



## **OPINION OF THE EUROPEAN CENTRAL BANK**

**of 29 February 2012**

**on minimum reserve requirements**

**(CON/2012/16)**

### **Introduction and legal basis**

On 6 February 2012 the European Central Bank (ECB) received a request from Latvijas Banka for an opinion on a draft regulation on the minimum reserve requirements for credit institutions (hereinafter the 'draft regulation').

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<sup>1</sup>, as the draft regulation relates to instruments of monetary policy. 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 regulation**

The draft regulation replaces the current regulation with the aim of further harmonising the Latvian minimum reserve requirements with those of Eurosystem. It clarifies the application of minimum reserve requirements, in particular, the reporting procedures and calculations following mergers or divisions of credit institutions. It also amends the criteria for granting exemptions from reserve requirements and aligns terminology with other legal acts.

### **2. General observations**

Member States that have not adopted the euro retain their monetary policy powers, including in connection with their minimum reserves frameworks. Nevertheless, it is beneficial to achieve consistency with the Eurosystem minimum reserves framework so that their credit institutions become acquainted with the reserve requirements that will apply to them following the adoption of the euro by the Member State where they are established. The legal framework for the Eurosystem's minimum reserve system consists of: (i) Article 19 of the Statute of the European System of Central Banks and of the European Central Bank; (ii) Council Regulation (EC) No 2531/98 of 23 November 1998 concerning the application

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<sup>1</sup> OJ L 189, 3.7.1998, p. 42.

of minimum reserves by the European Central Bank<sup>2</sup>; (iii) Regulation ECB/2003/9 of 12 September 2003 on the application of minimum reserves<sup>3</sup>; and (iv) in relation to the definition and calculation of the reserve base, Regulation ECB/2008/32 of 19 December 2008 concerning the balance sheet of the monetary financial institutions sector<sup>4</sup>. Article 11 and Annex III to Regulation ECB/2008/32 require the use of statistical information by credit institutions reported under this Regulation for minimum reserve purposes.

### **3. Credit unions**

Previous ECB opinions on Latvijas Banka's minimum reserve requirements and other monetary policy instruments<sup>5</sup> emphasised the need to further align the Latvian minimum reserves regime with Eurosystem standards. In particular, Latvian credit unions will be subject to the Eurosystem's minimum reserve requirements when Latvia adopts the euro.

### **4. Reserve ratios**

ECB has also previously commented on the provision<sup>6</sup> entitling Latvijas Banka to establish different reserve ratios for deposits with an agreed maturity over two years, deposits redeemable at notice over two years, debt securities issued with an agreed maturity over two years, repos and other liabilities. Under this provision, reserve ratios applied by Latvijas Banka could differ from the fixed reserve ratios in Article 4 of Regulation ECB/2003/9. These differences between the Eurosystem and Latvia will need to be eliminated on Latvia's accession to the euro area.

### **5. Reporting procedures**

The ECB welcomes the introduction of a time limit for revising calculations of credit institutions' minimum reserves<sup>7</sup> that further aligns Latvian reporting requirements with those of the Eurosystem. The ECB also welcomes the modifications to the procedures following mergers or divisions of credit institutions<sup>8</sup>.

### **6. Exemptions and lists**

The ECB welcomes the introduction of separate lists for institutions subject to reserve requirements and institutions exempt from reserve requirements which brings the Latvian minimum reserves regime more in line with the procedures in Article 2(3) of Regulation ECB/2003/9. The ECB notes that the Latvian

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<sup>2</sup> OJ L 318, 27.11.1998, p. 1.

<sup>3</sup> OJ L 250, 2.10.2003, p. 10.

<sup>4</sup> OJ L 15, 20.1.2009, p. 14.

<sup>5</sup> See ECB Opinions CON/2006/11, CON/2008/89, CON/2010/18 and CON/2010/77. All ECB opinions are available on the ECB's website at [www.ecb.europa.eu](http://www.ecb.europa.eu).

<sup>6</sup> See Section III of the draft regulation.

<sup>7</sup> See Section V of the draft regulation.

<sup>8</sup> See Section VI of the draft regulation.

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minimum reserve regime, as provided in the draft regulation, does not provide for exempting institutions from reserve requirements because they are subject to freezing of funds and/or other measures imposed by the European Union or a Member State under Article 75 of the Treaty or a decision by the ECB's Governing Council. The ECB welcomes amendments to the criteria for granting exemptions. However, the grounds for exempting credit institutions from reserve requirements provided for in Article 27 of the draft regulation are narrower than those provided for in Article 2(2) of Regulation ECB/2003/9. Therefore, the ECB recommends further alignment with Regulation ECB/2003/9.

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

Done at Frankfurt am Main, 29 February 2012.

[signed]

*The President of the ECB*

Mario DRAGHI