGE *(for a pledge)*
		SAFE//OWN *(for a repo)*
22F	Mandatory Sequence E	Other code used: **SETR//**REPU *(for repo trades)*

95P	Repetitive Mandatory Subsequence E1	The delivering intermediary is used only if counterparty is not a direct client of the delivering agent
(1) The field content should reflect the market practice of the relevant CSD. In the case of domestic securities, only the BIC should be included in these fields. E.g. 95P: DEAG//XMALMTMT.		

RECEIVE FREE INSTRUCTION for Marketable Assets	
FAX TEMPLATE *(1)*	
<u>Sender Details</u>	<u>Recipient Details</u>
Name:	Name:
Fax number	Fax number:
<u>Instruction Details</u>	
Sender's reference	
Function of message	NEW or CANCELLATION
Related reference (2)	
Settlement date	yyyymmdd
Trade date	yyyymmdd
Security ISIN	
Currency of denomination	EUR
Quantity of security	
Security account to be credited	
Collateral technique	PLEDGE or REPO
BIC of sender	
BIC of delivering agent	
BIC of delivering intermediary (3)	
BIC of place of settlement	
(1) Under normal circumstances the counterparty should sent the instruction by SWIFT MT540.	
In exceptional circumstances, a counterparty may send this instruction by fax /call-back on fax number +356 21 247 487. The counterparty should, without delay, notify the Bank by phone of the fax instruction.	
(2) The previous reference number should only be included in case the function of the message is a cancellation.	
(3) The delivering intermediary is used only if counterparty is not a direct client of the delivering agent.	

DELIVER FREE INSTRUCTION for Marketable Assets

MT542 TEMPLATE		
Sending BIC:	BIC of counterparty	
Receiving BIC:	MALTMTMT	
MANDATORY SEQ A - GENERAL INFO		
16R	start of block	**GENL**
20C	sender's ref	**SEME//***reference number*
23G	function of msg	**NEWM**
MANDATORY SEQUENCE A1 - LINKAGES		
16R	start of block	**LINK**
20C	reference	**RELA//**NEW
16S	end of block	**LINK**
16S	end of block	**GENL**
MANDATORY SEQUENCE B - TRADE DETAILS		
16R	start of block	**TRADDET**
98A	settlement date	**SETT//**yyyymmdd
98A	trade date	**TRAD//**yyyymmdd
35B	security ID	**ISIN**
CONDITIONAL MANDATORY SUBSEQUENCE B1 - FINANCIAL INSTRUMENT ATTRIBUTES		
16R	start of block	**FIA**
11A	currency of denomination	**DENO//**EUR
16S	end of block	**FIA**
END OF SEQUENCE B - TRADE DATE		
16S	end of block	**TRADDET**
MANDATORY SEQUENCE C - FINANCIAL INSTRUMENT/ACCOUNT		
16R	start of block	**FIAC**
36B	quantity of security	**SETT//FAMT//,**
97A	security account to be debited	**SAFE//***account number*

16S	end of block	**FIAC**	
MANDATORY SEQUENCE E - SETTLEMENT DETAILS			
16R	start of block	**SETDET**	
22F	indicator	**SETR**//COLL	
REPETATIVE MANDATORY SUBSEQUENCE E1 - SETTLEMENT PARTIES			
16R	start of block	**SETPRTY**	
95P	counterparty	**BUYR**//*BIC*	
16S	end of block	**SETPRTY**	
16R	start of block	**SETPRTY**	
95P	delivering agent	**REAG**//*BIC*[1]	
16S	end of block	**SETPRTY**	
16R	start of block	**SETPRTY**	
95P	delivering intermediary	**RECU**//*BIC*[1]	
16S	end of block	**SETPRTY**	
16R	start of block	**SETPRTY**	
95P	place of settlement	**PSET**//*BIC*	
16S	end of block	**SETPRTY**	
END OF SEQUENCE E - SETTLEMENT DETAILS			
16S	end of block	**SETDET**	
Notes regarding the message fields:			
23G	Mandatory Sequence A	**CANC** should be used for cancellation	
20C	Mandatory Sequence A1	**PREV**//*previous reference number* (only used for cancellation)	
97A	Mandatory Sequence C	Where the security account is not available the following codes should be used:	
		SAFE//PLEDGE *(for a pledge)*	
		SAFE//OWN (*for a repo)*	
22F	Mandatory Sequence E	Other code used:	**SETR**//REPU *(for repo trades)*
95P	Repetitive Mandatory Subsequence E1	The receiving intermediary is used only if counterparty is not a direct client of the receiving agent.	
(1) The field content should reflect the market practice of the relevant CSD. In the case of domestic securities, only the BIC should be included in these fields. E.g. 95P: REAG//XMALMTMT.			

DELIVER FREE INSTRUCTION for Marketable Assets	
FAX TEMPLATE *(1)*	
Sender Details	Recipient Details
Name:	Name:
Fax number	Fax number:
Instruction Details	
Sender's reference	
Function of message	NEW or CANCELLATION
Related reference (2)	
Settlement date	yyyymmdd
Trade date	yyyymmdd
Security ISIN	
Currency of denomination	EUR
Quantity of security	
Security account to be debited	
Collateral technique	PLEDGE or REPO
BIC of sender	
BIC of receiving agent	
BIC of receiving intermediary (3)	
BIC of place of settlement	
Footnotes:	
(1) Under normal circumstances the counterparty should sent the instruction by SWIFT MT542.	
In exceptional circumstances, a counterparty may send this instruction by fax /call-back on fax number +00 356 21 247487. The counterparty should, without delay, notify the Bank by phone of the fax instruction.	
(2) The previous reference number should only be included in case the function of the message is a cancellation.	
(3) The receiving intermediary is used only if counterparty is not a direct client of the receiving agent.	

Procedures for the use of domestic credit claims as collateral

The Bank has developed the procedures for managing domestic credit claims, in accordance with the requirements inherent in the Maltese legislation and its operating environment. In fact, in submitting credit claims as collateral that are subject to Maltese law, counterparties must comply with the following procedures as defined by the Bank.

Procedures prior to the use of credit claims as collateral

- To use credit claims as collateral, the counterparty must sign the pledge agreement for credit claims as specified in Annex 13.

- The counterparty should notify the Bank one-month beforehand with its intention to use credit claims as collateral. This one-month notification is only used when the counterparty is going to use credit claims for the first time. Notification should be done by means of a letter as specified in Annex 13 and submitted by email and subsequently by mail. This notice period is necessary so that the Bank ensures that the counterparty is well informed with the procedures established by the Bank for credit claims. During this period, the Bank will ensure that the counterparty has all the necessary forms and documentation. The Bank will also have enough time to assist the counterparty in filling in the forms and to conduct any testing with the counterparty if deemed necessary. Unless, the ECAF source or system chosen by the counterparty has already been submitted to the Bank, the counterparty must submit the chosen ECAF source or system at the moment the counterparty submits the letter specified in Annex 13 with its intention to use credit claims as collateral.

- The counterparty is responsible to give the debtor, ex ante notification for its use of credit claims as collateral for central bank credit operations. Once the debtor acknowledges ex ante notification, the counterparty will submit the confirmation of the ex ante notification document to the Bank by email and subsequently by mail.

- The counterparty should also submit to the Bank, the credit claim contract which can be either an original copy or a certified version of the document. The contract will be kept at the Bank for the duration that the credit claim is pledged as collateral. This document can be delivered by the counterparty either physically or else through registered mail. The counterparty must enclose any payment schedules and other schedules which are deemed necessary for the Bank.

- The counterparty must provide details of the credit claims to the Bank in the form specified in Annex 13. This form specifies the information required on each credit claim.

  This schedule will be submitted to the Bank by e-mail and subsequently by mail. The Bank does not permit the counterparty to submit only part of the credit claim as collateral. This means that the full amount of the credit claim submitted to the Bank will be included in the collateral pool of the counterparty.

Use of credit claims as collateral

Once the Bank has all the necessary above-mentioned documentation on day T, the Bank is responsible for conducting eligibility checks on these credit claims. Eligibility checks of the credit claims should be processed within one business day[4] i.e.T+1.

Following the eligibility assessment of the credit claim, if the credit claim fulfils all the eligibility criteria, the Bank will confirm the acceptance of the credit claim to the counterparty (as specified in Annex 13). If the credit claim does not fulfil the eligibility criteria, the Bank will also inform the counterparty giving reasons underlying such a decision (as specified in Annex 13). In both instances, the Bank will inform the counterparty via e-mail and subsequently by mail.

On T+2, the counterparty whose assets have been assessed as eligible will instruct the Bank by means of SWIFT MT540 (Receive Free Instruction for credit claims) or in exceptional circumstances by fax on fax number +356 21 247 487 and backed by a phone call +356 2550 3609 (fax/call-back) (see Annex13) to include the credit claim in the pool of collateral. The counterparty should send the instruction by 12 noon. Instructions received after 12 noon may be processed in the following business day.

Following the inclusion in the pool of collateral, the Bank will value the credit claims on a daily basis in the morning. The Bank will also monitor the credit claims on a daily basis. The Bank applies the outstanding amount of the credit claim for valuation purposes.

[4] This time limit does not apply to the assessment of creditworthiness of the debtor, as performed by the NCBs ICAS.

The counterparty has the responsibility to inform the Bank whenever changes in the credit claim details occur. The changes can include early, partial or full repayments i.e. other payments that are not included in the payment schedule submitted by the counterparty with the credit claim contract. Other changes can also include changes in the debtors' creditworthiness or material changes in the conditions of the credit claim. The counterparty notifies the Bank by using the form attached in Annex 13 by filling in the section 'type of operation' with 'updates of characteristics of credit claims' and sending it to the Bank by e-mail and subsequently by mail.. If a change concerning one debtor affects more than one credit claim used as collateral, the counterparty must update the details of all such credit claims.

If the counterparty wishes to withdraw a credit claim from the pool of collateral (not due to a repayment), it must inform the Bank by filling in the template attached in Annex 13 and fill in the section removal of credit claim. The counterparty will send this template by e-mail and subsequently by mail. The counterparty will also instruct the Bank by means of SWIFT MT542 (Deliver Free Instruction for credit claims) or in exceptional circumstances by fax on fax number +356 21 247 487 and backed by a phone call on +356 2550 3609 (fax/call-back) (see Annex 13) to exclude the credit claim from the pool of collateral. The counterparty should send the instruction by 12 noon. Instructions received after 12 noon may be processed in the following business day. Once the Bank receives the instruction from the counterparty, the Bank will exclude the credit claim from the counterparty's pool. If the removal of the credit claim from the pool will cause the value of the counterparty's pool to decrease below the sum of the Bank's claims against the counterparty, the Bank will reject the withdrawal of the credit claim from the pool. In this case, the Bank will send a notification to the counterparty by SWIFT MT548 or mail.

If a credit claim becomes ineligible, the Bank will immediately exclude it from the pool of collateral. The Bank will inform the counterparty by e-mail of the removal of the credit claim from the pool of collateral. However, if the removal of the credit claim from the pool will cause the value of the counterparty's pool to decrease below the sum of the Bank's claims against the counterparty, the Bank will request the counterparty to supply additional collateral.

Verifications of the existence of and details of credit claims

The Bank will verify the existence and details of credit claims submitted as collateral, in accordance with Eurosystem rules as follows:

- The Bank will send to the counterparty a quarterly summary of credit claims it has submitted as collateral by e-mail and subsequently by mail. The counterparty must check the information, sign the accompanying certification as attached in Annex 13 and return it to the Bank by e-mail and subsequently by mail.
- The Bank will from time to time verify, through random checks the accuracy and timeliness of details of credit claims submitted as collateral. The Bank will notify the counterparty in advance of such investigation visits.

Procedures for the use of foreign credit claims as collateral

The counterparty may also use as collateral, credit claims that are governed by the law of a euro area Member State other than Malta. These foreign credit claims may be used as collateral according to the CCBM described in Part 4, Title IX. The central bank of the country whose law governs the credit claim will act as correspondent central bank (CCB).

In the case of cross-border use of credit claims, the detailed procedures applied in each country are defined by the CCB in compliance with the country's legal requirements. If a Maltese counterparty uses foreign credit claims as collateral, the counterparty must deliver the information required by the CCB.

If credit claims are granted to foreign debtors, even though they are subject to Maltese law, their use as collateral may require specific measures under foreign legislation. In such cases, the central bank of the country where the debtor is located acts as an assisting central bank and provides, as necessary, information on additional measures that may be required under the legislation of the country concerned.

Each Eurosystem national central bank has issued Terms and Conditions to be observed by foreign counterparties whenever such central bank assumes the role of a CCB or assisting central bank. In order to use credit claims as collateral that are governed by the law of a euro area Member State other than Malta or credit claims that have been granted to debtors located in euro area Member State other than Malta, counterparties can access the Terms and Conditions published by the NCBs when acting as CCB or assisting central bank on their respective websites (see Annex 13) and on the ECB's website (www.ecb.europa.eu). When the Bank is acting as a HCB, the counterparty should also submit a copy of the static data requested by the CCB. Such static data is to be sent via e-mail and subsequently by mail. .

SWIFT Messages to be used for Credit Claims

RECEIVE FREE INSTRUCTION for Credit Claims

(A) MT540 TEMPLATE		
Sending BIC:	BIC of counterparty	
Receiving BIC:	MALTMTMT *(1)*	
MANDATORY SEQ A - GENERAL INFO		
16R	start of block	**GENL**
20C	sender's ref	**SEME**//*reference number*
23G	function of msg	**NEWM**
MANDATORY SEQUENCE A1 - LINKAGES		
16R	start of block	**LINK**
20C	reference	**RELA**//NEW
16S	end of block	**LINK**
16S	end of block	**GENL**
MANDATORY SEQUENCE B - TRADE DETAILS		
16R	start of block	**TRADDET**
98A	settlement date	**SETT**//yyyymmdd
98A	trade date	**TRAD**//yyyymmdd
35B	security ID	**LOAN** *Loan identification number*
		DEBT *Debtor's identification number*
CONDITIONAL MANDATORY SUBSEQUENCE B1 - FINANCIAL INSTRUMENT ATTRIBUTES		
16R	start of block	**FIA**
11A	currency of denomination	**DENO**//EUR
16S	end of block	**FIA**

END OF SEQUENCE B - TRADE DATE		
16S	end of block	**TRADDET**
MANDATORY SEQUENCE C - FINANCIAL INSTRUMENT/ACCOUNT		
16R	start of block	**FIAC**
36B	quantity of security	**SETT//FAMT//,**
97A	security account to be credited	**SAFE**//*account number*
16S	end of block	**FIAC**
MANDATORY SEQUENCE E - SETTLEMENT DETAILS		
16R	start of block	**SETDET**
22F	indicator	**SETR//**COLL
REPETATIVE MANDATORY SUBSEQUENCE E1 - SETTLEMENT PARTIES		
16R	start of block	**SETPRTY**
95P	counterparty	**SELL//***BIC of the counterparty*
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	receiving agent	**DEAG//***BIC of the counterparty*
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	place of settlement	**PSET//***BIC*
16S	end of block	**SETPRTY**
END OF SEQUENCE E - SETTLEMENT DETAILS		
16S	end of block	**SETDET**
Notes regarding the message fields:		
23G7	Mandatory Sequence A	**CANC** should be used for cancellation
20C	Mandatory Sequence A1	**PREV//***previous reference number* (only used for cancellation)
36 B	Mandatory Sequence C	The outstanding amount of the credit claim should be included
97A	Mandatory Sequence C	The pledge account number held by the counterparty with Central Bank of Malta should be included in this field.

95P	Mandatory Subsequence E1	The BIC of the central bank of the country where the governing law of the credit claim applies should be included in the PSET field (see List of BICs of National Central Banks (see Appendix to this Annex))

RECEIVE FREE INSTRUCTION for Credit Claims (B) FAX TEMPLATE (1)	
Sender Details	Recipient Details
Name:	Name:
Fax number	Fax number:
Instruction Details	
Sender's reference	
Function of message	NEW or CANCELLATION
Related reference (2)	
Settlement date	yyyymmdd
Trade date	yyyymmdd
Loan identification number	
Debtor's identification number	
Currency of denomination	EUR
Credit claim amount to be pledged (3)	
Security account to be credited (4)	
Collateral technique	PLEDGE
BIC of sender	
BIC of place of settlement (5)	
Footnotes:	
(1) Under normal circumstances the counterparty should sent the instruction by SWIFT MT540. In exceptional circumstances, a counterparty may send this instruction by fax /call-back on fax number + 356 21 247487. The counterparty should, without delay, notify the Bank by phone of the fax instruction.	
(2) The previous reference number should only be included in case the function of the message is a cancellation.	
(3) The outstanding amount of the credit claim should be included.	
(4) The pledge account number held by the counterparty with Central Bank of Malta should be included.	

(5) The BIC of the central bank of the country where the governing law of the credit claim applies should be included in the place of settlement field.

DELIVER FREE INSTRUCTION for Credit Claims

(A) MT542 TEMPLATE		
Sending BIC:	BIC of counterparty	
Receiving BIC:	MALTMTMT *(1)*	
MANDATORY SEQ A - GENERAL INFO		
16R	start of block	**GENL**
20C	sender's ref	**SEME//***reference number*
23G	function of msg	**NEWM**
MANDATORY SEQUENCE A1 - LINKAGES		
16R	start of block	**LINK**
20C	reference	**RELA//**NEW
16S	end of block	**LINK**
16S	end of block	**GENL**
MANDATORY SEQUENCE B - TRADE DETAILS		
16R	start of block	**TRADDET**
98A	settlement date	**SETT//**yyyymmdd
98A	trade date	**TRAD//**yyyymmdd
35B	security ID	**LOAN** *Loan identification number*
		DEBT *Debtor's identification number*
CONDITIONAL MANDATORY SUBSEQUENCE B1 - FINANCIAL INSTRUMENT ATTRIBUTES		
16R	start of block	**FIA**
11A	currency of denomination	**DENO//**EUR
16S	end of block	**FIA**

END OF SEQUENCE B - TRADE DATE		
16S	end of block	**TRADDET**
MANDATORY SEQUENCE C - FINANCIAL INSTRUMENT/ACCOUNT		
16R	start of block	**FIAC**
36B	quantity of security	**SETT//FAMT//,**
97A	security account to be debited	**SAFE**//*account number*
16S	end of block	**FIAC**
MANDATORY SEQUENCE E - SETTLEMENT DETAILS		
16R	start of block	**SETDET**
22F	indicator	**SETR//**COLL
REPETATIVE MANDATORY SUBSEQUENCE E1 - SETTLEMENT PARTIES		
16R	start of block	**SETPRTY**
95P	counterparty	**BUYR//***BIC of the counterparty*
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	receiving agent	**REAG//***BIC of the counterparty*
16S	end of block	**SETPRTY**
16R	start of block	**SETPRTY**
95P	place of settlement	**PSET//***BIC*
16S	end of block	**SETPRTY**
END OF SEQUENCE E - SETTLEMENT DETAILS		
16S	end of block	**SETDET**
Notes regarding the message fields:		
23G	Mandatory Sequence A	**CANC** should be used for cancellation
20C	Mandatory Sequence A1	**PREV//***previous reference number* (only used for cancellation)
36B	Mandatory Sequence C	This field should include either (i) the outstanding amount of the credit claim (when a counterparty withdraws the credit claim from its pool of collateral) or (ii) the part of the credit claim amount repaid (if this is not included in the Credit Claim Payments Schedule).
97A	Mandatory Sequence C	The pledge account number held by the counterparty with Central Bank of Malta should be included in this field.

95P	Mandatory Subsequence E1	The BIC of the central bank of the country where the governing law of the credit claim applies should be included in the PSET field (see List of BICs of National Central Banks (Appendix to Ann

DELIVER FREE INSTRUCTION for Credit Claims (B) FAX TEMPLATE (1)	
Sender Details	Recipient Details
Name:	Name:
Fax number	Fax number:
Instruction Details	
Sender's reference	
Function of message	NEW or CANCELLATION
Related reference (2)	
Settlement date	yyyymmdd
Trade date	yyyymmdd
Loan identification number	
Debtor's identification number	
Currency of denomination	EUR
Credit claim amount to be withdrawn (3)	
Credit claim amount repaid (4)	
Security account to be debited (5)	
Collateral technique	PLEDGE
BIC of sender	
BIC of place of settlement (6)	
Footnotes:	
(2) Under normal circumstances the counterparty should sent the instruction by SWIFT MT542. In exceptional circumstances, a counterparty may send this instruction by fax /call-back on fax number +356 21 247487. The counterparty should, without delay, notify the Bank by phone of the fax instruction.	
(2) The previous reference number should only be included in case the function of the message is a cancellation.	
(3) The outstanding amount of the credit should be included (when a counterparty withdraws the credit claim from its pool of collateral).	
(4) The part of the credit claim amount repaid (if this is not included in the credit claim payment schedule).	

(5) The pledge account number held by the counterparty with Central Bank of Malta should be included.
(6) The BIC of the central bank of the country where the governing law of the credit claim applies should be included in the place of settlement field.

Letter for using Credit Claims

[Headed Paper of Credit Institutions]

Monetary Operations & Collateral Management
Market Operations Directorate
Central Bank of Malta
Castille Place
Valletta VLT1060

[Please insert date]

Dear Sir/Madam

Kindly note that [name of the counterparty] intends to use credit claims as collateral for Eurosystem credit operations under the collateral management framework established by the ECB.

Yours sincerely

[Signed by an authorised person]

General Application Form for the Selection of the Credit Assessment Source or System

Name of the counterparty: ____

Address of the counterparty: ____

MFI ID: ____

Date of the request: ____

Requested information on the credit assessment source or system selection:

Type of selection:

First selection: ☐ Yearly change: ☐

Ad hoc change: ☐

Credit assessment source:

External Credit Assessment Institutions (ECAI): ☐

In-house Credit Assessment systems (ICAS): ☐
(The CBM currently does not provide ICASs)

Counterparties' Internal Rating Based System (IRB): ☐

Third-party providers' rating tools (RT): ☐

Name of credit assessment system: ____

Type of credit assessment source/system:

Main: ☐ Additional: ☐

Reasons for the additional credit assessment source/system (details to be enclosed in a separate document):

Requested information on the credit assessment source/system change:

Name of the changed credit assessment source/system: ________________________

Reasons for the change of credit assessment source/system (details to be enclosed in a separate document):

____

Signature of the counterparty's authorised person:	**Name in Block Letters of the counterparty's authorised person:**

Instructions for completion

- **MFI code** : See PDF file on the ECB website:

- **Type of selection:** the counterparty can select one of the following:
  - **First selection:** the first selection of the credit assessment source or system
  - **Yearly change:** a change of the credit assessment source or system after the period of previous use for one year or more
  - **Ad hoc change:** a change of the credit assessment source or system in the period of use of less than one year.

- **Credit assessment source:** the counterparty need to select the chosen credit assessment source.

- **Name of credit assessment system:** the counterparty must indicate the name of the chosen credit assessment system in the credit assessment source:
  - In case of ECAI, there is no need for the name of the system since all eligible ECAIs can be used;
  - In case of ICAS, the national central bank of the mentioned ICAS need to be stated;
  - In case of IRB, the name of the IRB system should be provided;
  - In case of RT, the name of the RT and the name of the RT provider need to be stated.

- **Type of credit assessment system/source:** the counterparty need to select if the credit assessment system is main or additional. The counterparty can select only one main credit assessment source or system. However, the counterparty can select an additional credit assessment source or system upon submission of a reasoned request.

- **Reasons for the additional credit assessment source/system:** In case of additional credit assessment source or system, the counterparty should give reasons for the additional credit assessment source or system.

Requested information on the credit assessment system/source change

This section need to be filled out in case of a change in the credit assessment source/system after the period of use of more than one year.

- **Name of the changed credit assessment source/system:** the counterparty should submit the name of the changed credit assessment source/system.

- **Reasons for the change of credit assessment source/system:** the counterparty should describe the reasons for such a change.

Application Letter for Internal Rating Based Systems (IRBs)

[Headed Paper of Credit Institution]

Monetary Operations and Collateral Management Office
Market Operations Directorate Central Bank of Malta
Castille Place
Valletta VLT 1060

Date:

[Name of credit institution] would like to apply to use its IRB system as a primary credit assessment source under the Eurosystem Credit Assessment Framework.

In this regard, the following documents are attached:

- A copy of the decision of the Malta Financial Services Authority or any other relevant banking supervisory authority within the EU authorising [name of credit institution] to use its IRB system for capital requirements purposes on a consolidated or unconsolidated basis, together with any specific conditions for such use.

- Information on the approach to assigning probabilities of default to debtors as well as data on the rating grades and associated one year probabilities of default used to determine eligible rating grades.

- A copy of the Pillar 3 (market discipline) information that is required to be published on a regular basis in accordance with the requirements on market discipline under Pillar 3 of the Basel II framework and the Capital Requirements Directive.

- The name and address of both the relevant banking supervisory authority and the external auditor.

[Name of credit institution] confirms the ability and willingness to comply with any monitoring and reporting requirements set out in the Central Bank of Malta's Documentation on Monetary Policy Instruments and Procedures.

Signed:

CEO, CFO or manager of similar authority
(or an authorised signatory on behalf of them)

Internal Rating-based System Application Form

CA source:	**IRB**
From	**Counterparty**
To	**NCB**
Timing	**First application for IRB system and whenever relevant changes occur**
Format	**Spreadsheet, text template**
Information	
Name of counterparty	
MFI ID	
Supervisor's approval	
Type of IRB	
Risk model description	
Classification of Rating Buckets (RBs)	
Brief description of the risk associated to each RB	
One-year average estimated PDs associated PDs associated with each RB	

Rating Tools (RT) Application Form

Request for RT acceptance		
CA source		RT
From		Counterparty
To		NCB (will forward a copy to the ECB)
Frequency		For initial endorsement + ad hoc[5]
Requested information		
Name of counterparty		
MFI ID		
Country to be covered		
Exposure category to be covered		
Co-endorsing and monitoring institution(s)		
RT	Name of the RT (product name)	
	Model coverage:	
	Geographic, class of debtors	
	Min/max turnover of rated companies	
	Definitions:	
	Definition of default	
	Probability of default	
	Model description (should cover at least):*	
	• General description of methodology underlying the RT, econometric model • Data and information sources • Data input • Frequency of rating updates • Classification of the rating buckets (RB); • Brief description of the risk associated with each RB; • 1 Y PD estimate assigned to each RB; • Number of rated obligors per RB at the date of the last PD update; • Cumulative default rates for the last 3 years for each RB • Simplified transmission matrix for the last year • Overruling; frequency of occurrence, general handling	
	Model validation (should cover at least):* Validation concept;	

[5] A request for RT acceptance must be filed by the counterparty when it applies for the acceptance of a certain RT for ECAF purposes for the first time and, subsequently, each time material changes occur with respect to RT (e.g. methodology, database, etc), the RT provider, the counterparty specifics or the collateral submission policy (e.g. intended submission of previously not submitted exposure categories as collateral).

	Regular validation procedures; Validation results (including back-testing results for particular consideration of the respective country for which endorsement is requested; results for particular consideration of the exposure categories which the counterparty plans to pledge as collateral	
	RBs envisaged as eligible	
RT Provider	RT provider's name, address, contacts	
	Information on the RT provider:*	
	Organisation (group structure: affiliation <--> organisational independence); economic independence; resource; economic, technical, know-how	
	First year of RT provision	
	Number of customers (structured according to regional relevance to the RT provider's business)*	
	Yearly turnover (structured according to regional relevance to the RT provider's business)*	
	Was the RT provider's agreement obtained for the endorsement of its RT for ECAF purposes?[6]	

* If appropriate, the counterparties need not submit all of the requested details themselves, but may refer the Eurosystem to the RT provider for purposes of obtaining this information directly.

[6] The RT provider must have declared its willingness to support the RT acceptance and to cooperate with the Eurosystem in an appropriate manner. The requirement of cooperation extends from the acceptance phase to the operating phase (including monitoring).

Acceptance of Application for the Credit Assessment Source or System

The Central Bank of Malta today [insert the date] confirms the selection of the following credit assessment source or system chosen by the counterparty:

Name of counterparty: ____

Address of counterparty: ____

____

____

MFI ID: ____

Date of the request (application): _________________________________

Credit assessment source/system: __________________________________

Period for use:____

Signature of the Central Bank of Malta's authorised person:	Name in Block Letters of the Central Bank of Malta's authorised person:

Denial of Application for the Credit Assessment Source or System

The Central Bank of Malta informs you that today [insert the date] your application for the choice of the credit assessment source/system *(name of the system/source)* ____

____, dated *(date of the application)* ____received from *(name and address of the counterparty)*____

____has been denied.

The reasons for the denial of the application are the following:

____

____

____

Signature of the Central Bank of Malta's authorised person:	Name in Block Letters of the Central Bank of Malta's authorised person:

Confirmation of the Acceptance of the Credit Claim

Subject: Notification to the counterparty of the acceptance of the credit claim to be used as collateral with the Central Bank of Malta.

Counterparty officials: ____

Address: ____

Tel No: ____

Date (dd/mm/yyyy): ____

Today, the Central Bank of Malta has accepted the credit claim submitted by the counterparty on the ______________________________ as eligible according to the eligibility criteria specified in the Central Bank of Malta Directive No.8 on the Documentation on Monetary Policy Instruments and Procedures. The counterparty is required to submit an instruction to the Bank to include the credit claim in the pool of collateral as specified in the above-mentioned documentation. Consequently, the counterparty can use the credit claim as collateral for Eurosystem credit operations.

Credit Claim Characteristics:

Credit Claim Identification Number (assigned by the Central Bank of Malta): ____

Value Assigned (in euro, after deduction of haircuts): ____

Debtor Name: ____

Debtor Identification Number (assigned by the Central Bank of Malta):

____

Guarantor Name: ____

Guarantor Identification Number (assigned by the Central Bank of Malta):

____

Signature of the Central Bank of Malta's authorised person	**Signature of the Central Bank of Malta's authorised person**

Rejection of the Credit Claim

Subject: Notification to the counterparty of the rejection of the credit claim to be used as collateral with the Central Bank of Malta.

Counterparty officials: ____

Address: ____

Tel No: ____

Date (dd/mm/yyyy): ____

Today, ____________________the Central Bank of Malta has decided not to accept the credit claim submitted by the counterparty on the ____________________. Consequently, the counterparty cannot use such credit claim as collateral for Eurosystem credit operations. The reasons for such rejection are the following:

____

____

____

____

Signature of the Central Bank of Malta's authorised person	**Signature of the Central Bank of Malta's authorised person**

Template on static data on credit claims[7]

Counterparty details	To be completed by the counterparty	Instructions for completion
Credit institution name		Official name of the counterparty
Credit institution address		Address of the counterparty
Credit institution telephone number		Tel No of the counterparty
Credit institution fax number		Fax No of the counterparty
Credit institution ID		MFI code
File submission details		
Submission date		dd/mm/yyyy
Type of operation		a) For initial submission b) Update of characteristics of the credit claim c) Withdrawal of the credit claim
Credit claims details		
Credit claim identification number		**Generated by the Central Bank of Malta**
Date of the credit claim agreement		dd/mm/yyyy
Governing law of the credit claim agreement		ISO country code of the country whose law governs the credit claim agreement
Outstanding amount		Full amount in euros
Currency		Euros
Date of maturity		dd/mm/yyyy
Type of interest		a) Fixed rate b) Variable rate

[7] All details are mandatory.
Furthermore, irrespective of the fact that a credit claim fulfils all eligibility criteria, a counterparty must not submit as collateral any credit claim for which it, or any other entity which it has close links, is the debtor or guarantor.

		c) Variable with adjustment period of more than one year
Syndicated loan		Yes/No
Debtor details		
Debtor name		Official name of the debtor
Debtor street and number		Address of the debtor
Debtor postal code and city		Code and city
Country of location		ISO country code
Debtor telephone number		Tel No of the debtor
Debtor fax number		Fax No of the debtor
Debtor identification number		**Generated by the Central Bank of Malta**
Debtor corporate sector		a) Central government b) Other general government c) Corporation (non-financial, non-insurance)
Debtor PSE class		PSE 1 (assessed as being equivalent to Central government) PSE 2 (assessed as being one credit quality step below the Central government) PSE 3 (treated as a private sector issuer or debtor)
Guarantor details		
Guarantor name		Official name of the guarantor
Guarantor street and number		Address of the guarantor
Guarantor postal code and city		Postal code and city
Country of location		ISO country code
Guarantor telephone number		Telephone number of the guarantor
Guarantor fax number		Fax number of the guarantor

Guarantor identification number		**Generated by the Central Bank of Malta**
Guarantor corporate sector		a) Central government b) Other general government c) Corporation (non-financial, non-insurance)
Guarantor PSE class		PSE 1 (assessed as being equivalent to Central government) PSE 2 (assessed as being one credit quality step below the Central government) PSE 3 (treated as a private sector issuer or debtor)
Credit assessment		
Credit assessment source		a)ECAI b)IRB c)ICAS d)RT
Credit assessment system		System name, according to the source mentioned above
PD%/Credit rating		PD or rating class according to the source mentioned above
Credit assessment date		dd/mm/yyyy (the most recent date of the credit assessment)

Signature of the counterparty's authorised person:	**Name in Block Letters of the counterparty's authorised person:**

Verification of Credit Claims

[Headed Paper of Credit Institution]

Monetary Operations & Collateral Management
Market Operations Directorate
Central Bank of Malta
Castille Place
Valletta VLT1060

[Date – to be submitted on the first working day of every quarter]

Dear Sir/Madam

We confirm that all credit claims submitted by *[name of the credit institution]* to the Central Bank of Malta as collateral for Eurosystem credit operations comply with the eligibility criteria outlined in the Central Bank of Malta Directive No.8 on the Documentation on Monetary Policy Instruments and Procedures.

Additionally, we confirm and warrant that no credit claim submitted as an underlying asset is being simultaneously used as collateral to the benefit of any third party and undertake that we shall not mobilise any credit claim as collateral to any third party.

We also confirm and warrant to communicate to the Central Bank of Malta immediately by not later than within the course of the next business day any event which materially affects the actual contractual relationship between us and the Central Bank of Malta, in particularly early, partial or total repayments, downgrades and material changes in the conditions of the credit claim.

____

Signed by an authorised person

ANNEX 14– ADDITIONAL TEMPORARY MEASURES RELATING TO EUROSYSTEM REFINANCING OPERATIONS AND ELIGIBILITY OF COLLATERAL

1. Additional measures relating to refinancing operations and eligible collateral

The rules for the conduct of Eurosystem monetary policy operations and the eligibility criteria for collateral laid down in this Annex shall apply in conjunction with the other provisions of the Directive.

In the event of any discrepancy between this Annex and the other provisions of the Directive, the former shall prevail. The CBM shall continue to apply all provisions of the Directive unaltered unless otherwise provided for in this Annex.

For the purposes of paragraphs 6(1) and 8 of this Annex, the Hellenic Republic and the Republic of Cyprus shall be considered euro area Member States compliant with a European Union/International Monetary Fund programme.

2. Option to reduce the amount of, or terminate or longer-term refinancing operations

The Eurosystem may decide that, under certain conditions, counterparties may reduce the amount of, or terminate, certain longer-term refinancing operations before maturity (such reduction of the amount or termination hereinafter also collectively referred to as 'early repayment'). The tender announcement shall specify whether the option to reduce the amount of, or terminate, the operations in question before maturity applies, as well as the date from when such option may be exercised. This information may alternatively be provided in another format deemed appropriate by the Eurosystem.

A counterparty may exercise the option to reduce the amount of, or terminate, longer-term refinancing operations before maturity by notifying the Bank of the amount it intends to repay under the early repayment procedure, as well as of the date on which it intends to make such early repayment, at least one week in advance of that early repayment date. Unless otherwise specified by the Eurosystem, an early repayment may be effected on any day that coincides with the settlement day of a Eurosystem main refinancing operation, provided that the counterparty makes the notification referred to in this paragraph at least one week in advance.

The notification referred to above shall become binding on the counterparty one week before the early repayment date it refers to. Failure by the counterparty to settle, in full or in part, the amount due under the early repayment procedure by due date may result in the imposition of a financial penalty as set out in Article 155 and Annex 7 of the Directive. The provisions of Annex 7 which apply to infringements of rules related to tender operations shall apply where a counterparty fails to settle, in full or in part, the amount due on the early repayment referred to above. The imposition of a financial penalty shall be without prejudice to the Bank's right to exercise the remedies provided for on the occurrence of an event of default as set out in Part 7 of the Directive.

3. Admission of certain additional asset-backed securities

1. In addition to asset-backed securities (ABS) eligible under Part 4of the Directive, ABS which do not fulfil the credit assessment requirements under Article 82 of the Directive but which otherwise comply with all eligibility criteria applicable to ABS pursuant to this Directive, shall be eligible as collateral for Eurosystem monetary policy operations, provided that they have two ratings of at least triple B[8] from any approved ECAI for the issue. They shall also satisfy all the following requirements:

(a) the cash-flow generating assets backing the ABS shall belong to one of the following asset classes: (i) residential mortgages; (ii) loans to small and medium-sized enterprises (SMEs); (iii) commercial real estate mortgages; (iv) auto loans; (v) leasing receivables and (vi) consumer finance loans; (vii) credit card receivables;

(b) there shall be no mix of different asset classes in the cash-flow generating assets;

(c) the cash-flow generating assets backing the ABS shall not contain loans which are any of the following:

(i) non- performing at the time of issuance of the ABS;

(ii) non-performing when incorporated in the ABS during the life of the ABS, for example by means of a substitution or replacement of the cash-flow generating assets;

(iii) at any time, structured, syndicated or leveraged;

(d) the ABS transaction documents shall contain servicing continuity provisions.

2. ABS referred to in paragraph 1 above that does not have two public credit ratings of at least credit quality step 2 in the Eurosystem harmonised rating scale in accordance with Article 82(1)(b) of Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60)[9] shall be subject to a valuation haircut that depends on their weighted average life as detailed in table below.

2a. The weighted average life of the senior tranche of an ABS shall be estimated as the weighted average time remaining until repayment of the cash flows expected from the tranche. For retained mobilised ABS, the calculation of the weighted average life shall assume that issuer call options will not be exercised.

3. A counterparty may not submit ABS, which are eligible pursuant to sub-paragraph 1 above as collateral, if the counterparty, or any third party with which it has close links, acts as an interest rate hedge provider in relation to ABS.

4. The Bank shall not accept as collateral for Eurosystem monetary policy operations ABS which do not fulfil the requirements of paragraphs 1 to 3 above.

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5. For the purposes of the above:

(1) 'residential mortgage', besides residential real estate mortgage-backed loans, shall include guaranteed residential real estate loans (without a real estate mortgage) if the

[8] A 'triple B' rating is a rating of at least 'Baa3' from Moody's, 'BBB-' form Fitch or Standard & Poor's, or a rating of 'BBBL' from DBRS.

guarantee is payable promptly on default. Such guarantee may be provided in different contractual formats, including contracts of insurance, provided they are granted by a public sector entity or a financial institution subject to public supervision. The credit assessment of the guarantor for the purposes of such guarantees must comply with credit quality step 3 in the Eurosystem's harmonised rating scale over the life of the transaction;

(2) 'small enterprise' and 'medium-sized enterprise' shall mean an entity engaged in an economic activity, irrespective of its legal form, where the reported sales for the entity or if the entity is a part of a consolidated group, for the consolidated group is less than EUR50 million;

(3) 'non-performing loan' shall include loans where payment of interest or principal is past due by 90 or more days and the obligor is in default, as defined in Article 178 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.[10] or when there are good reasons to doubt the payment will be made in full;

(4) 'structured loan' means a structure involving subordinated credit claims;

(5) 'syndicated loan' means a loan provided by a group of lenders in a lending syndicate;

(6) 'leveraged loan' means a loan provided to a company that already has a considerable degree of indebtedness, such as buy-out or take-over financing, where the loan is used for the acquisition of the equity of a company which is also the obligor of the loan;

(7) 'servicing continuity provisions' means provisions in the legal documentation of an ABS that consist of either back-up servicer provisions or back-up servicer facilitator provisions (if there are no back-up servicer provisions). In the case of back-up servicer facilitator provisions, a back-up servicer facilitator should be nominated and mandated to find a suitable back-up servicer facilitator should be nominated and mandated to find a

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[9] 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).

[10](OJ L 176, 27.6.2013, p.1).

suitable back-up servicer within 60 days of the occurrence of a trigger event in order to ensure timely payment and servicing of the ABS. These provisions shall also include servicer replacement triggers for the appointment of a back-up servicer, which can be rating-based and/or non-rating based, e.g. non-performance of obligations by the current servicer. In the case of back-up servicer provisions, the back-up servicer shall not have close links to the servicer. In the case of back-up servicer facilitator provisions, there shall not be close links between each of the servicer, the back-up servicer facilitator and the issuer account bank at the same time

(8) ‘close links’ has the meaning given in Article 138(2) of this Directive;

(9) ‘retained mobilised ABS’ means ABS used in percentage greater than 75% of the outstanding nominal amount by a counterparty that originated the ABS or by entities with close links to the originator.

4. Non-admission of certain additional credit claims

The Bank shall not accept as collateral for Eurosystem monetary policy operations credit claims that do not satisfy the Eurosystem eligibility criteria as specified in Part 4 Title III of this Directive and as provided in Article 4 of Guideline ECB/2014/31 of 18 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility collateral and amending Guideline ECB/2007/9.

5. Non-acceptance of certain short-term debt instruments

The Bank shall not accept as collateral for Eurosystem monetary policy operations certain short-term debt instruments that do not satisfy the Eurosystem eligibility criteria for marketable assets laid down in Section 6.1.1 of this Directive and as provided in Part 4 Title II of Guideline ECB/2014/31 of 18 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility collateral and amending Guideline ECB/2007/9

6. Acceptance of certain government-guaranteed bank bonds

1. The Bank shall not accept as collateral for Eurosystem credit operations eligible uncovered bank bonds which: (a) do not fulfil the Eurosystem’s requirement 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: (i) whose credit assessment does not comply with the Eurosystem's requirement of high credit standards for issuers and guarantors of marketable assets as laid in accordance with Article 82 of this Directive; and (ii) which is compliant with a European union/International Monetary Fund programme, as assessed by the Governing Council.

2. Counterparties may not submit as collateral for Eurosystem monetary policy operations uncovered bank bonds issued by themselves or issued by closely linked entities and guaranteed by an EEA public sector entity with the right to impose taxes in excess of the nominal value of these bonds already submitted as collateral on 3 July 2012.

3. In exceptional cases, the Governing Council may decide on temporary derogations from the requirement laid down in sub-paragraph 2 above for a maximum of three years. A request for derogation shall be accompanied by a funding plan that indicates how the own use of uncovered government guaranteed bank bonds by the requesting counterparty will be phased out by no later than three years following the approval of the derogation. Any derogation already granted since 3 July 2012 shall continue to apply until it is due for review.

7. Admission of certain foreign currency denominated assets as eligible collateral

1. Marketable debt instruments as described in Part 4 Title II of this Directive, if denominated in pounds sterling, yen or US dollars, shall constitute eligible collateral for Eurosystem monetary policy operations, provided that: (a) they are issued and held/settled in the euro area; (b) the issuer is established in theEEA; and (c) they fulfil all other eligibility criteria included in Part 4 Title II of this Directive.

2. The Eurosystem shall apply the following valuation markdowns to such marketable debt instruments: (a) a markdown of 16% on assets denominated in pounds sterling or US dollars; and (b) a markdown of 26% on assets denominated in yen'.

3. Marketable debt instruments described in sub-paragraph 1 above, which have coupons linked to a single money market rate in their currency of denomination, or to an inflation index containing no discrete range, range accrual, ratchet or similar complex structures

for the respective country, shall also constitute eligible collateral for the purposes of Eurosystem monetary policy operations.

4. The ECB may publish a list of other acceptable benchmark foreign currency interest rates, in addition to those referred to in paragraph 3 above, on its website at www.ecb.europa.eu, following approval by the Governing Council.

5. In addition, paragraphs 3 and 6 of this Annex shall also apply to foreign currency denominated collateral. For the avoidance of doubt, the Bank shall not accept government guaranteed bank bonds as referred to in paragraph 6 sub-paragraph 1 of this Annex denominated in pound sterling, yen or US dollars.

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

1. The Eurosystem's minimum requirements for credit quality thresholds, as specified in the Eurosystem credit assessment framework rules for marketable assets in Article 82 of this Directive shall be suspended in accordance with sub-paragraph 2 below.

2. The Eurosystem's credit quality threshold shall not apply to marketable debt instruments issued or fully guaranteed by the central governments of euro area Member States under a European Union/International Monetary Fund programme, unless the Governing Council decides that the respective Member State does not comply with the conditionality of the financial support and/or the macroeconomic programme.

3. Marketable debt instruments issued or fully guaranteed by the central government of the Hellenic Republic or the Republic of Cyprus shall be subject to the specific haircuts as set out below.

Haircut schedule applying to marketable debt instruments issued or fully guaranteed by the Hellenic Republic

	Maturity bucket	Haircuts for fixed coupons and floaters (%)	Haircuts for zero coupon (%)
Greek government bonds (GGBs)	0-1	6.5	6.5
	1-3	11	12
	3-5	16.5	18
	5-7	23	26
	7-10	34	39.5
	>10	40	52.5
Government-guaranteed bank bonds (GGBBs) and government-guaranteed non-financial corporate bonds	Maturity bucket	Haircuts for fixed coupons and floaters (%)	Haircuts for zero coupon (%)
	0-1	13.5	14
	1-3	19	20
	3-5	24.5	26.5
	5-7	31.5	35
	7-10	43.5	49.5
	>10	50	62

Haircut schedule applying to marketable debt instruments issued or fully guaranteed by the Republic of Cyprus

	Maturity bucket	Haircuts for fixed coupons and floaters (%)	Haircuts for zero coupon (%)
Cypriot government bonds (GGBs)	0-1	14.5	14.5
	1-3	27.5	29.5
	3-5	37.5	40.0
	5-7	41.0	45.0
	7-10	47.5	52.5
	>10	57.0	71.0
Government-guaranteed bank bonds (GGBBs) and government-guaranteed non-financial corporate bonds	Maturity bucket	Haircuts for fixed coupons and floaters (%)	Haircuts for zero coupon (%)
	0-1	23.0	23.0
	1-3	37.0	39.0
	3-5	47.5	50.5
	5-7	51.5	55.5

	7-10	58.0	63.0
	>10	68.0	81.5

Valuation haircut levels applied to ABS eligible under this Article

Weighted Average Life	***Valuation haircut***
0-1	6.0
1-3	9.0
3-5	13.0
5-7	15.0
7-10	18.0
>10	30.0

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