

GUIDELINES

EUROPEAN CENTRAL BANK

GUIDELINE OF THE EUROPEAN CENTRAL BANK

of 23 October 2008

amending Guideline ECB/2000/7 on monetary policy instruments and procedures of the Eurosystem

(ECB/2008/13)

(2009/99/EC)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty establishing the European Community and in particular to the first indent of Article 105(2),

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

Whereas:

- (1) Achieving a single monetary policy entails defining the instruments and procedures to be used by the Eurosystem, consisting of the national central banks (NCBs) of Member States that have adopted the euro (hereinafter the participating Member States) and the European Central Bank (ECB), in order to implement such a policy in a uniform manner throughout the participating Member States.
- (2) The ECB has the authority to establish the necessary guidelines to implement the Eurosystem's single monetary policy and the NCBs have an obligation to act in accordance with such guidelines.
- (3) Current market events require certain changes to the definition and implementation of the Eurosystem's monetary policy. Appropriate amendments should therefore be made to Guideline ECB/2000/7 of

31 August 2000 on monetary policy instruments and procedures of the Eurosystem⁽¹⁾, in particular to reflect the following: (i) changes to the risk control framework and to the rules on collateral eligibility for Eurosystem credit operations; (ii) the acceptance of non-euro denominated collateral in certain contingencies; (iii) the need for provisions on the treatment of entities subject to the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty; and (iv) harmonisation with new provisions of Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves (ECB/2003/9)⁽²⁾,

HAS ADOPTED THIS GUIDELINE:

Article 1

Amendments to Annexes I and II

Guideline ECB/2000/7 is amended as follows:

1. Annex I is amended in accordance with Annex I to this Guideline;
2. Annex II is amended in accordance with Annex II to this Guideline.

Article 2

Verification

The NCBs shall forward details of the texts and means by which they intend to comply with this Guideline to the ECB by 30 November 2008 at the latest.

⁽¹⁾ OJ L 310, 11.12.2000, p. 1.

⁽²⁾ OJ L 250, 2.10.2003, p. 10.

*Article 3***Entry into force**

This Guideline shall enter into force on 1 November 2008. Article 1 shall apply from 1 February 2009.

*Article 4***Addressees**

This Guideline is addressed to the NCBs of participating Member States.

Done at Frankfurt am Main, 23 October 2008.

For the Governing Council of the ECB
The President of the ECB
Jean-Claude TRICHET

ANNEX I

Annex I to Guideline ECB/2000/7 is amended as follows:

1. in the table of contents the title of Section 6.7 'Acceptance of non-euro-denominated collateral in contingencies' is inserted;
2. Section 1.3.1 is amended as follows:
 - (a) in the first paragraph the fourth sentence of footnote 5 is replaced by the following:

'Quick tenders are normally executed within a time frame of 90 minutes.'
 - (b) the final sentence of the first indent of the first paragraph is replaced by the following:

'The main refinancing operations play a pivotal role in pursuing the objectives of the Eurosystem's open market operations.'
3. in Section 2.2 the first two sentences of the fourth paragraph are replaced by the following:

'In quick tenders and bilateral operations, the national central banks deal with the counterparties which are included in their respective set of fine-tuning counterparties. Quick tenders and bilateral operations may also be executed with a broader range of counterparties.'
4. the title of Section 2.4 is replaced by the following:

'2.4. Suspension or exclusion on grounds of prudence or events of default'
5. in Section 3.1.2 the final sentence of the first paragraph is deleted;
6. in Section 3.1.3 the second sentence of the first paragraph is deleted;
7. Section 4.1 is amended as follows:
 - (a) under the heading 'Access conditions' the first paragraph is replaced by the following:

'Institutions fulfilling the general counterparty eligibility criteria specified in Section 2.1 may access the marginal lending facility. Access to the marginal lending facility is granted through the NCB in the Member State in which the institution is established. Access to the marginal lending facility is granted only on days when TARGET2 (*) is operational (**). On days when the SSSs are not operational, access to the marginal lending facilities is granted on the basis of underlying assets which have already been pre-deposited with the NCBs.'

(*) From 19 November 2007, the decentralised technical infrastructure of TARGET has been replaced by the single shared platform of TARGET2 through which all payment orders are submitted and processed and through which payments are received in the same technical manner. Migration to TARGET2 has been arranged in three country groups, allowing TARGET users to migrate to TARGET2 in different waves and on different pre-defined dates. The composition of the country groups was the following: Group 1 (19 November 2007): Austria, Cyprus, Germany, Luxembourg, Malta and Slovenia; Group 2 (18 February 2008): Belgium, Finland, France, Ireland, Netherlands, Portugal and Spain; and Group 3 (19 May 2008): Greece, Italy, and the ECB. A fourth migration date (15 September 2008) was held in reserve as a contingency measure. Certain non-participating NCBs are also connected to TARGET2 on the basis of a separate agreement: Latvia and Lithuania (in Group 1), as well as Denmark, Estonia and Poland (in Group 3).

(**) In addition, access to the marginal lending facility is only granted when the requirements of the payment system infrastructure in the RTGS have been fulfilled.'

(b) under the heading 'Access conditions' in the third paragraph footnote 4 is replaced by the following:

'⁽⁴⁾ TARGET2 closing days are announced on the ECB's website (www.ecb.europa.eu), and on the Eurosystem websites (see Appendix 5).';

(c) under the heading 'Access conditions' in the third paragraph footnote 5 is deleted;

8. in Section 4.2, under the heading 'Access conditions' in the second paragraph footnote 12 is deleted;

9. in Section 5.1.3 the final sentence of the second paragraph is replaced by the following:

'In a quick tender which is not announced publicly in advance the selected counterparties are contacted directly by the NCBs. In a quick tender, which is announced publicly, the NCB may contact the selected counterparties directly.';

10. in Section 5.3.3 in the first paragraph footnote 12 is deleted;

11. Section 6.2 the second paragraph is replaced by the following:

'The Eurosystem shall only provide counterparties with advice regarding eligibility as Eurosystem collateral if already issued marketable assets or outstanding non-marketable assets are submitted to the Eurosystem as collateral. There shall thus be no pre-issuance advice.';

12. Section 6.2.1, under the heading 'Type of asset', is amended as follows:

(a) the following footnote 5 is inserted in point (a) of the first paragraph after the words 'unconditional principal amount':

'⁽⁵⁾ Bonds with warrants or other similar rights attached are not eligible.';

(b) the fourth paragraph is replaced by the following:

'The cash flow-generating assets backing the asset-backed securities must fulfil the following requirements:

(a) the acquisition of such assets must be governed by the law of an EU Member State;

(b) they must be acquired from the originator or an intermediary by the securitisation special-purpose vehicle in a manner which the Eurosystem considers to be a "true sale" that is enforceable against any third party, and be beyond the reach of the originator and its creditors, including in the event of the originator's insolvency; and

(c) they must not consist, in whole or in part, actually or potentially, of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives.';

(c) the fifth paragraph is replaced by the following:

'Within a structured issue, in order to be eligible, a tranche (or sub-tranche) may not be subordinated to other tranches of the same issue. A tranche (or sub-tranche) is considered to be non-subordinated vis-à-vis other tranches (or sub-tranches) of the same issue if, in accordance with the priority of payment applicable after the delivery of an enforcement notice, as set out in the offering circular, no other tranche (or sub-tranche) is given priority over that tranche (or sub-tranche) in respect of receiving payment (principal and interest), and thereby such tranche (or sub-tranche) is last in incurring losses among the different tranches or sub-tranches of a structured issue.';

13. in Section 6.2.1, under the heading 'Place of issue' the first sentence of footnote 7 is replaced by the following:

'Since 1 January 2007, international debt securities in global bearer form issued through the ICSDs Euroclear Bank (Belgium) and Clearstream Banking Luxembourg must, in order to be eligible, be issued in the form of New Global Notes (NGNs) and must be deposited with a Common Safekeeper (CSK) which is an ICSD or, if applicable, a CSD that fulfils the minimum standards established by the ECB.';

14. Section 6.2.2, under the heading 'Credit claims' is amended as follows:

(a) in the first paragraph of the first indent of the first paragraph the final sentence is replaced by the following:

'Credit claims may not afford rights to the principal and/or the interest that are subordinated to the rights of holders of other credit claims (or other tranches or sub-tranches in the same syndicated loan) or debt instruments of the same issuer.');

(b) in the second paragraph of the first indent of the first paragraph the following sentence is inserted after the second sentence:

'Furthermore, credit claims with interest rate linked to the inflation rate are also eligible.');

(c) In the fifth indent of the first paragraph footnote 20 is deleted;

15. Section 6.2.3, under the heading 'Rules for the use of eligible assets' is amended as follows:

(a) points (i) to (iii) of the third paragraph are replaced by the following:

(i) the counterparty owns directly, or indirectly, through one or more other undertakings, 20 % or more of the capital of the issuer/debtor/guarantor; or

(ii) the issuer/debtor/guarantor owns directly, or indirectly through one or more other undertakings, 20 % or more of the capital of the counterparty; or

(iii) a third party owns more than 20 % of the capital of the counterparty and more than 20 % of the capital of the issuer/debtor/guarantor, either directly or indirectly, through one or more undertakings.;

(b) the fourth and fifth paragraphs are replaced by the following:

'The above provision on close links does not apply to: (a) close links between the counterparty and the public authorities of EEA countries or in the case where a debt instrument is guaranteed by a public sector entity which has the right to levy taxes; (b) covered bank bonds issued in accordance with the criteria set out in Article 22(4) of the UCITS Directive; or (c) cases in which debt instruments are protected by specific legal safeguards comparable to those instruments given under (b) such as in the case of non-marketable retail mortgage-backed debt instruments (RMBDs) which are not securities.'

Moreover, a counterparty may not submit as collateral any asset-backed security if the counterparty (or any third party with which it has close links) provides a currency hedge to the asset-backed security by entering into a currency hedge transaction with the issuer as a hedge counterparty or provides liquidity support for 20 % or more of the outstanding amount of the asset-backed security.;

(c) Table 4 entitled 'Eligible assets for Eurosystem monetary policy operations' is updated as follows:

— footnote 4 is deleted,

— in the column on eligibility criteria the words 'Governing laws related to credit claims' are replaced by 'Governing laws',

— in the 10th row of the column on marketable assets the words 'Not applicable' are replaced by 'For asset-backed securities the acquisition of the underlying assets must be governed by the law of an EU Member State.');

16. Section 6.3.1 is amended as follows:

(a) the following is inserted as the fourth paragraph:

‘With regard to the ECAI source, the assessment must be based on a public rating. The Eurosystem reserves the right to request any clarification that it considers necessary. For asset-backed securities, ratings must be explained in a publicly available credit rating report, being a detailed pre-sale or new issue report, including, *inter alia*, a comprehensive analysis of structural and legal aspects, a detailed collateral pool assessment, an analysis of the transaction participants as well as an analysis of any other relevant particularities of a transaction. Moreover ECAIs must publish regular surveillance reports for asset-backed securities at least on a quarterly basis (*). These reports should at least contain an update of the key transaction data (e.g. composition of the collateral pool, transaction participants, capital structure), as well as performance data.

(*) For asset backed securities whose underlying assets pay principal or interest at semi-annual or annual frequency, surveillance reports can follow a semi-annual or annual frequency respectively.’;

(b) in the fifth paragraph footnote 26 is replaced by the following:

‘ “Single A” means a minimum long-term rating of “A-” by Fitch or Standard & Poor’s, or “A3” by Moody’s, or “AL” by DBRS.’;

(c) the sixth and seventh paragraphs are replaced by the following:

‘The Eurosystem reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils its requirements for high credit standards on the basis of any information it may consider relevant and may reject, limit the use of assets or apply supplementary haircuts on such grounds if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Such measures can also be applied to specific counterparties, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the collateral assets submitted by the counterparty. In case such a rejection is based on prudential information, the use of any such information transmitted either by counterparties or by supervisors shall be strictly commensurate with, and necessary for, the performance of the Eurosystem’s tasks of conducting monetary policy.

Assets issued or guaranteed by entities subject to the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB’s Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem’s standing facilities may be excluded from the list of eligible assets.’;

17. in Section 6.3.4, under the heading ‘External credit assessment institution source’ the first sentence of the second indent of the first paragraph is replaced by the following:

‘ECAIs must fulfil operational criteria and provide relevant coverage so as to ensure the efficient implementation of the ECAF.’;

18. Section 6.4.1 is amended as follows:

(a) the final sentence of the second paragraph is replaced by the following:

‘The risk control measures are broadly harmonised across the euro area (*) and ought to ensure consistent, transparent and non-discriminatory conditions for any type of eligible asset across the euro area.

(*) Owing to operational differences across Member States, some differences in terms of risk control measures may prevail. For instance, in respect of the procedures for counterparties’ delivery of underlying assets to the NCBs (in the form of a pool of collateral pledged with the NCB or as repurchase agreements based on individual assets specified for each transaction), minor differences may occur with regard to the timing of the valuation and other operational features of the risk control framework. Furthermore, in the case of non-marketable assets, the precision of valuation techniques may differ, which is reflected in the overall level of haircuts (see Section 6.4.3).’;

(b) the following paragraph is added:

The Eurosystem reserves the right to apply additional risk control measures if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Such risk control measures, which shall be applied in a consistent, transparent and non-discriminatory manner, can also be applied at the level of individual counterparties if required to ensure such protection.;

(c) box 7 entitled 'Risk control measures' is replaced by the following:

<p>'BOX 7</p> <p>Risk control measures</p> <p>The Eurosystem applies the following risk control measures:</p> <p>— <i>Valuation haircuts</i></p> <p>The Eurosystem applies "valuation haircuts" in the valuation of underlying assets. This implies that the value of the underlying asset is calculated as the market value of the asset less a certain percentage (haircut).</p> <p>— <i>Variation margins (marking to market)</i></p> <p>The Eurosystem requires the haircut-adjusted market value of the underlying assets used in its liquidity-providing reverse transactions to be maintained over time. This implies that if the value, measured on a regular basis, of the underlying assets falls below a certain level, the NCB will require the counterparty to supply additional assets or cash (i.e. it will make a margin call). Similarly, if the value of the underlying assets, following their revaluation, exceeds a certain level, the counterparty may retrieve the excess assets or cash. (The calculations relevant for the execution of margin calls are presented in box 8).</p> <p>The following risk control measures may also be applied by the Eurosystem at any time if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB:</p> <p>— <i>Initial margins</i></p> <p>The Eurosystem may apply initial margins in its liquidity-providing reverse transactions. This would imply that counterparties would need to provide underlying assets with a value at least equal to the liquidity provided by the Eurosystem plus the value of the initial margin.</p> <p>— <i>Limits in relation to issuers/debtors or guarantors</i></p> <p>The Eurosystem may apply limits to the exposure vis-à-vis issuers/debtors or guarantors. Such limits can also be applied to specific counterparties, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the collateral submitted by the counterparty.</p> <p>— <i>Additional guarantees</i></p> <p>The Eurosystem may require additional guarantees from financially sound entities in order to accept certain assets.</p> <p>— <i>Exclusion</i></p> <p>The Eurosystem may exclude certain assets from use in its monetary policy operations. Such exclusion can also be applied to specific counterparties, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the collateral submitted by the counterparty.</p> <p>Assets issued or guaranteed by entities subject to the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB's Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem's standing facilities may be excluded from the list of eligible assets.;</p>

19. Section 6.4.2 is amended as follows:

(a) the first sentence of the first indent of the first paragraph is replaced by the following:

‘Eligible marketable assets are allocated to one of five liquidity categories, based on issuer classification and asset type.’;

(b) the third sentence of the second indent of the first paragraph is replaced by the following:

‘The haircuts applied to debt instruments included in categories I to IV differ according to the residual maturity and coupon structure of the debt instruments as described in Table 7 for eligible marketable fixed coupon and zero coupon debt instruments (*).’

(*) The valuation haircut levels applied to fixed coupon debt instruments are also applicable to debt instruments, the coupon of which is linked to a change in the rating of the issuer itself or to inflation-indexed bonds.’;

(c) in the first paragraph the following third and fourth indents are inserted:

‘— Individual debt instruments included in category V are subject to a unique haircut of 12 % regardless of maturity or coupon structure.’

— Individual debt instruments included in category V that are theoretically valued according to Section 6.5 are subject to an additional valuation haircut. This haircut is directly applied at the level of theoretical valuation of the individual debt instrument in the form of a valuation markdown of 5 %.’;

(d) Table 6 is replaced by the following:

TABLE 6

Liquidity categories for marketable assets (*)

Category I	Category II	Category III	Category IV	Category V
Central government debt instruments	Local and regional government debt instruments	Traditional covered bank bonds	Credit institution debt instruments (unsecured)	Asset-backed securities
Debt instruments issued by central banks ⁽¹⁾	Jumbo covered bank bonds ⁽²⁾ Agency debt instruments ⁽³⁾ Supranational debt instruments	Debt instruments issued by corporate and other issuers ⁽³⁾		

⁽¹⁾ Debt certificates issued by the ECB and debt instruments issued by the NCBs prior to the adoption of the euro in their respective Member State are included in liquidity category I.

⁽²⁾ Only instruments with an issuing volume of at least EUR 1 billion, for which at least three market-makers provide regular bid and ask quotes, fall into the asset class of jumbo covered bank bonds.

⁽³⁾ Only marketable assets issued by issuers that have been classified as agencies by the ECB are included in liquidity category II. Marketable assets issued by other agencies are included in liquidity category III.

(*) In general, the issuer classification determines the liquidity category. However, all asset-backed securities are included in category V, regardless of the classification of the issuer, and jumbo covered bank bonds are included in category II, while traditional covered bank bonds and other debt instruments issued by credit institutions are included in categories III and IV.’

(e) the third, fourth and fifth indents are replaced by the following:

‘— The valuation haircuts applied to all marketable inverse floating rate debt instruments included in categories I to IV are the same and are described in Table 8.’

— The haircut applied to marketable debt instruments included in 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 liquidity category to which the instrument is assigned.

- The risk control measures applied to a marketable debt instrument included in categories I to IV with more than one type of coupon payment solely depend on the coupon payments during the remaining life of the instrument. The valuation haircut applied to such an instrument is set equal to the highest of the haircuts applicable to debt instruments with the same residual maturity, and coupon payments of any one of the types occurring in the remaining life of the instrument are considered.

(*) A coupon payment is considered a variable rate payment if the coupon is linked to a reference interest rate and if the resetting period corresponding to this coupon is no longer than one year. Coupon payments for which the resetting period is longer than one year are treated as fixed rate payments, with the relevant maturity for the haircut being the residual maturity of the debt instrument.;

- (f) Table 7 is replaced by the following:

TABLE 7

Levels of valuation haircuts applied to eligible marketable assets

(percentages)

Residual maturity (years)	Liquidity categories								
	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	
0-1	0,5	0,5	1	1	1,5	1,5	6,5	6,5	12 ⁽¹⁾
1-3	1,5	1,5	2,5	2,5	3	3	8	8	
3-5	2,5	3	3,5	4	4,5	5	9,5	10	
5-7	3	3,5	4,5	5	5,5	6	10,5	11	
7-10	4	4,5	5,5	6,5	6,5	8	11,5	13	
> 10	5,5	8,5	7,5	12	9	15	14	20	

(1) Individual debt instruments included in category V that are theoretically valued according to Section 6.5 are subject to an additional valuation haircut. This haircut is directly applied at the level of theoretical valuation of the individual debt instrument in the form of a valuation markdown of 5 %.

- (g) the heading of Table 8 is replaced by the following:

'Levels of valuation haircuts applied to eligible marketable inverse floating rate debt instruments included in categories I to IV';

20. in Section 6.4.3, under the heading 'Credit claims' the following footnote is inserted at the end of the first indent:

(*) The valuation haircuts applied to credit claims with fixed rate interest payments are also applicable to credit claims the interest payments of which are linked to the inflation rate.;

21. the following Section 6.7 is inserted:

'6.7. Acceptance of non-euro-denominated collateral in contingencies

In certain situations the Governing Council may decide to accept as eligible collateral certain marketable debt instruments issued by one or more non-euro area G10 central governments in their domestic currency. Upon such decision the applicable criteria shall be clarified and the procedures to be applied for the selection and mobilisation of foreign collateral, including the sources and principles of valuation, the risk control measures and the settlement procedures shall also be communicated to counterparties.

Notwithstanding the provisions of section 6.2.1, such assets may be deposited/registered (issued), held and settled outside the EEA and, as stated above, may be denominated in currencies other than the euro. Any such assets used by a counterparty must be owned by the counterparty.

Counterparties that are branches of credit institutions located outside the EEA or Switzerland cannot use such assets as collateral.;

22. Section 7.2 is amended as follows:

(a) The second paragraph is replaced by the following:

'Institutions will be automatically exempt from reserve requirements from the start of the maintenance period within which their authorisation is withdrawn or surrendered, or within which a decision to submit the institution to winding-up proceedings is taken by a judicial authority or any other competent authority of a participating Member State. According to Regulation (EC) No 2531/98 and Regulation (EC) No 1745/2003 (ECB/2003/9), the ECB may also exempt institutions from their obligations under the Eurosystem's minimum reserve system on a non-discriminatory basis if they are subject to reorganisation measures or the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB's Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem's standing facilities, or if the purposes of the Eurosystem's minimum reserve system would not be met by imposing these obligations on those particular institutions. If its decision on any such exemption is based on the purposes of the Eurosystem's minimum reserve system, the ECB takes into account one or more of the following criteria:

- the institution is authorised to pursue special purpose functions only,
- the institution is prohibited from exercising active banking functions in competition with other credit institutions and/or,
- the institution is under a legal obligation to have all its deposits earmarked for purposes related to regional and/or international development assistance.;

(b) the second sentence of the third paragraph is replaced by the following:

'The ECB also makes public a list of any institutions exempt from their obligations under this system for reasons other than their being subject to reorganisation measures or the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB's Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem's standing facilities (*).

(*) The lists are available to the public on the ECB's website (www.ecb.europa.eu).;

23. Section 7.3 is amended as follows:

(a) under the heading 'Reserve base and reserve ratios' the first sentence of the fourth paragraph is replaced by the following:

'Liabilities vis-à-vis other institutions included in the list of institutions subject to the Eurosystem's minimum reserve system and liabilities vis-à-vis the ECB and the participating NCBs are not included in the reserve base.'

(b) Under the heading 'Reserve base and reserve ratios' the third and fourth sentences of the fifth paragraph are replaced by the following:

'This reserve ratio is specified in Regulation (EC) No 1745/2003 (ECB/2003/9). The ECB sets a zero reserve ratio on the following liability categories: 'deposits with an agreed maturity of over two years', 'deposits redeemable at notice of over two years', 'repos' and 'debt securities with an original maturity of over two years' (see Box 9).;

(c) box 9 entitled 'Reserve base and reserve ratios' is replaced by the following:

<p>'BOX 9</p> <p>Reserve base and reserve ratios</p> <p>A. <i>Liabilities included in the reserve base and to which the positive reserve ratio is applied</i></p> <p>Deposits ⁽¹⁾</p> <ul style="list-style-type: none"> — Overnight deposits — Deposits with an agreed maturity of up to and including two years — Deposits redeemable at notice of up to and including two years <p>Debt securities issued</p> <ul style="list-style-type: none"> — Debt securities with an original maturity of up to and including two years <p>B. <i>Liabilities included in the reserve base and to which a zero reserve ratio is applied</i></p> <p>Deposits ⁽¹⁾</p> <ul style="list-style-type: none"> — Deposits with an agreed maturity of over two years — Deposits redeemable at notice of over two years — Repos <p>Debt securities issued</p> <ul style="list-style-type: none"> — Debt securities with an original maturity of over two years <p>C. <i>Liabilities excluded from the reserve base</i></p> <ul style="list-style-type: none"> — Liabilities vis-à-vis other institutions subject to the Eurosystem's minimum reserve system — Liabilities vis-à-vis the ECB and the participating NCBs <p>⁽¹⁾ Regulation (EC) No 2181/2004 of the European Central Bank of 16 December 2004 amending Regulation (EC) No 2423/2001 (ECB/2001/13) concerning the consolidated balance sheet of the monetary financial institutions sector and Regulation (EC) No 63/2002 (ECB/2001/18) concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non financial corporations (ECB/2004/21) (OJ L 371, 18.12.2004, p. 42), explicitly requires the reporting of deposit liabilities at nominal value. Nominal value means the amount of principal that a debtor is contractually obliged to repay to a creditor. This amendment had become necessary because Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and the consolidated accounts of banks and other financial institutions (OJ L 372, 31.12.1986, p. 1) had been amended to the effect that certain financial instruments could be priced at fair value.;</p>
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24. Appendix 1 to Annex I is amended as follows:

(a) in Example 6, the first row of Table I is replaced by the following:

'Asset A	Jumbo covered bank bond	30.8.2008	Fixed rate	6 months	4 years	3,50 %'
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(b) in Example 6, under the heading 'Earmarking system' the second and third sentences of point 1 of the first paragraph are replaced by the following:

'Asset A is a jumbo covered bank bond with a fixed coupon maturing on 30 August 2008. It thus has a residual maturity of four years, therefore requiring a valuation haircut of 3,5 %.'

25. Appendix 2 to Annex I is amended as follows:

(a) the following definition of 'Asset-backed securities' is inserted:

'Asset-backed securities (ABS): debt instruments that are backed by a pool of ringfenced financial assets (fixed or revolving), that convert into cash within a finite time period. In addition, rights or other assets may exist that ensure the servicing or timely distribution of proceeds to the holders of the security. Generally, asset-backed securities are issued by a specially created investment vehicle which has acquired the pool of financial assets from the originator/seller. In this regard, payments on the asset-backed securities depend primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as liquidity facilities, guarantees or other features generally known as credit enhancements.';

(b) the definition of 'Correspondent central banking model' is replaced by the following:

'Correspondent central banking model (CCBM): a mechanism established by the *Eurosystem* with the aim of enabling *counterparties* to use underlying assets in a cross-border context. In the CCBM, NCBs act as custodians for one another. This means that each NCB has a securities account in its securities administration for each of the other NCBs and for the ECB. The CCBM is also available to counterparties of certain non-Eurosystem NCBs.';

(c) the following definition of 'Currency hedge transaction' is inserted:

'Currency hedge transaction: an agreement entered into between the issuer and a hedge counterparty, pursuant to which a portion of the currency risk arising from the receipt of cash flows in non-euro currency is mitigated by swapping the cash flows for euro currency payments to be made by the hedge counterparty, including any guarantee by the hedge counterparty of those payments.';

(d) the definition of 'End-of-day' is replaced by the following:

'End-of-day: the time of the business day following closure of TARGET2 at which the payments processed in TARGET2 are finalised for the day.';

(e) the definition of 'Quick tender' is replaced by the following:

'Quick tender: the *tender procedure* used by the *Eurosystem* for *fine-tuning operations* when it is deemed desirable to have a rapid impact on the liquidity situation in the market. Quick tenders are normally executed within a time frame of 90 minutes and are normally restricted to a limited set of *counterparties*.';

(f) the definition of 'RTGS ((real-time gross settlement) system)' is replaced by the following:

'RTGS (real-time gross settlement) system: a settlement system in which processing and settlement take place on an order-by-order basis without netting continuously in real time. See also TARGET2.'

(g) the definition of 'TARGET' is replaced by the following:

'TARGET: the predecessor of the TARGET2 system, operating in a decentralised structure linking together national RTGS systems and the ECB payment mechanism. The TARGET system has been replaced by the TARGET2 system in accordance with the migration schedule specified in Article 13 of Guideline ECB/2007/2.'

(h) the following definition of 'Valuation markdown' is inserted:

'Valuation markdown: a risk control measure applied to underlying assets used in *reverse transactions*, meaning that the central bank applies a reduction of the theoretical market value of the assets by a certain percentage before applying any *valuation haircut* (*).

(*) So, for example, for asset-backed securities in liquidity category V that are valued using a theoretical price, a valuation markdown of 5 % is applied to the theoretical price before the application of the valuation haircut of 12 %. This is equivalent to a total haircut of 16,4 %.';

26. the table in Appendix 5 is replaced by the following:

THE EUROSISTEM WEBSITES

Central bank	Website
European Central Bank	www.ecb.europa.eu
Nationale Bank van België/Banque Nationale de Belgique	www.nbb.be or www.bnb.be
Deutsche Bundesbank	www.bundesbank.de
Central Bank and Financial Services Authority of Ireland	www.centralbank.ie
Bank of Greece	www.bankofgreece.gr
Banco de España	www.bde.es
Banque de France	www.banque-france.fr
Banca d'Italia	www.bancaditalia.it
Central Bank of Cyprus	www.centralbank.gov.cy
Banque centrale du Luxembourg	www.bcl.lu
Central Bank of Malta	www.centralbankmalta.org
De Nederlandsche Bank	www.dnb.nl
Oesterreichische Nationalbank	www.oenb.at
Banco de Portugal	www.bportugal.pt
Banka Slovenije	www.bsi.si
Suomen Pankki	www.bof.fi

ANNEX II

Annex II to Guideline ECB/2000/7 is amended as follows:

1. in Section I, the first paragraph of point 6(f) is replaced by the following:

‘— the Counterparty’s authorisation to conduct activities under either Directive 2006/48/EC or Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (*), as implemented in the relevant Member State of the Eurosystem respectively, is suspended or revoked; or

(*) OJ L 145, 30.4.2004, p. 1.;

2. in Section I, in the first paragraph of point 6 point (h) is replaced by the following:

‘measures such as are referred to in Articles 30, 31, 33 and 34 of Directive 2006/48/EC are taken against the Counterparty; or’;

3. in Section I, in the first paragraph of point 6 the following points (p) to (t) are inserted:

(p) the Counterparty becomes subject to the freezing of funds and/or other measures imposed by the Community restricting the Counterparty’s ability to use its funds; or

(q) the Counterparty becomes subject to the freezing of funds and/or other measures imposed by a Member State under Article 60(2) of the Treaty restricting the Counterparty’s ability to use its funds; or

(r) all or a substantial part of the Counterparty’s assets are subject to a freezing order, attachment, seizure or any other procedure that is intended to protect the public interest or the rights of the Counterparty’s creditors; or

(s) all or a substantial part of the Counterparty’s assets are assigned to another entity; or

(t) any other impending or existing event the occurrence of which may threaten the performance by the Counterparty of its obligations under the arrangement it entered into for the purpose of effecting monetary policy operations or any other rules applying to the relationship between the Counterparty and any of the central banks of the Eurosystem.’;

4. in Section I, the second paragraph of point 6 is replaced by the following:

‘Events (a) and (p) must be automatic; events (b), (c) and (q) may be automatic; events (d) to (o) and (r) to (t) cannot be automatic and must be discretionary (that is, perfected only upon service of a notice of default). Such notice of default may provide a “grace period” of up to a maximum of three business days to rectify the event in question. For events of default that are discretionary, the provisions as to the exercise of such discretion should provide certainty as to the effect of such exercise.’;

5. in Section I, point 7 is replaced by the following:

'The relevant contractual or regulatory arrangements applied by the NCB should ensure that if an event of default occurs, the NCB is entitled to exercise the following remedies: suspension or exclusion of the Counterparty from access to open market operations; suspension or exclusion of the Counterparty from access to the Eurosystem's standing facilities; terminating all outstanding agreements and transactions; or demanding accelerated performance of claims that have not yet matured or are contingent. In addition, the NCB may be entitled to exercise the following remedies: using deposits of the Counterparty placed with the NCB to set off claims against that Counterparty; suspending the performance of obligations against the Counterparty until the claim on the Counterparty has been satisfied; claiming default interest; or claiming an indemnity for any losses sustained as a consequence of a default by the Counterparty. In addition, the relevant contractual or regulatory arrangements applied by the NCB should ensure that if an event of default occurs, such NCB shall be in a legal position to realise all assets provided as collateral without undue delay and in such a way as to entitle the NCB to realise value for the credit provided, if the Counterparty does not settle its negative balance promptly. In order to ensure the uniform implementation of the measures imposed, the ECB's Governing Council may, decide on the remedies, including suspension or exclusion from access to open market operations or the Eurosystem's standing facilities.'

6. in Section II, under the heading 'Features common to all reverse transactions' footnote 2 in point 15 is deleted.
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