

# GUIDELINES

## GUIDELINE (EU) 2020/634 OF THE EUROPEAN CENTRAL BANK

of 7 May 2020

### amending Guideline ECB/2014/31 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2020/29)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

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

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular to the first subparagraph of Article 12.1 in conjunction with the first indent of Article 3.1 and Article 18 thereof,

Whereas:

- (1) In accordance with Article 18.1 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) and the national central banks of the Member States whose currency is the euro (hereinafter the 'NCBs') may, in order to achieve the objectives of the European System of Central Banks, conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral. The general conditions under which the ECB and the NCBs stand ready to enter into credit operations, including the criteria determining the eligibility of collateral for the purposes of Eurosystem credit operations, are laid down in Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60) <sup>(1)</sup>.
- (2) Further to the collateral easing measures the Governing Council already adopted on 7 April 2020, on 22 April 2020 the Governing Council adopted a complementary set of decisions in response to the COVID-19 pandemic. These new measures aim at mitigating the adverse impact on Eurosystem collateral availability of potential rating downgrades resulting from the economic fallout of the COVID-19 outbreak. Together with the measures adopted on 7 April 2020, these new measures aim at ensuring that Eurosystem counterparties remain able to maintain and mobilise sufficient collateral in order to be able to participate in Eurosystem liquidity-providing operations, and that therefore the Eurosystem is in a position to support the provision of credit to the euro area economy. Accordingly, participation in these operations with this collateral should be based on temporarily amended collateral eligibility criteria and risk control measures.
- (3) These new measures are proportionate to counter the serious risks to price stability, the monetary policy transmission mechanism and the economic outlook in the euro area posed by the outbreak of COVID-19.
- (4) In view of the above, the Governing Council considers that the Eurosystem may temporarily continue to admit as collateral marketable assets and the issuers of these assets that fulfilled minimum credit quality requirements on 7 April 2020 notwithstanding a deterioration in the credit ratings decided by the credit rating agencies accepted in the Eurosystem, as long as the ratings remain above a certain quality level. At the same time the Governing Council considers that this should not affect the eligibility criteria for outright purchases under the ECB's asset purchase programmes.
- (5) With a view to ensuring an appropriate monetary policy transmission mechanism, and taking into account the need of Eurosystem counterparties that are, or will be, participating in Eurosystem liquidity providing operations to maintain sufficient collateral for these operations, the Governing Council considers that the additional temporary measures set out in this Guideline should apply until the first early repayment date under the third programme of targeted longer-term refinancing operations (TLTRO-III).

<sup>(1)</sup> 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).

- (6) To react promptly to the current pandemic situation, this Guideline should be notified to the NCBs as soon as possible following adoption.
- (7) Therefore, Guideline ECB/2014/31 <sup>(*2*)</sup> should be amended accordingly,

HAS ADOPTED THIS GUIDELINE:

#### Article 1

### Amendments to Guideline ECB/2014/31

Guideline ECB/2014/31 is amended as follows:

1. the following Article 8b is inserted:

*Article 8b*

#### **Admission of certain marketable assets and issuers eligible on 7 April 2020**

1. Terms used in this Article shall have the same meaning as in Guideline (EU) 2015/510 (ECB/2014/60).
2. Notwithstanding the provisions of Article 59(3), Article 71 and Article 82(1)(a) of Guideline (EU) 2015/510 (ECB/2014/60), marketable assets – other than asset-backed securities (ABSs) – issued on or before 7 April 2020 that on 7 April 2020 had a public credit rating, provided by at least one accepted ECAI system, that complied with the minimum credit quality requirements of the Eurosystem, shall constitute eligible collateral for Eurosystem credit operations provided that, at all times after 7 April 2020:
  - (a) they have a public credit rating provided by at least one accepted ECAI system that complies with, as a minimum, credit quality step 5 in the Eurosystem's harmonised rating scale; and
  - (b) they continue to comply with all other eligibility criteria applicable to marketable assets as laid down in Guideline (EU) 2015/510 (ECB/2014/60).

For the avoidance of doubt, the public credit rating on 7 April 2020, as referred to in this paragraph, shall be determined by the Eurosystem on the basis of the rules set out in Article 82(1)(a), Article 82(2), Article 83, Article 84(a) and (b), Article 85 and Article 86 of Guideline (EU) 2015/510 (ECB/2014/60).

3. Where compliance of a marketable asset with the minimum credit quality requirements of the Eurosystem on 7 April 2020 is determined on the basis of an ECAI issuer rating or an ECAI guarantor rating provided by an accepted ECAI system, that marketable asset shall constitute eligible collateral for Eurosystem credit operations provided that, at all times after 7 April 2020:
  - (a) the ECAI issuer rating or the ECAI guarantor rating, as applicable, for that marketable asset complies with, as a minimum, credit quality step 5 in the Eurosystem's harmonised rating scale; and
  - (b) that marketable asset continues to comply with all other eligibility criteria applicable to it as laid down in Guideline (EU) 2015/510 (ECB/2014/60).
4. Marketable assets – other than ABSs – issued after 7 April 2020 whose issuer or guarantor, as applicable, had on 7 April 2020 a public credit rating, provided by at least one accepted ECAI system, that complied with the minimum credit quality requirements of the Eurosystem, shall constitute eligible collateral for Eurosystem credit operations provided that, at all times after 7 April 2020:
  - (a) those marketable assets have a public credit rating, provided by at least one accepted ECAI system, that complies with, as a minimum, credit quality step 5 in the Eurosystem's harmonised rating scale; and
  - (b) those marketable assets comply with all other eligibility criteria applicable to marketable assets as laid down in Guideline (EU) 2015/510 (ECB/2014/60).

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<sup>(*2*)</sup> Guideline ECB/2014/31 of the European Central Bank of 9 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (OJ L 240, 13.8.2014, p. 28).

For the avoidance of doubt, the public credit rating referred to in point (a) of this paragraph shall be determined by the Eurosystem on the basis of the rules set out in Article 82(1)(a), Article 82(2), Article 83, Article 84(a) and (b), Article 85 and Article 86 of Guideline (EU) 2015/510 (ECB/2014/60).

5. Covered bonds issued after 7 April 2020 under a covered bond programme that on 7 April 2020 itself had a credit assessment, provided by at least one accepted ECAI system, that complied with the minimum credit quality requirements of the Eurosystem, shall constitute eligible collateral for Eurosystem credit operations provided that:

- (a) at all times after 7 April 2020 the covered bond programme has a public credit rating, provided by at least one accepted ECAI system, that complies with, as a minimum, credit quality step 5 in the Eurosystem's harmonised rating scale, and
- (b) these covered bonds comply with all other eligibility criteria applicable to them as laid down in Guideline (EU) 2015/510 (ECB/2014/60).

6. The marketable assets referred to in Article 87(2) of Guideline (EU) 2015/510 (ECB/2014/60) that on 7 April 2020 did not have a public credit rating provided by an accepted ECAI system, but that on 7 April 2020 had an implicit credit assessment derived by the Eurosystem in accordance with the rules laid down in Article 87(1) and (2) of Guideline (EU) 2015/510 (ECB/2014/60) that complied with the credit quality requirements of the Eurosystem, shall constitute eligible collateral for Eurosystem credit operations irrespective of the date of their issuance provided that, at all times after 7 April 2020:

- (a) the issuer or guarantor, as applicable, of these marketable assets complies, as a minimum, with a credit quality requirement corresponding to credit quality step 5 in the Eurosystem's harmonised rating scale; and
- (b) these marketable assets comply with all other eligibility criteria applicable to them as laid down in Guideline (EU) 2015/510 (ECB/2014/60).

7. Notwithstanding the provisions of Article 59(3), Article 71 and Article 82(1)(b) of Guideline (EU) 2015/510 (ECB/2014/60), ABS issued on or before 7 April 2020 that on 7 April 2020 had at least two public credit ratings, each provided by a different accepted ECAI system, that complied with the minimum credit quality requirements of the Eurosystem under Guideline (EU) 2015/510 (ECB/2014/60), shall constitute eligible collateral for Eurosystem credit operations provided that, at all times after 7 April 2020:

- (a) they have at least two public credit ratings, each provided by a different accepted ECAI system, that comply with, as a minimum, credit quality step 4 in the Eurosystem's harmonised rating scale; and
- (b) they continue to comply with all other eligibility criteria applicable to ABSs as laid down in Guideline (EU) 2015/510 (ECB/2014/60).

For the avoidance of doubt, the requirements laid down in Article 3(1)(a) to (d) and Article 3(4) of this Guideline shall not apply to the ABS referred to in this paragraph.

8. ABS that on 7 April 2020 were admitted by the Eurosystem as eligible collateral under Article 3(1) of this Guideline shall remain eligible provided that, at all times after 7 April 2020:

- (a) they have two public credit ratings of at least credit quality step 4 in the Eurosystem's harmonised rating scale provided by two accepted ECAI systems; and
- (b) they continue to comply with all other requirements applicable to them under Article 3(1) (except the rating level), Article 3(2a) and Article 3(4) of this Guideline.

For the avoidance of doubt, Article 3(2) and Article 3(5) of this Guideline shall not apply to the ABS referred to in this paragraph.

9. For as long as they continue to be admitted as eligible collateral by the Eurosystem according to this Article, the marketable assets, including covered bonds, referred to in paragraphs 2 to 6 shall be subject to the valuation haircuts laid down in Annex IIb to this Guideline. The ABS referred to in paragraphs 7 and 8 shall be subject to the valuation haircuts laid down in Annex IIa to this Guideline. The valuation haircuts shall be calculated on the basis of the current rating applicable on any given day after 7 April 2020 in accordance with the rules relating to priority of ECAI credit assessments as set out in Articles 83 to 88 of Guideline (EU) 2015/510 (ECB/2014/60).

10. In addition to the valuation haircuts provided for in paragraph 9, the following additional valuation haircuts shall apply:

- (a) ABS, covered bonds and unsecured debt instruments issued by credit institutions that are theoretically valued in accordance with the rules contained in Article 134 of Guideline (EU) 2015/510 (ECB/2014/60) shall be subject to an additional valuation haircut in the form of a valuation markdown of 4%;
- (b) own-use covered bonds shall be subject to an additional valuation haircut of (i) 6,4% applied to the value of the debt instruments allocated to credit quality steps 1 and 2, and (ii) 9,6% applied to the value of the debt instruments allocated to credit quality steps 3, 4 and 5;
- (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 Guideline (EU) 2015/510 (ECB/2014/60);
- (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.

11. For the avoidance of doubt, the provisions of this Article are independent from and shall not be taken into account for the purposes of assessing eligibility for outright purchases under the secondary markets public sector asset programme (PSPP) (\*); the third covered bond purchase programme (CBPP3) (\*\*); the asset-backed securities purchase programme (ABSPP) (\*\*\*); the corporate sector purchase programme (CSPP) (\*\*\*\*); and the pandemic emergency purchase programme (PEPP) (\*\*\*\*\*).

(\*) Decision (EU) 2020/188 of the European Central Bank of 3 February 2020 on a secondary markets public sector asset purchase programme (recast) (ECB/2020/9) (OJ L 39, 12.2.2020, p. 12).

(\*\*) Decision (EU) 2020/187 of the European Central Bank of 3 February 2020 on the implementation of the third covered bond purchase programme (ECB/2020/8) (OJ L 39, 12.2.2020, p. 6).

(\*\*\*) Decision (EU) 2015/5 of the European Central Bank of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45) (OJ L 1, 6.1.2015, p. 4).

(\*\*\*\*) Decision (EU) 2016/948 of the European Central Bank of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16) (OJ L 157 15.6.2016, p. 28).

(\*\*\*\*\*) Decision (EU) 2020/440 of the European Central Bank of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17) (OJ L 91, 25.3.2020, p. 1).

2. Annex IIa is replaced by the following:

‘ANNEX IIa

**Valuation haircut levels (in %) applied to asset-backed securities (ABS) eligible under Article 3(2) and Article 8b of this Guideline**

Credit quality	Weighted Average Life (*)	Valuation haircut
Step 3	[0,1)	4,8
	[1,3)	7,2
	[3,5)	10,4
	[5,7)	12,0
	[7,10)	14,4
	[10, ∞)	24,0
Step 4	[0,1)	11,2
	[1,3)	15,2
	[3,5)	18

Credit quality	Weighted Average Life (*)	Valuation haircut
	[5,7)	24,8
	[7,10)	30,4
	[10, ∞)	43,2'

(\*) i.e. [0,1) weighted average life (WAL) less than one year, [1,3) WAL equal to or greater than one year and less than three years, etc.

3. Annex IIb is replaced by the following:

'ANNEX IIb

**Valuation haircut levels (in %) applied to marketable assets, other than ABS, referred to in Articles 8a and 8b**

Credit quality	Residual maturity (years) (*)	Category I		Category II		Category III		Category IV	
		Fixed and floating coupon	zero coupon						
Step 4	[0,1)	6,4	6,4	8	8	12,8	12,8	20	20
	[1,3)	9,6	10,4	12	15,2	16	18,4	28	30
	[3,5)	11,2	12	16	20	19,2	23,6	33,6	37,2
	[5,7)	12,4	13,6	20	24,8	22,4	28,4	36,8	40,4
	[7,10)	13,2	14,4	21,6	28,4	24,8	32	40	44,8
	[10,∞)	14,4	16,8	23,2	31,6	26,4	34,8	41,6	46,8
Step 5	[0,1)	8	8	12	12	22,4	22,4	24	24
	[1,3)	11,2	12	16	19,2	25,6	28	32	34
	[3,5)	13,2	14	22,4	26,4	28,8	33,2	38,4	42
	[5,7)	14,4	15,6	27,2	32	31,6	37,6	43,2	46,8
	[7,10)	15,2	16,4	28,8	35,6	33,2	40,4	46,4	51,2
	[10,∞)	16,4	18,8	30,4	38,8	33,6	42	48	53,2'

(\*) 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.

Article 2

**Reference data to be used**

When determining compliance for the period between 7 April 2020 and 18 May 2020 with the credit quality requirements applicable to the assets, issuers and guarantors referred to in Article 8b(2) to (8) of Guideline ECB/2014/31, the NCBs shall refer to the reference data relevant to those assets, issuers and guarantors on 7 April 2020, as provided by the ECB.

*Article 3***Taking effect and implementation**

1. This Guideline shall take effect on the day of its notification to the NCBs and shall remain in effect until 29 September 2021.
2. The NCBs shall take the necessary measures to comply with Article 1 of this Guideline and apply them from 18 May 2020. They shall notify the ECB of the texts and means relating to those measures by 11 May 2020, at the latest.
3. The NCBs shall comply with Article 2 of this Guideline from the date this Guideline takes effect.

*Article 4***Addressees**

This Guideline is addressed to all Eurosystem central banks.

Done at Frankfurt am Main, 7 May 2020.

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

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