

GUIDELINE (EU) 2018/571 OF THE EUROPEAN CENTRAL BANK**of 7 February 2018****amending Guideline (EU) 2016/65 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2018/4)**

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

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

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

Whereas:

- (1) All eligible assets for Eurosystem credit operations are subject to specific risk control measures in order to protect the Eurosystem against financial losses in circumstances where its collateral has to be realised due to an event of default of a counterparty. As a result of the regular review of the Eurosystem risk control framework, several adjustments must be made in order to ensure adequate protection.
- (2) Therefore, Guideline (EU) 2016/65 of the European Central Bank (ECB/2015/35) ⁽¹⁾ should be amended accordingly,

HAS ADOPTED THIS GUIDELINE:

*Article 1***Amendments**

Guideline (EU) 2016/65 (ECB/2015/35) is amended as follows:

1. Article 3 is amended as follows:

(a) paragraph 2 is replaced by the following:

‘2. For marketable assets allocated to haircut categories I to IV, the applicable valuation haircut shall depend on the residual maturity and coupon structure of the asset (fixed, zero, floating) as determined based on Table 2 in the Annex to this Guideline. The relevant maturity for determining the valuation haircut to be applied shall be the residual maturity of the asset, irrespective of the type of coupon structure. The following provisions shall apply with respect to the coupon structure:

- (a) floating coupons with a resetting period longer than 1 year shall be treated as fixed rate coupons;
- (b) floating coupons that have a euro area inflation index as a reference rate shall be treated as fixed rate coupons;
- (c) floating coupons with a floor that does not equal zero and/or floating coupons with a ceiling shall be treated as fixed rate coupons;
- (d) 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.’;

(b) the following paragraph 2a is inserted:

‘2a. The residual maturity for own-use covered bonds shall be defined as the maximum legal maturity, taking into account any extension rights for principal repayments contained in their terms and conditions. For the purposes of this paragraph, “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).’;

⁽¹⁾ Guideline (EU) 2016/65 of the European Central Bank of 18 November 2015 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2015/35) (OJ L 14, 21.1.2016, p. 30).

2. in Article 4, point (c) is replaced by the following:

‘(c) for the purposes of paragraph (b), “own-use” shall have the same meaning as defined in Article 3(2a).’;

3. Article 5 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. Individual credit claims shall be subject to specific valuation haircuts determined according to the residual maturity, the credit quality step, the coupon structure and the valuation methodology applied by the NCB, as laid down in Table 3 in the Annex to this Guideline.’;

(b) paragraph 2 is replaced by the following:

‘2. 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.’;

(c) the following subparagraph is added to paragraph 2:

‘A credit claim shall be treated as a fixed rate credit claim, for the purposes of the application of valuation haircuts, whenever there is a possibility that the credit claim will pay a fixed interest rate, contingent on the value of an eligible reference interest rate listed in Article 90(b)(iii) of Guideline (EU) 2015/510 (ECB/2014/60), in particular where the coupon has an explicit ceiling or non-zero floor.’;

(d) paragraph 5 is replaced by the following:

‘5. Non-marketable retail mortgage-backed debt instruments shall be subject to a valuation haircut of 31,5 %.’;

4. the Annex is amended in accordance with the Annex to this Guideline.

Article 2

Taking effect and implementation

1. This Guideline shall take effect on the day of its notification to the national central banks of the Member States whose currency is the euro.

2. The national central banks of the Member States whose currency is the euro shall take the necessary measures to comply with this Guideline and apply them from 16 April 2018 except for point 3(c) of Article 1 in respect of which they shall take the necessary measures and apply them from 1 October 2018. They shall notify the ECB of the texts and means relating to those measures by 16 March 2018, except for the texts and means relating to the measures in respect of point 3(c) of Article 1 which they shall notify by 3 September 2018.

Article 3

Addressees

This Guideline is addressed to the national central banks of the Member States whose currency is the euro.

Done at Frankfurt am Main, 7 February 2018.

For the Governing Council of the ECB
The President of the ECB
Mario DRAGHI

The Annex to Guideline (EU) 2016/65 (ECB/2015/35) is amended as follows:

1. Table 2 is replaced by the following:

‘Table 2

Valuation haircut levels applied to eligible marketable assets in haircut categories I to IV

		Haircut categories											
Credit quality	Residual maturity (years) (*)	Category I			Category II			Category III			Category IV		
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon
Steps 1 and 2	0-1	0,5	0,5	0,5	1,0	1,0	1,0	1,0	1,0	1,0	7,5	7,5	7,5
	1-3	1,0	2,0	0,5	1,5	2,5	1,0	2,0	3,0	1,0	10,0	10,5	7,5
	3-5	1,5	2,5	0,5	2,5	3,5	1,0	3,0	4,5	1,0	13,0	13,5	7,5
	5-7	2,0	3,0	1,0	3,5	4,5	1,5	4,5	6,0	2,0	14,5	15,5	10,0
	7-10	3,0	4,0	1,5	4,5	6,5	2,5	6,0	8,0	3,0	16,5	18,0	13,0
	> 10	5,0	7,0	2,0	8,0	10,5	3,5	9,0	13,0	4,5	20,0	25,5	14,5
		Haircut categories											
Credit quality	Residual maturity (years) (*)	Category I			Category II			Category III			Category IV		
		fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon	fixed coupon	zero coupon	floating coupon
Step 3	0-1	6,0	6,0	6,0	7,0	7,0	7,0	8,0	8,0	8,0	13,0	13,0	13,0
	1-3	7,0	8,0	6,0	9,5	13,5	7,0	12,0	15,0	8,0	22,5	25,0	13,0
	3-5	9,0	10,0	6,0	13,5	18,5	7,0	16,5	22,0	8,0	28,0	32,5	13,0
	5-7	10,0	11,5	7,0	14,0	20,0	9,5	18,5	26,0	12,0	30,5	35,0	22,5
	7-10	11,5	13,0	9,0	16,0	24,5	13,5	19,0	28,0	16,5	31,0	37,0	28,0
	> 10	13,0	16,0	10,0	19,0	29,5	14,0	19,5	30,0	18,5	31,5	38,0	30,5

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

2. Table 3 is replaced by the following:

'Table 3

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

		Valuation methodology			
Credit quality	Residual maturity (years) (*)	Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Variable interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB	Variable interest payment and a valuation according to the outstanding amount assigned by the NCB
Steps 1 and 2 (AAA to A-)	0-1	10,0	10,0	12,0	12,0
	1-3	12,0	10,0	16,0	12,0
	3-5	14,0	10,0	21,0	12,0
	5-7	17,0	12,0	27,0	16,0
	7-10	22,0	14,0	35,0	21,0
	> 10	30,0	17,0	45,0	27,0
		Valuation methodology			
Credit quality	Residual maturity (years) (*)	Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Variable interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB	Variable interest payment and a valuation according to the outstanding amount assigned by the NCB
Step 3 (BBB+ to BBB-)	0-1	17,0	17,0	19,0	19,0
	1-3	28,5	17,0	33,5	19,0
	3-5	36,0	17,0	45,0	19,0
	5-7	37,5	28,5	50,5	33,5
	7-10	38,5	36,0	56,5	45,0
	> 10	40,0	37,5	63,0	50,5

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