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IMPLEMENTATION OF  
MONETARY POLICY OPERATIONS  
AND COLLATERAL MANAGEMENT  
AT THE BANK OF FINLAND



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## 1 INTRODUCTION

These operative instructions specify the following guidelines of the European Central Bank:

- ECB/2014/60, with amending guidelines ECB/2015/20, ECB/2015/27 with corrigendum thereto, ECB/2015/34, ECB/2016/31, ECB/2017/12, ECB/2018/3, ECB/2019/11, ECB/2020/45, ECB/2021/23, ECB/2022/17 and ECB/2022/48.
- ECB/2015/35, with amending guidelines ECB/2016/32, ECB/2018/4, ECB/2019/12, ECB/2020/46, ECB/2022/18 and ECB/2022/49.
- ECB/2014/31, with amending guidelines ECB/2014/46, ECB/2016/33, ECB/2018/5, ECB/2019/13, ECB/2020/21, ECB/2020/29, ECB/2020/47, ECB/2021/26, ECB/2022/19 and ECB/2022/50.

These instructions constitute a part of the Bank of Finland rules on monetary policy operations and collateral that are binding on Bank of Finland counterparties. The instructions define the Bank of Finland's operational requirements for eligible counterparties and review those key national requirements and/or procedures that are related to the open market operations, standing facilities and collateral management but are not included in the ECB's guidelines.

In these instructions, the term 'each NCB' used in part seven of the ECB guideline ECB/2014/60 means the Bank of Finland.

In these instructions, the term 'business day' means the day on which the T2 system is operational.

All references to time in these instructions are to Finnish time.

Bank of Finland contact details are listed in Appendix 1.



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## **2 IMPLEMENTATION OF MONETARY POLICY OPERATIONS AT THE BANK OF FINLAND**

### **2.1 Legal nature of operations (ECB/2014/60, Articles 10 and 18)**

In conducting open market operations, the Eurosystem employs reverse transactions, which can be executed as either repurchase agreements or collateralised loans, depending on the contractual and regulatory arrangements applied by the national central bank. Also the provision of liquidity under the marginal lending facility can take the form of either repurchase agreements or collateralised loans. As a rule, the Bank of Finland conducts reverse transactions and provides marginal lending in the form of collateralised loans.

### **2.2 Implementation of tender operations / eTender**

Credit operations are conducted in compliance with tender procedures, and Bank of Finland counterparties submit their tender bids primarily via an electronic bidding system (eTender). Access to the eTender system requires user registration. A User Administration (UA) authorised by the counterparty is responsible for registration and management of the counterparty's eTender users. Counterparties must always have at least one UA. If a counterparty's only UA has left the organization, the counterparty must immediately appoint a new UA.

A tender announcement will be binding immediately after publication by the ECB of the tender announcement via public wire services and its website. The Bank of Finland assumes no separate responsibility for communication to counterparties. However, Bank of Finland counterparties will be informed of tender announcements by email via the eTender electronic bidding system after publication by the ECB of the announcement. The Eurosystem publishes annually an indicative calendar for regular tender operations on its website.

Bids may be submitted for a minimum bid amount of EUR 1,000,000. Bids must be submitted prior to the deadline to the Monetary Policy Implementation Division of the Bank of Finland's Market Operations Department, using the eTender electronic bidding system. If the eTender electronic bidding system is unavailable for technical reasons, a contingency procedure should be applied. Under the contingency procedure, the bids are submitted by telephone on +358 9 183 7004 and confirmed in writing by secure email ([etender@bof.fi](mailto:etender@bof.fi)) within the deadlines applicable to the submission of bids.

Once the ECB has announced the result of the tender, this is communicated to Bank of Finland counterparties via the eTender electronic bidding system. The communication to each counterparty includes the allotted amount on each bid, the applicable interest rates/prices/swap points and the value date and maturity date for the trades.



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**Public****2.3 Operative procedures for standing facilities (ECB/2014/60, Articles 17-23)**

Bank of Finland counterparties may access standing facilities to obtain overnight liquidity from the Bank against eligible collateral or to make overnight deposits with the Bank.

**2.3.1 Marginal lending facility (ECB/2014/60, Articles 18-20)**

A request for accessing the marginal lending facility, including the amount of credit required, must be submitted to the Bank of Finland via a SWIFT message to the BoF-CMS-Cola system. As a contingency procedure, the marginal lending facility can be accessed by submitting a manual assignment form by encrypted email or by fax to the Bank of Finland's TARGET Services. The Bank of Finland's TARGET Services must also be informed by telephone of the use of this contingency procedure.

Overnight liquidity automatically granted via the marginal lending facility is credited as at the close of the business day and debited on the following business day when the T2 system becomes operational. Specifically requested overnight liquidity is credited upon request and debited on the following business day when the T2 system becomes operational.

**2.3.2 Deposit facility (ECB/2014/60, Articles 21-23)**

Counterparties may make overnight deposits via the T2 user interface at any time during the business day. If, for some reason, the T2 user interface is not accessible, overnight deposits can be made by submitting a manual assignment form by encrypted email or by fax to the Bank of Finland's TARGET Services. The Bank of Finland's TARGET Services must also be informed by telephone of the use of this contingency procedure.

Overnight deposits are debited at the time they are made and maturing deposits are credited on the following business day when the T2 system becomes operational.



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## **2.4 Payment and settlement procedures for monetary policy operations (ECB/2014/60, Articles 49-54)**

Payments related to open market operations and standing facilities are settled via counterparties' Main Cash Accounts (MCA account) in TARGET-Suomen Pankki system. Confirmations related to the operations must be submitted and checked without delay.

The Bank of Finland debits maturing transactions from the MCA account in TARGET-Suomen Pankki system in the morning of their maturity date no later than 12 noon. The Bank of Finland effects its own credits in the morning to the counterparty's MCA account in TARGET-Suomen Pankki system no later than 12 noon, provided the securities deliveries for outright transactions or collateral posted for liquidity-providing reverse transactions are in order.

Same-day payments related to same-type new and maturing liquidity-providing regular reverse transactions (main refinancing operation or longer-term refinancing operation) are normally netted, so that only one payment is made between the parties involved.

## **2.5 Bank of Finland's operational requirements for eligible counterparties (ECB/2014/60, Article 55)**

To be eligible as counterparties in Eurosystem monetary policy operations credit institutions must fulfil the operational requirements of the national central bank.

The Bank of Finland requires

- 1) a counterparty wishing to participate in the Eurosystem's open market operations and to have access to standing facilities via the Bank of Finland to sign the counterparty agreement and pledge agreement for collateral with the Bank of Finland. In addition, counterparties are required to open an MCA account in the TARGET-Suomen Pankki system and to fulfil their minimum reserve requirement directly via that account. Counterparties must also adopt the BoF-CMS-Cola collateral management system and the eTender electronic bidding system.
- 2) a counterparty wishing to have access only to the overnight deposit facility of the standing facilities to sign the counterparty agreement with the Bank of Finland. In addition, counterparties are required to open an MCA account in the TARGET-Suomen Pankki system and to fulfil their minimum reserve requirement directly via that account.



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### **3 IMPLEMENTATION OF COLLATERAL MANAGEMENT AT THE BANK OF FINLAND**

#### **3.1 General principles (ECB/2014/60, Articles 58 and 144 a)**

All types of credit granted by the Bank of Finland must be backed by a sufficient amount of eligible underlying assets. In its collateral management, the Bank of Finland uses a pooling system. This means that the Bank of Finland collects all eligible assets provided by one counterparty into a pool from which the counterparty's total collateral requirement can be covered.

Legally, the procedure constitutes collateralised lending, involving the pledging of collateral to the Bank of Finland. This requires conclusion of a pledge agreement with the Bank of Finland. In using foreign collateral assets, it may exceptionally be necessary to conduct an earmarked repurchase transaction or to apply other procedures if pledging is not possible.

A pool may consist of domestic and foreign assets. Such collateral may consist of marketable debt instruments or non-marketable assets.

The total collateral requirement comprises the open market operations transacted with the Bank of Finland, liquidity obtained via the marginal lending facility, including interest on both, and the intraday overdraft limit on the TARGET-Suomen Pankki system MCA account. The assets submitted as collateral must cover the total collateral requirement at any time.

The Bank of Finland will extend a credit to a counterparty or a counterparty may raise the intraday overdraft limit on its TARGET-Suomen Pankki system MCA account only if the value of the counterparty's pool of assets is at least equal to the total collateral requirement. In calculating the total collateral value of the asset pool, Bank of Finland counterparties must take into account the impact of applicable risk control measures, such as valuation haircuts, on the value of collateral. In exceptional cases, the Bank of Finland may reduce the MCA account limit if the limit is not in full use and the counterparty itself has not reduced the limit.

Any redemptions and coupon payments related to domestic and foreign marketable assets pledged to the Bank of Finland will be paid to the counterparty, provided such payment does not result in a collateral deficit in the counterparty's pool.

Counterparties must ensure the timely payment of any amount of negative cash flows related to eligible assets submitted to the Bank of Finland as collateral. If a counterparty fails to comply with this obligation, the counterparty is obliged to refund the Eurosystem, immediately upon request from the Bank of Finland, any payment already made by the Eurosystem as a result of negative cash flows.

Bank of Finland monetary policy counterparties and participants in the TARGET-Suomen Pankki system with access to intraday credit must adopt the BoF-CMS-Cola collateral management system provided by the Bank of Finland. More detailed instructions on the use of the system are available via the Bank of Finland's extranet service.



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### 3.1.1 Features of the guarantee (ECB/2014/60, Article 114)

A guarantee issued for marketable or non-marketable assets must, in respect of its terms, be a surety, i.e. a guarantee where the guarantor is liable for the principal debt as if it were the guarantor's own (omavelkainen takaus), as defined in the Finnish Act on Guaranties and Third-Party Pledges (361/1999).

## **3.2 Eligibility criteria**

### 3.2.1 Marketable assets

The eligibility criteria for marketable assets are described in full in the ECB guidelines.

### 3.2.2 Non-marketable assets

This section describes the specifications applicable to Bank of Finland counterparties in respect of the ECB guideline regarding eligibility criteria for non-marketable assets.

#### 3.2.2.1 Minimum size of domestic credit claims (ECB/2014/60, Article 93)

The Bank of Finland applies a minimum size threshold of EUR 25,000 on credit claims for domestic usage. Credit claims must meet the threshold at the time of their submission as collateral.

#### 3.2.2.2 Additional legal requirements for credit claims (ECB/2014/60, Article 99)

The additional legal requirements set by the Eurosystem for credit claims are described in Articles 99–105 of the ECB guideline. The Bank of Finland's requirements beyond those prescribed in the ECB guideline are described in sections 3.2.2.3.–3.2.2.5 below.

#### 3.2.2.3 Verification of the existence of credit claims (ECB/2014/60, Article 101)

In order to obtain a written quarterly confirmation as referred to in paragraph 1. (a) of Article 101 of the ECB guideline, the Bank of Finland requires the counterparty to print from the BoF-CMS-Cola collateral management system, at least each quarter, a confirmation of the exististence of the credit claims mobilised as collateral. The counterparty must verify and confirm in writing the fulfilment of the requirements defined in subparagraphs (i)–(iv) of Article 101(1).

In connection with random checks as referred to in paragraph 1. (b) of Article 101, the Bank of Finland or, as mandated by the Bank of Finland, the financial supervisory authority or an external auditor also checks the accuracy and timeliness of the information provided on the credit claims submitted as collateral, and the counterparty's procedures for submitting such information to the Bank of Finland on credit claims used as collateral, and the counterparty's procedures for storing credit claims pledged to the Bank of Finland. In general, the counterparty is notified in advance of such an investigation visit and of the date as at which credit claim details are to be verified.





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#### 3.2.2.4 Full effect of the mobilisation vis-à-vis third parties (ECB/2014/60, Article 103)

According to Finnish legislation, a precondition for pledging ordinary promissory notes is that the debtor (and any guarantor) has been notified of the pledging of such promissory notes in advance (ex ante notification). Bank of Finland counterparties must inform their debtors (and any guarantor) in advance of their intention to pledge ordinary promissory notes to the benefit of the Bank of Finland.

Debtors (and any guarantor) need not be notified in advance of the pledging of negotiable promissory notes, but the credit documentation must be validated by a separate endorsement. In the event of a counterparty's insolvency or failure to fulfil the obligations for which a credit claim serves as collateral, the Bank of Finland submits to the debtor (and any guarantor) a notification indicating the pledging of the credit claim to the benefit of the central bank and including new payment instructions.

#### 3.2.2.5 Exclusion of set-off risk (ECB/2014/60, Article 104, paragraph 3a)

According to section 28 of the Finnish Promissory Notes Act (1947/622), the debtor of an ordinary promissory note may, in certain circumstances, set off a claim that he has against the creditor.

Where a credit claim in the form of an ordinary promissory note is pledged as collateral, either the credit claim agreement or a separate amendment thereto [between a counterparty and a debtor] must include a clause under which any set-off is prohibited during the period in which the credit claim is pledged to the Bank of Finland or any other Eurosystem central bank.

#### 3.2.2.6 Absence of restrictions concerning banking secrecy and confidentiality (ECB/2014/60, Article 105)

Bank of Finland counterparties must not be obliged to obtain debtor consent for disclosure of such credit claim and debtor details that are required by the Bank of Finland for the purpose of ensuring that valid security is created for credit claims and that the credit claims can be swiftly realised in the event of a counterparty default. If banking secrecy regulations prevent the disclosure of such information, the counterparty and the debtor must agree contractually that the debtor unconditionally consents to the disclosure of such details about the credit claim and the debtor to the Eurosystem.

According to the Bank of Finland's interpretation, section 26 of the Act on the Bank of Finland (2014/1998) is not a sufficient legal basis to invalidate a credit institution's secrecy obligations regarding its customer. The counterparty and the debtor shall have agreed contractually that the debtor consents to disclosure of confidential information, or the debtor's consent shall be stated in the loan documentation of the credit claims being pledged.



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### 3.2.3 Collateral as defined in guideline ECB/2014/31

The Bank of Finland **does not accept** as collateral for Eurosystem credit operations the following assets defined in the ECB guideline ECB/2014/31:

- certain short-term debt instruments as defined in Article 5.

The Bank of Finland **accepts on a temporary basis** as collateral for Eurosystem credit operations certain additional credit claims as defined in the ECB guideline ECB/2014/31, Article 4 and which are governed under Finnish law.

In the Bank of Finland's framework for additional credit claims, the following individual credit claims are accepted as collateral:

- Credit claims meeting the eligibility criteria defined in the Eurosystem's normal collateral framework<sup>1</sup>, including the credit standards<sup>2</sup> defined in the Eurosystem credit assessment framework (ECAAF), except that the credit assessment of the debtor or guarantor corresponds to credit quality step 4 in the Eurosystem's harmonised rating scale (CQS4, probability of default in a 1-year horizon no more than 1.0%). The assessment of the credit quality of additional credit claims must be based on a source/system approved in the Eurosystem credit assessment framework.

Loans where the debtor is in default under Article 178 of the EU Capital Requirements Regulation (CRR)<sup>3</sup> may not be submitted as collateral in any circumstances.

Additional credit claims are valued on a daily basis in accordance with the Eurosystem's principles. Credit claims approved under the Bank of Finland's framework for additional credit claims are subject to specific haircuts described in Appendix 2.

### **3.3 Valuation rules for eligible assets (ECB/2014/60, Articles 134-135)**

Foreign and domestic marketable assets are valued by the Bank of Finland daily on the basis of price data received from the Common Eurosystem Pricing Hub (CEPH) and the calculation rules based on current risk control measures. If the valuation results in a collateral deficit in a counterparty's pool, the counterparty must cover the deficit without delay.

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<sup>1</sup> ECB/2014/60, Articles 89–105 and the further specifications laid out in section 3.2.2 of these rules.

<sup>2</sup> ECB/2014/60, Article 59.

<sup>3</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.



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### **3.4 Domestic use of eligible assets**

#### **3.4.1 Procedures concerning domestic marketable assets**

The Bank of Finland administers domestic marketable assets via the counterparty's book-entry account opened in the Bank of Finland's book-entry register in Euroclear Finland's Infinity system, or the counterparty may submit domestic marketable assets as collateral, through eligible links between central securities depositories.

In order to use as collateral domestic marketable assets held in Euroclear Finland, Bank of Finland counterparties must submit a request to the Bank of Finland for opening an account. The Bank of Finland will then open a book-entry account in its book-entry register.

In delivering for its collateral pool domestic marketable assets held in Euroclear Finland, a Bank of Finland counterparty must submit information on the collateral assets via a SWIFT message to the BoF-CMS-Cola collateral management system in accordance with the Bank of Finland's instructions. At the same time, the counterparty must instruct Euroclear Finland's Infinity system to effect the transfer of collateral to the counterparty's book-entry account in the Bank of Finland's book-entry register. The assets can be considered as being duly pledged to the benefit of the Bank of Finland and added to the pool of the counterparty only after the Bank of Finland has received confirmation from Euroclear Finland of the execution of the transfer and all requirements of a legally valid pledge have been met.

Similarly, counterparties may withdraw from the pool or replace domestic assets in the pool by sending the relevant information via SWIFT to the BoF-CMS-Cola collateral management system and to Euroclear Finland. However, such withdrawal or replacement of collateral must not result in a collateral deficit in the counterparty's pool.

#### **3.4.2 Procedures concerning domestic non-marketable assets (ECB/2014/60, Article 98)**

##### **3.4.2.1 Principles for the use of domestic credit claims as collateral**

All Eurosystem national central banks have developed procedures for managing domestic credit claims, in accordance with the requirements of their respective national legislation and operating environment.

Prior to the use of credit claims as collateral, Bank of Finland counterparties must ensure that they fulfil the technical and operative requirements according to these instructions for the use of credit claims as collateral and that the credit claims they submit as collateral meet the legal and other requirements.

In order to use credit claims as collateral, a counterparty must provide details of each credit claim it uses as collateral to the Bank of Finland, which manages such information in the BoF-CMS-Cola collateral management system. The counterparty undertakes to provide timely information on credit claims that it submits as collateral and to comply with the instructions of the Bank of Finland for



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addition of credit claims to the counterparty's pool of assets, update of credit claim data and withdrawal of credit claims from the pool.

#### 3.4.2.2 Operative preconditions for the use of credit claims as collateral

The use of credit claims as collateral requires that the following technical and operative measures have been taken:

- The counterparty has signed a separate pledge agreement on credit claims with the Bank of Finland.
- The counterparty has obtained approval from the Bank of Finland for the system(s) it uses to assess debtors' or guarantors' creditworthiness.
  - The counterparty that is using the internal ratings-based system or that is applying for acceptance of the system shall submit to the Bank of Finland a description of the procedures it will use for providing to the Bank of Finland information specified in the reporting obligations of counterparties using an internal ratings-based system (ECB Guideline ECB/2014/60, Article 123).
- The counterparty has submitted to the Bank of Finland a description of the procedures by which the counterparty intends to provide the Bank of Finland with details of credit claims used as collateral and of the procedures by which the counterparty intends to store credit claims pledged to the Bank of Finland, and the Bank of Finland has approved the said description.
- The counterparty has submitted to the Bank of Finland the required specimen signatures relating to the use of credit claims as collateral.
- The counterparty has undertaken the necessary testing with the Bank of Finland regarding the processes for the delivery and use of credit claims as collateral.

The Bank of Finland requires notifications by counterparties of all changes they make to their procedures for submitting information on credit claims used as collateral. The Bank of Finland requires notifications by counterparties using an eligible internal ratings-based system of all changes they make to their procedures for providing to the Bank of Finland information specified in the reporting obligations of counterparties using an internal ratings-based system.

#### 3.4.2.3 Use of credit claims as collateral

In order to use credit claims as collateral, a counterparty must provide details of each credit claim it uses as collateral to the Bank of Finland, which manages such information in the BoF-CMS-Cola collateral management system. The information is submitted via SWIFTNet FileAct, using a duly drafted file, specified by the Bank of Finland in a separate instruction, or in contingencies, using a contingency assignment form, sent by encrypted email or by fax. In addition to the required information, the counterparty must indicate the measures taken regarding the credit claims: the addition of a new credit claim to the pool of assets, updating of previously supplied credit claim details or the withdrawal of credit claims from the pool.

If a counterparty mobilises as collateral credit claims whose eligibility is determined based on the guarantor, it must submit a copy of the guarantee documents pertaining to the loan to the Bank of



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Finland by encrypted email or fax. The Bank of Finland inspects the guarantee documentation in advance prior to adding the credit claim into the counterparty's pool of collateral.

Prior to addition of a credit claim to the counterparty's pool of assets, the measures related to its pledging must also have been duly completed (see section 3.4.2.4 "Pledge of credit claims and unwinding of pledge").

The counterparty must update the details of credit claims in its collateral pool whenever changes occur e.g. due to early, partial or full repayment of a credit claim or because of changes in creditworthiness or material changes in the terms and conditions of credit claims. The Bank of Finland must be immediately notified of such changes, in no case later than the following business day. If a change in the details of a credit claim leads to the ineligibility of the credit claim, the counterparty must withdraw the credit claim from the pool. If changes made to the terms and conditions of a credit claim are so fundamental that the credit claim can no longer be considered the same claim, the old credit claim must first be withdrawn from the counterparty's pool and a new pledge signed in respect of the new credit claim.

If the counterparty wishes to withdraw a credit claim from its collateral pool, it must so inform the Bank of Finland, using a SWIFTNet FileAct or in contingencies, using a contingency assignment form, choosing "Unwinding of pledge" as the measure to be taken. The successful processing of the file or the assignment leads to the removal of the collateral value of the credit claim from the counterparty's pool. After this, the counterparty must take due measures related to the unwinding of the pledge (see section 3.4.2.4 "Pledge of credit claims and unwinding of pledge"). In withdrawing credit claims from its pool of assets or sending updated details of credit claims that reduce the collateral value of credit claims, the counterparty must ensure that such measures do not lead to a collateral deficit in its pool.

The counterparty may send credit claim details to the Bank of Finland during the opening hours of the BoF-CMS-Cola system. The Bank of Finland updates information on credit claims already serving as collateral and withdraws credit claims from the counterparty's pool, as per the file or the contingency form submitted by the counterparty, on the day the instructions arrive at the Bank of Finland.

Normally, additions of new credit claims to a counterparty's pool of assets are also made during the same day. However, additions of credit claims require, in addition to submission of credit claim information, finalisation of the pledging procedure. If, for administrative reasons, the handling of a new credit claim requires more time and the Bank of Finland is unable to add the new credit claim to the counterparty's pool on the day of submission of credit claim information, the Bank of Finland will inform the counterparty thereof and the addition will be made as soon as possible. The use of syndicated credit claims and credit claims eligible through a guarantor always requires manual processing by the Bank of Finland, and therefore a longer time is allotted for the processing.

If the submitted SWIFTNet FileAct does not comply with the current Bank of Finland specifications, the Bank of Finland will not be liable for any possible damages arising therefrom. Counterparties shall



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always inform by phone the Bank of Finland's TARGET Services of the use of the contingency assignment form.

#### 3.4.2.4 Pledge of credit claims and unwinding of pledge

Under Finnish legislation, the measures required for pledging credit claims depend on the juridical type of the underlying promissory notes.

The precondition for using ordinary promissory notes as collateral is that the debtor (and any guarantor) has been notified of their use as collateral in advance (*ex ante* notification). The counterparty must submit the notification to the debtor in a manner agreed with the debtor. The notification must state that payments of interest and principal will continue to be made to the counterparty. After the notification has become effective according to the time limits agreed between counterparty and debtor, the credit claim can be added to the counterparty's pool of assets. Similarly, when the counterparty notifies the Bank of Finland of withdrawal of a credit claim from its pool and the pledge between the parties concerned is considered to be terminated, the Bank of Finland will give written permission to the counterparty to notify the debtor (and any guarantor) of termination of the pledge.

The precondition for using negotiable promissory notes as collateral is that the counterparty makes a separate endorsement on the original credit documents to the benefit of the Bank of Finland and submits the information regarding the endorsement to the Bank of Finland. Upon termination of the pledge, the original endorsement must be delivered by mail, as a registered letter, to the Bank of Finland, which then transfers the credit claim back to the counterparty. After this, the Bank of Finland posts the original endorsement back to the counterparty.

Counterparties must store credit documents and endorsements on their premises with due diligence and due care.

Despite pledging, the customer relationship between counterparty and debtor remains unchanged, that is, the debtor continues to make payments of interest and principal to the counterparty. In the event of a counterparty's insolvency or failure to fulfil an obligation for which the credit claim serves as collateral, the Bank of Finland will request the debtor to make future payments of interest and principal on the credit claim to the Bank of Finland. In such a case, the counterparty must deliver all necessary documents to the Bank of Finland.

#### 3.4.2.5 Syndicated loan shares

Bank of Finland counterparties may use syndicated loan shares as collateral in accordance with ECB guideline ECB/2014/60. Counterparties must apply the utmost diligence in assessing the eligibility of syndicated loan shares. In addition to other conditions pertaining to non-marketable credit claims, syndicated loan shares must fulfil the Bank of Finland's requirements specified below. The Bank of Finland may require additional information on syndicated loan shares to ensure their eligibility.

Contrary to other non-marketable credit claims, the Bank of Finland checks in advance all details of a syndicated loan share and the related loan documentation in full prior to adding the loan share to the





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counterparty's pool of assets. Any documentation relating to syndicated loan shares must be submitted to the Bank of Finland by encrypted email.

Counterparties may propose the mobilisation as collateral of only one syndicated loan share at a time. If the Bank of Finland accepts the loan documentation, the verification form, the external legal assessment and the transfer document, it sends an email notification stating that the counterparty has permission to submit the details of the syndicated loan share as specified in sections 3.4.2.3 and 3.4.2.4.

#### 3.4.2.5.1 Description of the management process for syndicated loan shares

The Bank of Finland requires counterparties to provide a description of their procedures for ensuring the eligibility of syndicated loan shares in accordance with ECB guideline ECB/2016/60 and the eligibility criteria specified in sections 3.4.2 and 3.5.2 of these instructions. Such a description is required whenever (i) a counterparty grants a syndicated loan, (ii) a counterparty submits to the Bank of Finland a syndicated loan share to be used as collateral and (iii) a syndicated loan share is being used as collateral for the Bank of Finland. The Bank of Finland requires notifications by counterparties of any changes they make to their procedures for providing information on syndicated loan shares used as collateral.

#### 3.4.2.5.2 External legal eligibility assessment

The Bank of Finland requires counterparties to obtain from an external lawyer a written legal statement of the eligibility of a syndicated loan share, which must be sent to the Bank of Finland prior to submitting the loan share to be used as collateral. Counterparties are responsible for ensuring that the provider of the assessment is sufficiently competent and independent to deliver a reliable legal assessment. Irrespective of the legal assessment, counterparties must ascertain that syndicated loan shares fulfil the Bank of Finland's eligibility criteria. Requirements pertaining to an external legal eligibility assessment are available on request from the Bank of Finland or via the extranet service.

#### 3.4.2.5.3 Verification form and copies of original loan documentation

Prior to delivering a syndicated loan share to be used as collateral, a counterparty must submit to the Bank of Finland a verification form concerning the details of the syndicated loan share. An up-to-date verification form is available on request from the Bank of Finland or via the extranet service. In submitting the verification form, the counterparty must also submit copies of full documentation concerning the syndicated loan share, and of any related contracts, incl. the loan-related contractual agreements between the members of the syndicate.

#### 3.4.2.5.4 Transfer document

Prior to pledging a syndicated loan share as collateral, a counterparty must submit to the Bank of Finland the signed transfer document enabling the transfer of the syndicated loan share. The transfer is effected only if the counterparty fails to comply with its obligations and the Bank of Finland decides



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to transfer the syndicated loan share to itself or a third party. The counterparty must, in advance, agree with the Bank of Finland on the method and date of delivery of the transfer document.

Counterparties are under all circumstances responsible for the transfer fee payable to the agent of the syndicate. The Bank of Finland has the right to debit a counterparty's TARGET-Suomen Pankki system MCA account with a sum corresponding to the transfer fee charged by the syndicate's agent for the transfer of a syndicated loan share.

#### 3.4.2.6 Supplementary operational requirements concerning the use of additional credit claims as collateral

The use of additional credit claims as collateral requires that the following measures complementing section 3.4.2.1 have been taken:

- The counterparty must have obtained approval from the Bank of Finland for the system(s) it uses to assess debtors' or guarantors' creditworthiness in the framework for additional credit claims.
- The counterparty has submitted to the Bank of Finland a description of the procedures by which the counterparty intends to provide the Bank of Finland with details of additional credit claims used as collateral and of the procedures by which the counterparty intends to keep custody of additional credit claims pledged to the Bank of Finland.
  - In its procedures, the counterparty has also described how it ensures that any loans accepted as collateral under the framework for additional credit claims comply with the eligibility criteria defined by the Bank of Finland in section 3.2.3.

### **3.5 Cross-border use of eligible assets (ECB/2014/60, Articles 148–152)**

Bank of Finland counterparties may use eligible assets located in another euro area Member State ("foreign eligible assets") throughout the euro area for all types of Eurosystem credit operations in accordance with the ECB guideline ECB/2014/60. This section specifies the operative procedures for the mobilisation of foreign eligible assets in respect of Bank of Finland counterparties.

#### 3.5.1 Correspondent central banking model (ECB/2014/60, Article 149)

In delivering eligible marketable assets for its collateral pool via the correspondent central banking model (CCBM), a Bank of Finland counterparty must submit information on the collateral assets via a SWIFT message to the BoF-CMS-Cola collateral management system in accordance with the Bank of Finland's instructions. At the same time, the counterparty must also instruct its custodian to transfer the assets to the appropriate correspondent central bank, for holding on the Bank of Finland's account. Only after the Bank of Finland is informed by the correspondent central bank that a transfer has been completed and that all requirements of a legally valid pledge have been met, are the assets effectively pledged to the Bank of Finland and added to the pool of the counterparty.

Similarly, a counterparty may withdraw from the pool or replace foreign marketable assets in the pool by sending the relevant information via SWIFT to the BoF-CMS-Cola collateral management system and by instructing its own custodian accordingly. The Bank of Finland transfers the assets to the





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custodian indicated by the counterparty. However, such withdrawal or replacement of collateral must not result in a collateral deficit in the counterparty's pool.

### 3.5.2 Correspondent central banking model and tri-party collateral management services (ECB/2014/60, Article 152)

Bank of Finland counterparties may use Euroclear Bank's tri-party collateral management services via the correspondent central banking model (CCBM). Access to the tri-party collateral management services requires conclusion of an agreement between the counterparty, Euroclear Bank and the Belgian central bank operating as the correspondent central bank. The amount of collateral assets delivered to the Bank of Finland is managed via the BoF-CMS-Cola collateral management system. More information on access to the tri-party collateral management services and the related requirements can be obtained from the Bank of Finland's TARGET Services.

### 3.5.3 Foreign non-marketable assets

Bank of Finland counterparties may also use as collateral such non-marketable assets that are governed by the law of a euro area Member State other than Finland. These foreign credit claims may be used as collateral via the correspondent central banking model (CCBM). If Bank of Finland counterparties use such foreign credit claims as collateral, they must deliver the information required for their use as collateral to the relevant correspondent central bank and confirm the existence of a legally valid pledge of the credit claims, according to instructions from the correspondent central bank.

Bank of Finland counterparties must also take into account that if credit claims – even those subject to Finnish law – have been granted to foreign debtors, 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, if necessary, information on additional measures that may be required under the legislation of the country concerned.

## 3.6 Specific procedures related to foreign assets

### 3.6.1 Taxation of foreign marketable debt instruments and related corporate actions

The counterparty is responsible for knowing the taxation principles applicable to foreign debt instruments mobilised as collateral. If the counterparty submits as collateral under the correspondent central banking model (CCBM) debt instruments on which the interest income is subject to withholding tax, the counterparty must be able to prove its tax status. The correspondent central bank involved may, prior to the coupon detachment date, request that the Bank of Finland provide it with documentation certifying the tax status. The Bank of Finland will forward the request to the counterparty, which must deliver the documentation to the Bank of Finland by the specified deadline.

The Bank of Finland will forward the documentation required for taxation purposes to the correspondent central bank to the best of its ability, consistent with due diligence. If, despite this, damage ensues or if the counterparty fails to submit the required documentation for proof of tax status



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or if there are defects in the documentation submitted, the Bank of Finland will not assume responsibility for any tax withholding or tax reimbursement consequences.

The Bank of Finland recommends that, in periods of coupon payments, counterparties avoid the use of collateral assets for which the coupon payments comprise interest income subject to withholding tax, which are denominated in currencies other than the euro or which have a negative cash flow.

The Bank of Finland will forward notices of corporate actions from the correspondent central bank to the counterparty. If the counterparty wishes to be party to the corporate action, the Bank of Finland will forward the documentation received from the counterparty to the correspondent central bank to the best of its ability, consistent with due diligence.



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### 3.6.2 Taxation of marketable debt instruments issued by entities established in non-EEA G10 countries and related corporate actions

In addition to what is provided above concerning taxation procedures related to foreign marketable debt instruments, counterparties must take account of any particular tax-related matters concerning debt instruments issued by entities established in non-EEA G-10 countries. If the counterparty mobilises as collateral debt instruments on which the interest income is subject to withholding tax, the Bank of Finland must be provided with documentation certifying the counterparty's own tax status in sufficiently good time prior to the delivery of such debt instruments as collateral.

In order to ensure smooth functioning of operational processes, the counterparty may use only such collateral assets in respect of which the counterparty is itself the beneficial owner or in respect of which it acts as Qualified Intermediary (the latter option concerns only US issues). The Bank of Finland reserves the right to deviate from this principle on the basis of a separate application from the counterparty.

Counterparties that intend to mobilise as collateral debt instruments issued by entities established in non-EEA G-10 countries are requested to contact the Bank of Finland in good time for further instructions.

### 3.7 Collateral management opening hours and deadlines

The Bank of Finland's BoF-CMS-Cola system and its counterparty interface are available from 8:00 to 19:00 on the same days as the T2 system is operational. If circumstances require that the T2 system's opening hours are extended, the opening hours of the BoF-CMS-Cola system will also be extended.

Foreign collateral may be increased or decreased during the opening hours of the correspondent central banking model (CCBM) (ECB guideline ECB/2014/60, Annex VI).

The counterparty may send domestic credit claim details to the Bank of Finland during the opening hours of the BoF-CMS-Cola system.

### 3.8 Collateral management fees

The Bank of Finland collects the following fees, as determined by the ECB, in respect of collateral (marketable and non-marketable assets) delivered via the CCBM system:

- A safe-keeping and management fee of 0.0069% p.a. of the average nominal value of collateral
- A transaction fee of EUR 30 for each addition to the pool, per collateral asset
- A monthly fee of EUR 50 for each tri-party collateral management service used and a transaction fee of EUR 30 for each change in the global amount of collateral.



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The collateral management fees for book-entry accounts opened in the Bank of Finland's book-entry register in Euroclear Finland's Infinity system correspond to those charged in connection with the CCBM system.

The Bank of Finland charges a management fee for using domestic credit claims, amounting to 0.0020% p.a. of the collateral value of credit claims serving as collateral. For using syndicated loan shares, the Bank of Finland charges, in addition to a management fee, a handling fee amounting to EUR 500 / syndicated loan share submitted as collateral.

Primarily for accessing the counterparty interface of the BoF-CMS-Cola collateral management system, the Bank of Finland delivers to its counterparties per SMS a user-specific one-time password.

If necessary, the Bank of Finland may until further notice offer to its counterparties free of charge also 8 RSA SecurID cards (test and production environments). Subsequently, the charge for each new RSA SecurID card will be EUR 30 per month.

The Bank of Finland invoices counterparties monthly in arrears for collateral management fees.



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**Public****APPENDIX 1. BANK OF FINLAND CONTACT DETAILS****Monetary policy operations**

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**Public****APPENDIX 2. VALUATION HAIRCUT LEVELS APPLIED IN THE BANK OF FINLAND'S FRAMEWORK FOR ADDITIONAL CREDIT CLAIMS**

Table 1. Valuation haircut levels applied to eligible additional credit claims whose credit assessment corresponds with credit quality step 4.

Credit quality	Remaining maturity (years)*	Fixed interest rate	Floating interest rate
Step 4	[0,1)	46 %	46 %
	[1,3)	57 %	57 %
	[3,5)	59 %	59 %
	[5,7)	61 %	61 %
	[7,10)	63 %	63 %
	[10, 15)	64 %	64 %
	[15, 30)	65 %	65 %
	[30, ∞)	65 %	65 %

\*[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.