

DECISION (EU) 2016/457 OF THE EUROPEAN CENTRAL BANK**of 16 March 2016****on the eligibility of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus (ECB/2016/5)**

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 18 and the second indent of Article 34.1 thereof,

Having regard to 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) ⁽¹⁾, and in particular Article 1(4), Titles I, II, IV, V, VI and VIII of Part Four, and Part Six thereof,

Having regard to Guideline ECB/2014/31 of 9 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 ⁽²⁾, and in particular Article 1(3) and Article 8 thereof,

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 may conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral. The standard criteria and minimum credit quality requirements determining the eligibility of marketable assets as collateral for the purposes of Eurosystem monetary policy operations are laid down in Guideline (EU) 2015/510 (ECB/2014/60) and in particular in Article 59 and in Part Four, Title II thereof.
- (2) Pursuant to Article 1(4) of Guideline (EU) 2015/510 (ECB/2014/60), the Governing Council may, at any time, change the tools, instruments, requirements, criteria and procedures for the implementation of Eurosystem monetary policy operations. Pursuant to Article 59(6) of Guideline (EU) 2015/510 (ECB/2014/60), the Eurosystem reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils the Eurosystem's credit quality requirements on the basis of any information that the Eurosystem may consider relevant for ensuring adequate risk protection of the Eurosystem.
- (3) By way of derogation from the Eurosystem's credit quality requirements for marketable assets, Article 8 of Guideline ECB/2014/31 provides that the Eurosystem's credit quality thresholds do not apply to marketable debt instruments issued or fully guaranteed by the central governments of euro area Member States under an European Union/International Monetary Fund programme, unless the Governing Council decides that the respective Member State does not comply with the conditionality of the financial support and/or the macroeconomic programme.
- (4) As an exceptional measure, Decision ECB/2013/13 ⁽³⁾ temporarily suspended the Eurosystem's minimum requirements for credit quality thresholds applicable to marketable debt instruments issued or fully guaranteed by the Republic of Cyprus. After the Republic of Cyprus completed a debt management exercise and there was confirmation that it was complying with the conditionality of the economic and financial adjustment programme

⁽¹⁾ OJ L 91, 2.4.2015, p. 3.

⁽²⁾ OJ L 240, 13.8.2014, p. 28.

⁽³⁾ Decision ECB/2013/13 of 2 May 2013 on temporary measures relating to the eligibility of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus (OJ L 133, 17.5.2013, p. 26).

it had entered into, Decision ECB/2013/22 ⁽¹⁾ once again restored the eligibility of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus for Eurosystem monetary policy operations, subject to applying specific haircuts to such instruments, and provided that the Republic of Cyprus should be considered a euro area Member State compliant with a European Union/International Monetary Fund programme.

- (5) Currently, Article 1(3) of Guideline ECB/2014/31 provides that, for the purposes of Article 8 of that Guideline, the Republic of Cyprus should be considered a euro area Member State compliant with a European Union/International Monetary Fund programme. Moreover, Article 8(3) of that Guideline provides that marketable debt instruments issued or fully guaranteed by the Republic of Cyprus are subject to the specific haircuts set out in Annex II to that Guideline.
- (6) Pursuant to a request made by the Republic of Cyprus, its International Monetary Fund programme was cancelled with effect from 7 March 2016 ⁽²⁾. Pursuant to Article 1 of the Financial Assistance Facility Agreement between the European Stability Mechanism (ESM), the Republic of Cyprus and the Central Bank of Cyprus ⁽³⁾, the termination date of the ESM programme is 31 March 2016. Consequently, from 1 April 2016 the Republic of Cyprus can no longer be considered a Member State under a European Union/International Monetary Fund programme. From that date, the conditions for the temporary suspension of the Eurosystem's credit quality thresholds in respect of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus, as set out in Article 8(2) of Guideline ECB/2014/31, will no longer be fulfilled.
- (7) Therefore, the Governing Council has decided that from 1 April 2016 the Eurosystem's standard criteria and credit quality thresholds should apply in respect of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus and that such debt instruments will be subject to the standard haircuts set out in Guideline (EU) 2016/65 of the European Central Bank (ECB/2015/35) ⁽⁴⁾,

HAS ADOPTED THIS DECISION:

Article 1

Eligibility of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus

1. For the purposes of Article 8 of Guideline ECB/2014/31, the Republic of Cyprus shall no longer be considered a Member State under a European Union/International Monetary Fund programme.
2. The Eurosystem's minimum requirements for credit quality thresholds, as laid down in Guideline (EU) 2015/510 (ECB/2014/60) and in particular in Article 59 and in Part Four, Title II thereof, shall apply to marketable debt instruments issued or fully guaranteed by the Republic of Cyprus.
3. Marketable debt instruments issued or fully guaranteed by the Republic of Cyprus shall no longer be subject to the specific haircuts set out in Annex II to Guideline ECB/2014/31.
4. In the event of any discrepancy between this Decision and any of Guideline (EU) 2015/510 (ECB/2014/60) and Guideline ECB/2014/31, as implemented at national level by the national central banks of Member States whose currency is the euro, this Decision shall prevail.

⁽¹⁾ Decision ECB/2013/22 of 5 July 2013 on temporary measures relating to the eligibility of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus (OJ L 195, 18.7.2013, p. 27).

⁽²⁾ Statement by Christine Lagarde, Managing Director of the International Monetary Fund, on Cyprus, 7 March 2016, Press Release No 16/94.

⁽³⁾ Available on the ESM's website at www.esm.europa.eu

⁽⁴⁾ 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) (OJ L 14, 21.1.2016, p. 30).

*Article 2***Entry into force**

This Decision shall enter into force on 1 April 2016.

Done at Frankfurt am Main, 16 March 2016.

The President of the ECB
Mario DRAGHI
