

DECISIONS

DECISION OF THE EUROPEAN CENTRAL BANK

of 1 September 2014

amending Decision ECB/2013/35 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral

(ECB/2014/38)

(2014/671/EU)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first indent of Article 127(2) thereof,

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

Having regard to Guideline ECB/2011/14 of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem ⁽¹⁾ and Decision ECB/2013/6 of 20 March 2013 on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds ⁽²⁾,

Whereas:

- (1) Pursuant to Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank, the European Central Bank (ECB) and the national central banks of Member States whose currency is the euro (hereinafter the 'NCBs') may conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral. The standard conditions under which the ECB and the NCBs stand ready to enter into credit operations, including the criteria determining the eligibility of collateral for the purposes of Eurosystem credit operations, are laid down in Annex I to Guideline ECB/2011/14, as well as Decision ECB/2013/6, Decision ECB/2013/35 ⁽³⁾ and Decision ECB/2014/11 ⁽⁴⁾.
- (2) Pursuant to Section 1.6 of Annex I to Guideline ECB/2011/14, the Governing Council may, at any time, change the instruments, conditions, criteria and procedures for the execution of Eurosystem monetary policy operations.
- (3) For the purposes of selecting the appropriate rating to be used for determining the eligibility of assets used in Eurosystem credit operations and their related haircut, a rule defining the priority of ratings is in place. This rule prioritises the use of External Credit Assessment Institution (ECAI) issue ratings in preference to ECAI issuer and guarantor ratings. On 17 July 2013, the Governing Council decided to further strengthen its risk control framework by adjusting the eligibility criteria and haircuts applied to collateral accepted in Eurosystem monetary policy operations and adopting certain additional measures to improve the overall consistency of the framework and its practical implementation. Among the adjustments made, the Eurosystem clarified the rule regarding the priority of ratings. These measures were laid down in Decision ECB/2013/35.
- (4) The rule prioritising ECAI issue ratings is appropriate as regards private issuers where the information content of issue ratings is relevant. For public issuers, the rule prioritising ECAI issue ratings requires adjustment since issuer ratings instead of issue ratings are regarded as the relevant measure of creditworthiness for these issuers.
- (5) Decision ECB/2013/35 should therefore be amended accordingly,

⁽¹⁾ OJ L 331, 14.12.2011, p. 1.

⁽²⁾ OJ L 95, 5.4.2013, p. 22.

⁽³⁾ Decision ECB/2013/35 of 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (OJ L 301, 12.11.2013, p. 6).

⁽⁴⁾ Decision ECB/2014/11 of 12 March 2014 amending Decision ECB/2013/35 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (OJ L 166, 5.6.2014, p. 31).

HAS ADOPTED THIS DECISION:

Article 1

Amendment

Article 6 of Decision ECB/2013/35 is replaced as follows:

'Article 6

Additional high credit standards for marketable assets

1. The External Credit Assessment Institution (ECAI) credit assessment of marketable assets referred to in Section 6.3 of Annex I to Guideline ECB/2011/14 shall be subject to the requirements laid down in this Article.

2. The following types of ECAI credit assessments from accepted ECAIs shall be used in determining compliance with the credit quality threshold applicable to marketable assets (*).

(a) An ECAI issue rating, which refers to an ECAI credit assessment assigned to either an issue or, in the absence of an issue rating from the same ECAI, the programme/issuance series under which an asset is issued (**). For ECAI issue ratings, the Eurosystem shall make no distinction in respect of the original maturity of the asset. Any ECAI rating assigned to the issue or programme/issuance series shall be acceptable.

(b) An ECAI issuer rating, which refers to an ECAI credit assessment assigned to an issuer. For ECAI issuer ratings, the Eurosystem shall make a distinction in respect of the original maturity of the asset as regards the acceptable ECAI credit assessment. A distinction shall be made between: (i) short-term assets, i.e. those assets with an original maturity of up to and including 390 days; and (ii) long-term assets, i.e. those assets with an original maturity of more than 390 days. For short-term assets, ECAI short-term and long-term issuer ratings shall be acceptable. For long-term assets, only ECAI long-term issuer ratings shall be acceptable.

(c) An ECAI guarantor rating, which refers to an ECAI credit assessment assigned to a guarantor, if the guarantee meets the requirements of point (c) of Section 6.3.2 of Annex I to Guideline ECB/2011/14. For ECAI guarantor ratings, the Eurosystem shall make no distinction in respect of the original maturity of the asset. Only ECAI long-term guarantor ratings shall be acceptable.

3. The ECB publishes the credit quality threshold for all accepted ECAIs, as established under Section 6.3.1 of Annex I to Guideline ECB/2011/14 (***). The credit quality threshold for marketable assets shall correspond to Credit Quality Step 3 of the Eurosystem's harmonised rating scale, except where otherwise stated.

4. For marketable assets, ECAI credit assessments, which determine the compliance of the asset with the credit quality threshold, shall be taken into account by the Eurosystem in accordance with the rules below.

4.1. For marketable assets other than marketable assets issued by central governments, regional or local governments, agencies (****), supranational institutions and asset-backed securities, the following rules apply.

(a) The Eurosystem shall consider ECAI issue ratings in priority to ECAI issuer or ECAI guarantor ratings. Without prejudice to the application of this priority rule, at least one ECAI credit assessment must comply with the Eurosystem's applicable credit quality threshold.

(b) If multiple ECAI issue ratings are available for the same issue, then the first-best rule shall apply, i.e. the best available ECAI issue rating shall be considered. If the first-best ECAI issue rating does not comply with the Eurosystem's credit quality threshold for marketable assets, the asset shall not be eligible, even if a guarantee acceptable under point (c) of Section 6.3.2 of Annex I to Guideline ECB/2011/14 exists.

(c) In the absence of any ECAI issue rating, an ECAI issuer or ECAI guarantor rating may be considered by the Eurosystem. If multiple ECAI issuer and/or ECAI guarantor ratings are available for the same issue, then the first-best rule shall apply, i.e. the best available ECAI issuer or ECAI guarantor rating shall be considered.

4.2. For marketable assets issued by central governments, regional or local governments, agencies and supranational institutions, the following rules apply.

(a) At least one ECAI credit assessment must comply with the Eurosystem's applicable credit quality threshold. The Eurosystem shall only consider ECAI issuer or ECAI guarantor ratings.

- (b) If multiple ECAI issuer and ECAI guarantor ratings are available, the first-best rule, i.e. the best available rating between all ECAI issuer and ECAI guarantor ratings, shall apply.
- (c) Covered bonds issued by agencies shall not be assessed in accordance with the rules in this paragraph 4.2 and shall instead be assessed in accordance with paragraph 4.1 above.

4.3. For asset-backed securities, the following rules shall apply.

- (a) The credit quality threshold applicable to asset-backed securities, as laid down in Section 6.3 of Annex I to Guideline ECB/2011/14, shall correspond to Credit Quality Step 2 of the Eurosystem's harmonised rating scale ("single A") (****).
- (b) At least two ECAI credit assessments must comply with the Eurosystem's applicable credit quality threshold. The Eurosystem shall only consider ECAI issue ratings.

5. For the purposes of Section 6.3.2 of Annex I to Guideline ECB/2011/14, the provisions relating to the use of an implicit credit assessment shall apply in the absence of an ECAI credit assessment for the issuer or guarantor in the case of marketable assets issued by central governments, regional or local governments, agencies and supranational institutions as referred to in paragraph 4.2.

(*) The accepted ECAIs, NCB in-house credit assessment systems and third-party rating tools and their providers are listed on the ECB's website at www.ecb.europa.eu

(**) An ECAI assessment for a programme/issuance series is only relevant if it applies to the particular asset in question and a different issue rating from the same ECAI does not exist.

(***) This information is published on the ECB's website at www.ecb.europa.eu

(****) Entities classified as agencies by the Eurosystem are detailed on the ECB website.

(*****) A "single A" rating is a rating of at least "A3" from Moody's, "A-" from Fitch or Standard & Poor's, or "AL" from DBRS.'

Article 2

Entry into force

This Decision shall enter into force on 19 September 2014.

It shall apply from 15 December 2014.

Done at Frankfurt am Main, 1 September 2014.

The President of the ECB
Mario DRAGHI
