Thoughts on TLTRO’s III/6
MMCG
Frankfurt, 01.12.2020
Michael Schneider
Potential changes to TLTRO III parameters in December 2020, expected participation in the TLTRO-III.6 and relationship between excess reserves and short term rates.

Presentations by Michael Schneider (DZ Bank) and Harry David Gauvin (HSBC)
## Series of TLTROs III

Indicative calendar for the third series of targeted longer-term refinancing operations (TLTROs-III)¹

<table>
<thead>
<tr>
<th>TLTRO-II 1</th>
<th>TLTRO-II 2</th>
<th>TLTRO-II 3</th>
<th>TLTRO-II 4</th>
<th>TLTRO-II 5</th>
<th>TLTRO-II 6</th>
<th>TLTRO-II 7</th>
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</thead>
<tbody>
<tr>
<td>Wed. 14/06/2019 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2019)</td>
<td>Mon. 24/01/2019 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 October 2019)</td>
<td>Mon. 16/02/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 January 2020)</td>
<td>Mon. 11/05/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 April 2020)</td>
<td>Mon. 17/08/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2020)</td>
<td>Mon. 21/11/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 October 2020)</td>
<td>Mon. 09/03/2021 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 January 2021)</td>
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</tbody>
</table>

**Lead institutions apply to their home NCBs for TLTRO-II group treatment or changes to TLTRO-II group compositions (16:30)²**

**NCBs provide confirmation to lead institution on TLTRO-II group treatment changes to group compositions (16:30)³**

**Deadline for the first report applicable to counterparties or groups participating for the first time or revised report as a result of data revisions, organizational reorganisations or changes in TLTRO-II groups (16:00)⁴¹**

**Deadline for the reporting of self-securitised loans together with the auditor’s evaluation (16:30)⁷**

**NOGs inform counterparties about bid limits and borrowing allowance (by 16:30 at the latest)⁷**

**Announcement (15:40)**

**Deadline for counterparties to submit bids (00:30)**

**Publication of allotment results (11:30)**

**Settlement**

**Deadline for the result of the auditor’s evaluation of the first report (16:30)²**

**Deadline for the second report (including the special reference period), and the result of the auditor’s evaluation of the second report (16:30)²**

**NOGs inform counterparties about their interest rate related data (16:30)²**

**Deadline for counterparties to notify NOGs of first voluntary early repayment request (7:00)⁷**

**Settlement of first voluntary early repayment**

**NOGs inform counterparties about final interest rates (16:30)³**

**Maturity date**

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¹ The indicative calendar is subject to change. Please refer to the latest official communication from the ECB.

² Lead institutions are responsible for notifying NOGs of the applicable group compositions and treatment changes.

³ NOGs are expected to provide confirmation to lead institutions on any changes to group compositions.

⁴ Counterparties or groups participating for the first time or with revised reports are expected to submit their first reports.

⁵ Further reports may be required based on data revisions, organizational changes, or changes to TLTRO-II group compositions.

⁶ Counterparts or groups that participate in previous rounds of TLTROs are not required to submit bids.

⁷ The reporting of self-securitised loans and auditor evaluations are due by 16:30 on the specified dates.

⁸ Counterparties must submit bids no later than 00:30.

⁹ NOGs are responsible for notifying counterparties about their interest rate-related data.

¹⁰ Counterparties must notify NOGs of their first voluntary early repayment request by 7:00.

¹¹ The settlement of first voluntary early repayments is subject to confirmation by NOGs.

¹² NOGs are informed about the final interest rates applicable.

¹³ Maturity dates are determined based on the terms of the original TLTRO agreements.
ECB Balance Sheet Long - Term Refinancing Operations
June III Tranche 4 represents EUR 1.308 bln
Tranche 5 represents EUR 174,4 bln
Current basis Central Bank money
Main products: TLTRO III and PSPP
special interest rate period” means the period from 24 June 2020 to 23 June 2021;

but whose eligible net lending during the second reference period exceeds their benchmark net lending shall be calculated as follows:

…during the special interest rate period, the interest rate shall be the average interest rate on the deposit facility over that period minus 50 basis points. The resulting interest rate shall not, in any case, be higher than minus 100 basis points;

….during the rest of the life of the respective TLTRO-III, the interest rate shall be the average interest rate on the deposit facility over the life of the respective TLTRO-III
# Natural motivations and restrictions for future bidding

<table>
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<th>Restrictions</th>
<th>Motivations</th>
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<tr>
<td>- Limitation of overall bidding limit (equal to 50% stock of eligible loans)</td>
<td>- long-term refinancing instrument</td>
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<td>- Natural restrictions due to the elimination of the special interest advantage through the shortened maturity</td>
<td>- no liquidity premium</td>
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<td>- Concentration risk 3 years</td>
<td>- Avoid short term funding and possible market volatility</td>
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<td></td>
<td>- Liquidity advantage only if liquidity risk model approach benefits long term repo</td>
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### General Thoughts
- Liquidity risk measurement: No improvement in economic and regulatory terms
- Private repo market activities predominantly cheaper than TLTRO without additional premium (-0.5%) but no 3 year market available
- Avoid short term funding and possible market volatility
- Liquidity advantage only if liquidity risk model approach benefits long term repo

### Collateral
- Limited (new) loan horizon without implemented ACC
- Heterogeneous level playing field

### HQLA

### Credit Claims/ACC
- Very attractive tool to replace classical long term funding
- Attractive tool to create new business against various loans products (ACC)
- Avoid capital market set up for regional banks
CDS Spread of above average rated Banks in Europe
5 years (Jun 2020- mid of November 2020)
Unsecured Funding includes Liquidity spreads of minimum 40 bp
TLTRO III/6 remains attractive as an alternative Funding source
Purchase of HQLA Liquidity via Repo Market (GC Pooling 3 Month) is below deposit facility!
TLTRO is less attractive (only 6 month advantage of less than 50 bp)
Market expectation summary:

- TLTRO II 16.12.2020 EUR 8,4 Bln Maturity
- TLTRO III/5 EUR 174,4 bln
- Bidding volume already utilized (?)
- Less attractive for HQLA Collateral
- Very attractive for ACC/Credit claims (new business volume ?)

- Expectations for TLTRO III 6 < EUR 100 bln

- One possibility is that TRLTO III maturities or the extra benefit to -1 % from -0,5 % until end of June 2021 are extended further
  ........assumptions might be changed!