

**GUIDELINE (EU) 2016/65 OF THE EUROPEAN CENTRAL BANK****of 18 November 2015****on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2015/35)**

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, Articles 9.2, 12.1, 14.3 18.2 and the first paragraph of Article 20 thereof,

Whereas:

- (1) Pursuant to Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the 'Statute of the ESCB'), 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 general 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 Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60) <sup>(1)</sup>.
- (2) In order to protect the Eurosystem against the risk of financial losses in the event of a counterparty's default, eligible assets mobilised as collateral for Eurosystem credit operations are to be subject to risk control measures laid down in Title VI of Part Four of Guideline (EU) 2015/510 (ECB/2014/60).
- (3) The implementation of valuation haircut reviews would benefit from the relevant provisions being contained in a separate legal act. This would enable risk control parameters to be provided in a compact and self-contained form and enable the streamlining of the implementation of amendments to the relevant framework promptly once the corresponding decisions are adopted by the Governing Council,

HAS ADOPTED THIS GUIDELINE:

*Article 1*

**Valuation haircuts applied to eligible marketable assets**

1. In accordance with Title VI of Part Four of Guideline (EU) 2015/510 (ECB/2014/60), marketable assets shall be subject to valuation haircuts, as defined in Article 2(97) of Guideline (EU) 2015/510 (ECB/2014/60), at the levels set forth in Table 2 in the Annex to this Guideline.
2. The valuation haircut for a specific asset depends on the following factors:
  - (a) the haircut category to which the asset is allocated, as defined in Article 2;
  - (b) the residual maturity of the asset;
  - (c) the coupon structure of the asset;
  - (d) the credit quality step to which the asset is allocated.

<sup>(1)</sup> Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (General Documentation Guideline) (ECB/2014/60) (OJ L 91, 2.4.2015, p. 3).

*Article 2***Determination of haircut categories for marketable assets**

Eligible marketable assets shall be allocated to one of the five haircut categories, based on the type of issuer and/or the type of asset, as reflected in Table 1 in the Annex to this Guideline:

- (a) debt instruments issued by central governments, ECB debt certificates and debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State whose currency is the euro are included in haircut category I;
- (b) debt instruments issued by local and regional government, entities classified as agencies by the Eurosystem, multilateral development banks and international organisations, as well as jumbo covered bonds, are included in haircut category II;
- (c) traditional covered bonds, other covered bonds and debt instruments issued by non-financial corporations are included in haircut category III;
- (d) unsecured debt instruments issued by credit institutions and by financial corporations other than credit institutions are included in haircut category IV;
- (e) asset-backed securities are included in haircut category V, regardless of the classification of the issuer.

*Article 3***Valuation haircuts for marketable assets**

1. The valuation haircuts for marketable assets allocated to haircut categories I to IV shall be determined based on:
  - (a) the allocation of the specific asset to credit quality step 1, 2 or 3 as detailed in Table 2 in the Annex to this Guideline;
  - (b) the residual maturity of the asset as detailed in paragraphs 3 and 4;
  - (c) the coupon structure of the asset as detailed in paragraphs 3 and 4.
2. Marketable assets allocated to haircut category V shall be subject to a valuation haircut of 10 % regardless of their residual maturity or coupon structure.
3. For assets with zero or fixed coupons, the relevant maturity for the valuation haircut to be applied shall be the residual maturity of the asset.
4. For assets with floating coupons, the valuation haircut shall equal the valuation haircut applied to fixed coupon marketable assets with zero-to-one-year residual maturity, except in the following cases and without prejudice to paragraph 2.
  - (a) Floating coupons with a resetting period of longer than one year shall be treated as fixed rate coupons and the relevant maturity for the valuation haircut to be applied shall be the residual maturity of the asset.
  - (b) The relevant maturity for the valuation haircut to be applied to floating coupons that have a euro area inflation index as a reference rate shall be the residual maturity of the asset.
  - (c) The valuation haircut applied to assets that have more than one type of coupon structure shall solely depend on the coupon structure in place during the remaining life of the asset and shall equal the highest haircut applicable to a marketable asset with the same residual maturity and credit quality step. Any type of coupon structure in place during the remaining life of the asset may be considered for this purpose.

*Article 4***Additional valuation haircuts applied to specific types of marketable assets**

In addition to the valuation haircuts laid down in Article 3 of this Guideline, the following additional valuation haircuts shall apply for specific types of marketable assets:

- (a) asset-backed securities, covered bonds and unsecured debt instruments issued by credit institutions that are theoretically valued in accordance with the rules contained in Article 134 of Guideline (EU) 2015/510 (ECB/2014/60) shall be subject to an additional valuation haircut in the form of a valuation markdown of 5 %;
- (b) own-use covered bonds shall be subject to an additional valuation haircut of (i) 8 % applied to the value of the debt instruments allocated to credit quality steps 1 and 2, and (ii) 12 % applied to the value of the debt instruments allocated to credit quality step 3;
- (c) for the purposes of paragraph (b), 'own-use' shall mean the submission or use by a counterparty of covered bonds that are issued or guaranteed by the counterparty itself or by any other entity with which that counterparty has close links as determined in accordance with Article 138 of Guideline (EU) 2015/510 (ECB/2014/60);
- (d) if the additional valuation haircut referred to in paragraph (b) cannot be applied with respect to a collateral management system of an NCB, triparty agent, or TARGET2-Securities for auto-collateralisation, the additional valuation haircut shall be applied in such systems or platform to the entire issuance value of the covered bonds that can be own used.

*Article 5***Valuation haircuts applied to eligible non-marketable assets**

1. Individual credit claims with a fixed rate of interest payment and credit claims with a rate of interest payments linked to the inflation rate shall be subject to specific valuation haircuts determined according to the residual maturity, the credit quality step and the valuation methodology applied by the NCB, as laid down in Table 3 in the Annex to this Guideline.
2. Individual credit claims with a variable interest rate shall be subject to the valuation haircut applied to the credit claims with fixed interest rate classified as having zero-to-one-year residual maturity corresponding to the same credit quality step and the same valuation methodology applied by the NCB. An interest payment shall be treated as a variable rate payment if it is linked to a reference interest rate and the resetting period corresponding to this payment is no longer than one year. Interest payments for which the resetting period is longer than one year shall be treated as fixed rate payments, with the relevant maturity for the haircut being the residual maturity of the credit claim.
3. The valuation haircut applied to a credit claim with more than one type of interest payment shall depend only on the interest payments during the remaining life of the credit claim. If there is more than one type of interest payment during the remaining life of the credit claim, the remaining interest payments shall be treated as fixed-rate payments, with the relevant maturity for the haircut being the residual maturity of the credit claim.
4. For zero coupon credit claims the corresponding fixed interest credit claim valuation haircut shall apply.
5. Non-marketable retail mortgage-backed debt instruments shall be subject to a valuation haircut of 39,5 %.
6. Fixed-term deposits shall not be subject to valuation haircuts.
7. Each underlying credit claim included in the cover pool of a non-marketable debt instrument backed by eligible credit claims (hereinafter 'DECC') shall be subject to a valuation haircut applied at an individual level following the rules set out in paragraphs 1 to 4 above. The aggregate value of the underlying credit claims included in the cover pool after the application of valuation haircuts shall, at all times, remain equal to or above the value of the principal amount of the DECC that is outstanding. If the aggregate value falls below the threshold referred to in the previous sentence, the DECC shall be valued at zero.

*Article 6***Taking effect and implementation**

1. This Guideline shall take effect on the day of its notification to the national central banks of the Member States whose currency is the euro.
2. The national central banks of the Member States whose currency is the euro shall take the necessary measures to comply with this Guideline and apply them from 25 January 2016. They shall notify the ECB of the texts and means relating to those measures by 5 January 2016 at the latest.

*Article 7***Addressees**

This Guideline is addressed to the national central banks of the Member States whose currency is the euro.

Done at Frankfurt am Main, 18 November 2015.

*For the Governing Council of the ECB*  
*The President of the ECB*  
Mario DRAGHI

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## ANNEX

Table 1

**Haircut categories for eligible marketable assets based on the type of issuer and/or type of asset**

Category I	Category II	Category III	Category IV	Category V
debt instruments issued by central governments ECB debt certificates debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State	debt instruments issued by local and regional governments debt instruments issued by entities classified as agencies by the Eurosystem debt instruments issued by multilateral development banks and international organisations jumbo covered bonds	traditional covered bonds and other covered bonds debt instruments issued by non-financial corporations	unsecured debt instruments issued by credit institutions unsecured debt instruments issued by financial corporations other than credit institutions	asset-backed securities

Table 2

**Valuation haircut levels applied to eligible marketable assets**

		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	
Steps 1 and 2	[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	
Step 3	[0-1)	6,0	6,0	7,0	7,0	8,0	8,0	13,0	13,0	not eligible
	[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	

(\*) i.e. [0-1) residual maturity less than one year, [1-3) residual maturity equal to or greater than one year and less than three years, etc.

Table 3

**Valuation haircut levels applied to credit claims with fixed interest payments**

		Valuation methodology	
Credit quality	Residual maturity (years) (*)	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	[0-1)	10,0	12,0
	[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
		Valuation methodology	
Credit quality	Residual maturity (years) (*)	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	[0-1)	17,0	19,0
	[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

(\*) i.e. [0-1) residual maturity less than one year, [1-3) residual maturity equal to or greater than one year and less than three years, etc.