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## PRESS RELEASE

# ECB FURTHER REVIEWS ITS RISK CONTROL FRAMEWORK ALLOWING FOR A NEW TREATMENT OF ASSET-BACKED SECURITIES

The Governing Council of the European Central Bank (ECB) decided to further strengthen its risk control framework. To maintain adequate risk protection, the ECB regularly adjusts its collateral eligibility rules and haircuts applied when accepting collateral in Eurosystem monetary policy operations. In addition, some measures aim to improve the overall consistency of the framework. At the same time, the list of collateral accepted under the permanent Eurosystem collateral framework will be expanded. These measures taken together have an overall neutral effect on the amount of collateral available.

In the biennial review of its risk control framework applied in Eurosystem monetary policy operations, the Governing Council decided in particular to:

- Update the **haircuts for marketable instruments**;
- Adjust the risk control measures for **retained covered bonds** to take into account the additional risk which results from the use of such securities by the issuer itself and to ensure a level playing field between securities with comparable risks;
- Replace the current requirement of two ‘triple A’ ratings with the requirement of **two ‘single A’ ratings** for the six classes of asset-backed securities (ABS) subject to loan level reporting requirements, reflecting their improved transparency and standardisation;
- Reduce the **haircuts applicable to ABS** eligible under the **permanent** and **temporary** Eurosystem collateral framework.

In addition, the Governing Council has adjusted the eligibility criteria and haircuts applied by National Central Banks (NCBs) to pools of credit claims and certain types of the additional credit claims (ACC) eligible under the temporary Eurosystem collateral framework. The amendments will lead to more consistency of the ACC framework and is expected to generate collateral gains without affecting the overall risk contribution of ACCs.

Besides the adjustments to the risk control framework, the ECB will continue to investigate how to catalyse recent initiatives by European institutions to improve funding conditions for Small and Medium-sized Enterprises (SMEs), in particular as regards the possible acceptance of SME linked ABS guaranteed mezzanine tranches as Eurosystem collateral in line with established guarantee policies.

The Governing Council reserves the right to limit or exclude the use of certain assets as collateral in its credit operations, also at the level of individual counterparties.

These measures will come into force once formalised with the relevant Eurosystem legal acts and/or national implementing provisions.

Further details about the new haircut schedules can be obtained via the Annex to this press release.

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## ANNEX

**Table 1: ECB introduces a new haircut schedule for marketable assets<sup>1</sup>**

Levels of valuation haircuts applied to eligible marketable assets										
Credit quality	Residual maturity ( years )	Haircut categories								Category V*
		Category I		Category II*		Category III*		Category IV*		
		fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	
Steps and ( AAA A- )	0-1	0.5	0.5	1.0	1.0	1.0	1.0	6.5	6.5	10.0
	1-3	1.0	2.0	1.5	2.5	2.0	3.0	8.5	9.0	
	3-5	1.5	2.5	2.5	3.5	3.0	4.5	11.0	11.5	
	5-7	2.0	3.0	3.5	4.5	4.5	6.0	12.5	13.5	
	7-10	3.0	4.0	4.5	6.5	6.0	8.0	14.0	15.5	
	>10	5.0	7.0	8.0	10.5	9.0	13.0	17.0	22.5	
		Haircut categories								
Credit quality	Residual maturity ( years )	Category I		Category II*		Category III*		Category IV*		Category V*
		fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	
		fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	
Step ( BBB+ BBB- )	0-1	6.0	6.0	7.0	7.0	8.0	8.0	13.0	13.0	22.0
	1-3	7.0	8.0	10.0	14.5	15.0	16.5	24.5	26.5	
	3-5	9.0	10.0	15.5	20.5	22.5	25.0	32.5	36.5	
	5-7	10.0	11.5	16.0	22.0	26.0	30.0	36.0	40.0	
	7-10	11.5	13.0	18.5	27.5	27.0	32.5	37.0	42.5	
	>10	13.0	16.0	22.5	33.0	27.5	35.0	37.5	44.0	

\* Individual asset-backed securities, covered bank bonds (jumbo covered bank bonds, traditional covered bank bonds and other covered bank bonds) and uncovered bank bonds that are theoretically valued in accordance with Section 6.5 are subject to an additional valuation haircut. This haircut is directly applied at the level of the theoretical valuation of the individual debt instrument in the form of a valuation markdown of 5 %. Furthermore, a valuation markdown is applied to retained covered bonds. This valuation markdown is 8% for retained covered bonds in CQS 1&2 and 12% for retained covered bonds in CQS 3.

<sup>1</sup> Note that the haircuts applicable to Credit Quality Step (CQS) 3 ABS are only relevant for securities accepted under the Eurosystem temporary collateral framework (Guideline of the ECB of 20 March 2013 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (recast) (ECB/2013/4)). Furthermore, the haircut applied to marketable debt instruments included in haircut categories I to IV with variable rate coupons is that applied to the zero-to-one-year maturity bucket of fixed coupon instruments in the haircut category and credit quality category to which the instrument is assigned.



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**Table 2: ECB introduces a new haircut schedule for credit claims<sup>2</sup>**

Levels of valuation haircuts applied to eligible non-marketable assets				
<i>Credit quality</i>	<i>Residual maturity (years)</i>	<i>Asset categories</i>		Non-marketable RMB debt
		Credit claims		
		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	39.5
	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	
<i>Credit quality</i>	<i>Residual maturity (years)</i>	Credit claims		Non-marketable RMB debt
		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	Not eligible
	1-3	29.0	34.0	
	3-5	37.0	46.0	
	5-7	39.0	52.0	
	7-10	40.0	58.0	
	>10	42.0	65.0	

<sup>2</sup> The haircut applied to credit claims with variable rate interest payments is that applied to the credit claims with fixed interest payments classified in the zero-to-one-year maturity bucket corresponding to the same credit quality and the same valuation methodology (valuation based on a theoretical price assigned by the NCB or on the outstanding amount assigned by the NCB).