EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK

of 5 November 2010

on amendments to the monetary policy operations framework with a view to further harmonising it with the Eurosystem

(CON/2010/77)

<u>Introduction and legal basis</u>

On 8 October 2010 the European Central Bank (ECB) received a request from Latvijas Banka for an opinion on draft amendments to the Regulation on the use of Latvijas Banka's monetary policy instruments (hereinafter the 'draft legislation').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and Article 2(2) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions[1], as the draft legislation relates to instruments of monetary policy in a Member State whose currency is not the euro. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft legislation

The main objective of the draft legislation is to further harmonise the monetary policy operations framework of Latvijas Banka with that of the Eurosystem by (i) updating valuation haircuts to assets rated AAA/Aaa to A–/A3; (ii) introducing a new set of valuation haircuts for BBB+/Baa1 to BBB–/Baa3 rated assets and repealing the existing 5% additional valuation haircut regarding these assets; and (iii) imposing an additional valuation haircut in the form of a valuation markdown of 5% to theoretically valued covered bank bonds and other debt instruments issued by credit institutions.

2. Observations

2.1 Although Member States whose currency is not the euro retain their powers in the field of monetary policy, it is nevertheless beneficial for them to gradually achieve consistency with the operational framework for the implementation of the ECB's monetary policy so that credit institutions operating in their territories can become acquainted with the requirements that will

1 OJ L 189, 3.7.1998, p. 42.

apply once these Member States have adopted the euro. Such gradual harmonisation prior to the adoption of the euro will contribute to the smooth integration of the national central bank into the Eurosystem.

2.2 The ECB has previously commented on the Regulation on the use of Latvijas Banka's monetary policy instruments, as well as other regulations relating to monetary policy instruments[2]. In its opinions, the ECB emphasises the need to further align the Latvian minimum reserves regime with Eurosystem standards, including the point that contrary to the current arrangements Latvian credit unions will be subject to the Eurosystem's minimum reserves requirements when Latvia adopts the euro. The ECB notes that all comments previously made on the Latvian minimum reserves regime still remain valid.

2.3 The ECB welcomes the amendments to risk control measures introduced by the draft legislation that will contribute to the alignment of the monetary policy operations frameworks of Latvijas Banka and the Eurosystem.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 5 November 2010.

[signed]

The President of the ECB

Jean-Claude TRICHET

2 See ECB Opinions CON/2006/11, CON/2006/49, CON/2007/12, CON/2008/89 and CON/2010/18. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.